# London Borough of Havering Pension Fund

## Q1 2022 Investment Monitoring Report

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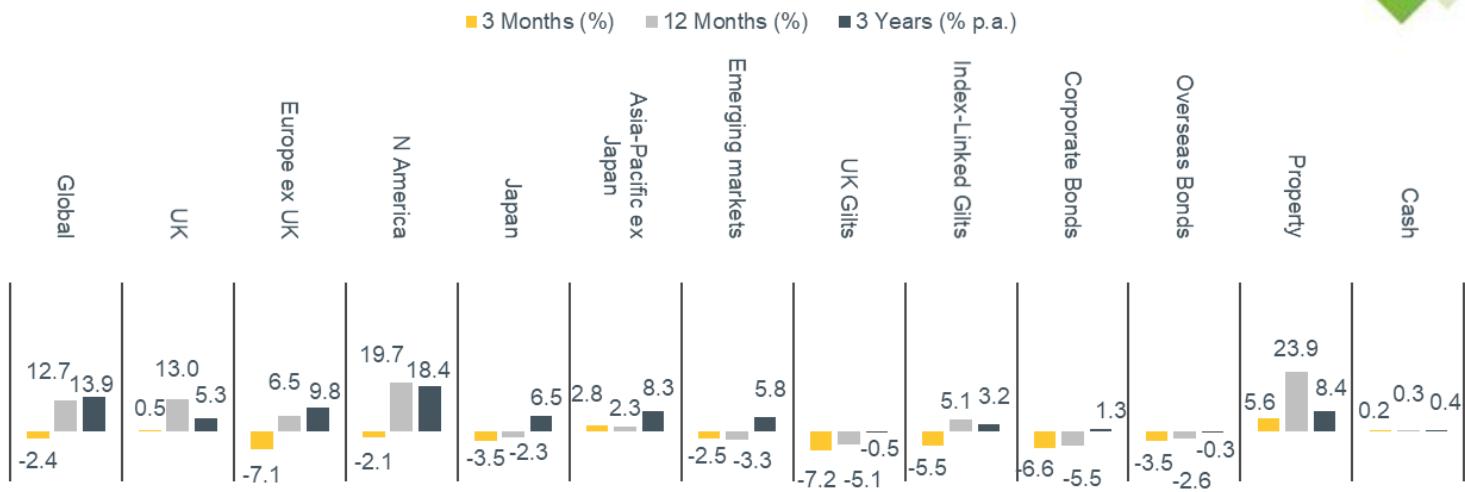
# Market Background

Physical disruptions and sanctions caused by the Russia-Ukraine conflict have triggered broad commodity price rises which, alongside existing inflationary pressures, are increasing input costs and weighing on consumer's real incomes. As a result, CPI forecasts have reached new highs while consensus forecasts for global growth have been revised downwards, but still point to a relatively robust pace of growth over 2022 and 2023 by post-Global Financial Crisis standards.

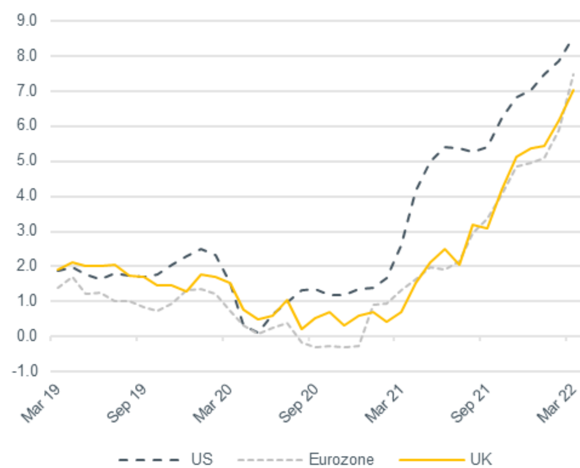
The inflation backdrop has seen central banks turn more hawkish this year, despite the potential downside risks to growth from higher commodity prices. After a first hike in December, the Bank of England raised rates twice in Q1, to 0.75% p.a., and, as expected, the US Federal Reserve raised rates by 0.25% p.a. in March, with the median voting member now expecting seven rate rises in 2022 and four in 2023. The European Central Bank confirmed its asset purchases will end this year, leaving the door open to an interest rate rise, while the Fed noted plans to reduce the size of its balance sheet.

Global sovereign bond yields rose significantly to reflect increased rate rise expectations with UK 10-year gilt yields rising 0.7% p.a., to 1.6% p.a. UK 10-year implied inflation, as measured by the difference between conventional and inflation-linked bonds of the same maturity, rose 0.5% p.a., to 4.4% p.a., as real yields rose to a lesser extent then their nominal counterparts.

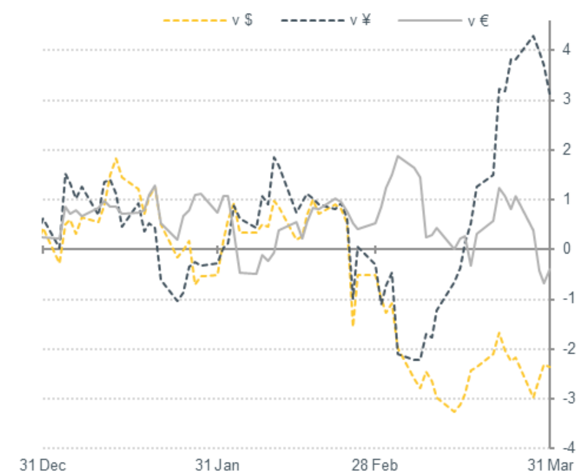
## Historic returns for world markets [1]




## Annual CPI Inflation (% p.a.)




## Sterling trend chart (% change)




Source: DataStream. [1] Returns shown in Sterling terms. Indices shown (from left to right) are: FTSE All World, FTSE All Share, FTSE AW Developed Europe ex-UK, FTSE North America, FTSE Japan, FTSE AW Developed Asia Pacific ex-Japan, FTSE Emerging, FTSE Fixed Gilts All Stocks, FTSE Index-Linked Gilts All Maturities, iBoxx Corporates All Investment Grade All Maturities, JP Morgan GBI Overseas Bonds, MSCI UK Monthly Property; UK Interbank 7 Day

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Global investment-grade spreads increased by 0.3% p.a., while US and European speculative-grade spreads increased 0.3% p.a. and 0.7% p.a., respectively. Larger increases in European spreads perhaps allude to the greater exposure of European corporates and consumers to higher energy prices.

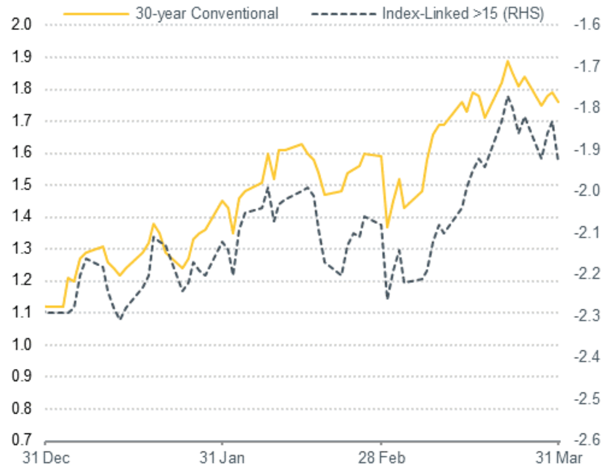
Commodity prices surged to extreme levels and faster expected monetary tightening in the US contributed to a rally in the dollar, whilst safe-haven appeal drove gold prices higher.

Concerns about central bank tightening, slowing earnings momentum, and the geopolitical situation have all contributed to global equities falling 4.6% this year, despite a bounce back in March. Value stocks notably outperformed growth stocks as rising yields weighed most heavily on the valuations of stocks with earnings growth further in the future, such as those in the technology sector. The consumer discretionary sector also underperformed as markets considered the impact of inflation on real consumer incomes. Surging oil and gas prices sees the energy sector lead the year-to-date performance rankings.

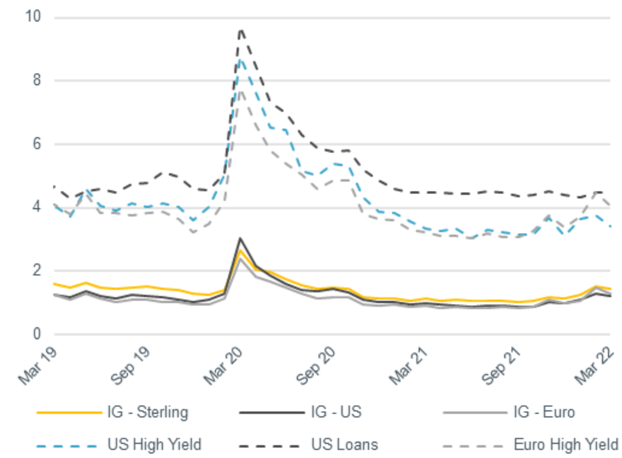
The UK AND Asia – Pacific ex Japan were the only regions to deliver a positive return, benefiting from above-average exposure to energy, metals, and miners. Europe fell to the bottom of the performance rankings, whilst Emerging Markets fell further as new COVID-19 lockdowns and broader geopolitical concerns weighed on Chinese markets.

A 18.0% rise in the MSCI UK AREF capital value index over the 12 months to the end of March is largely attributable to a 36.8% rise in industrial capital values. Return on the All-Property Index, including income, was 23.9% in the 12 months to end-March.

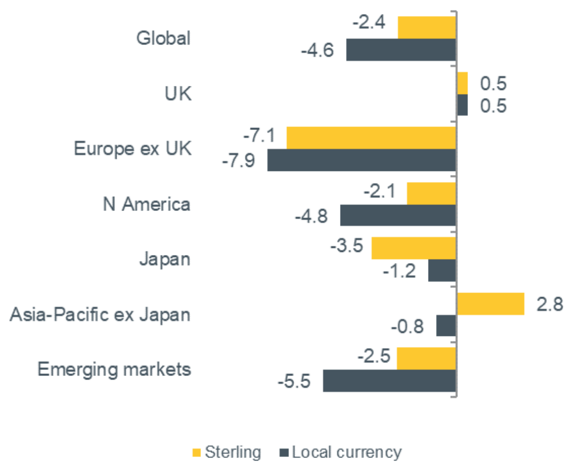
## Gilt yields chart (% p.a.)



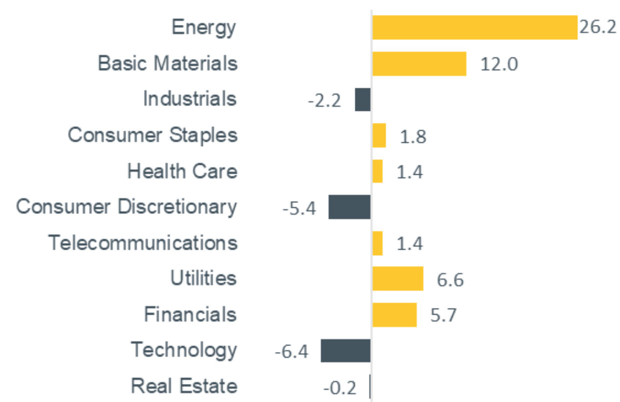

## Investment and speculative grade credit spreads (% p.a.)




## Regional equity returns [1]




## Global equity sector returns (%) [2]



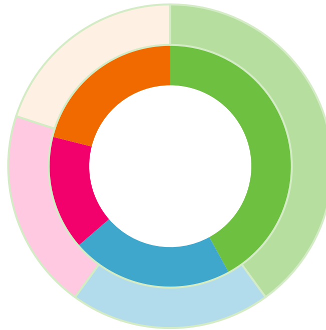

Source: DataStream, Barings, ICE [1] FTSE All World Indices. Commentary compares regional equity returns in local currency. [2] Returns shown in Sterling terms and relative to FTSE All World.

- The Fund's investment strategy is implemented through the London Common Investment Vehicle ("LCIV"), and retained assets including life funds (with fee structures aligned with LCIV).
- The charts right summarise the approach agreed for the implementation of the Fund's longer-term strategy. We have indicated ongoing governance responsibilities in blue for LCIV and grey for the Committee.
- The target allocation to LCIV and life funds totals 62.5% of Fund assets. Other retained assets will be delivered through external managers, with the position reviewed periodically.
- Further commitments were made to infrastructure and private debt in 2021 in order to retain exposure to these asset classes as the existing investments mature and begin repaying capital to investors. The new commitments will continue 'ramping up' and calling more capital in 2022.

## Asset Allocation

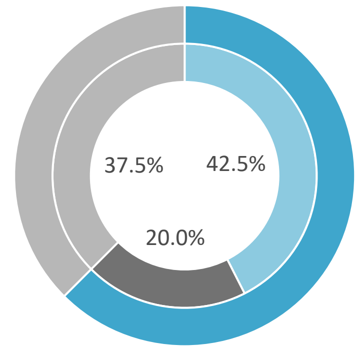
**Long Term Target**

- Equity 40.0%
- Multi-Asset 20.0%
- Real-Assets 20.0%
- Bonds and Cash 20.0%



**Actual**

- Equity 39.8%
- Multi-Asset 22.3%
- Real-Assets 16.6%
- Bonds and Cash 21.3%




- LCIV
- Life funds
- Other retained assets

## Long Term Strategic Target

| Asset class | Long term target | LCIV | | Life funds | | Other retained assets | |
|---|---|---|---|---|---|---|---|
| | | Manager(s) | % | Manager(s) | % | Manager(s) | % |
| Equity | 40.0 | Baillie Gifford, SSGA | 20.0 | LGIM | 20.0 | | |
| Multi-Asset | 20.0 | Baillie Gifford, Ruffer | 20.0 | | | | |
| Property | 10.0 | | | | | UBS, CBRE | 10.0 |
| Infrastructure | 10.0 | Various | 2.5 | | | JP Morgan, Stafford | 7.5 |
| Private Debt | 7.5 | | | | | Permira, Churchill | 7.5 |
| Other bonds | 12.5 | | | | | RLAM | 12.5 |
| **Total** | **100.0** | **-** | **42.5** | **-** | **20.0** | **-** | **37.5** |

# Current Investment Implementation

- The total value of the Fund's assets fell by c. £28.8m over the quarter to c. £919.6m as at 31 March 2022.
- This was primarily driven by the Scheme's allocation to the LCIV Global Alpha Growth Paris Aligned Fund. In a quarter where global equity delivered negative returns, growth stocks underperformed most notably due to the impacts of rising yields over the period.
- The Fund's RLAM mandates also fell in value, following increased inflationary pressures and rising interest rate expectations. Yields rose significantly to reflect this causing the Index-Liked Gilts asset value to fall. Further more, credit spreads further widened over the quarter, negatively impacting the RLAM MAC and Corporate bond mandates.
- The Fund remains underweight to JP Morgan and underweight to infrastructure as a whole. An additional £12m has been committed to JP Morgan (to be funded from the LCIV Global Alpha Growth Paris Aligned fund). This was drawn down shortly after quarter-end.

The Fund paid the following capital calls during the quarter:

- c.£0.9m to the Churchill Senior Loan Fund IV funded from existing cash.
- c.£0.1m to the LCIV Renewable Energy Infrastructure Fund funded from existing cash.
- c.£0.9m to the Churchill Senior Loan Fund II funded from existing cash.
- c.£1.3m to the Churchill Senior Loan Fund IV funded from RLAM corporate bonds.
- c.£0.3m to the LCIV Renewable Energy Infrastructure Fund funded from existing cash.
- c.£1.4m to Stafford SISF IV funded from existing cash.

## Asset Allocation

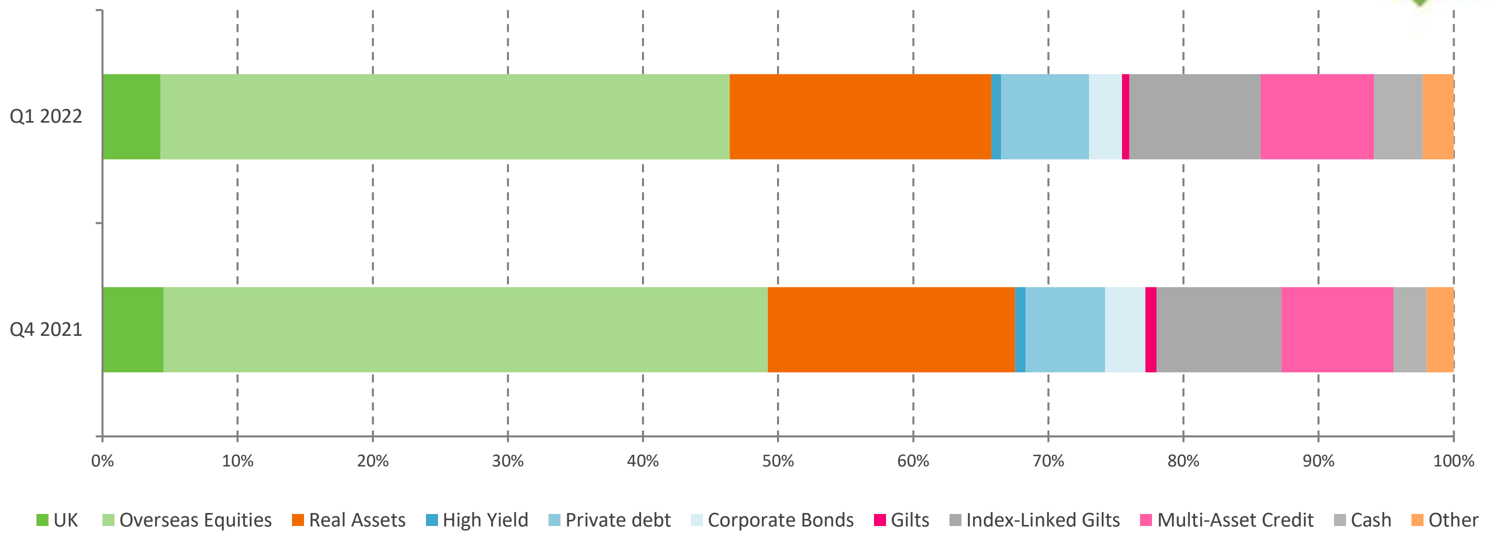
| Manager | | Valuation (£m) | | Actual Proportion | Benchmark | Relative |
|---|---|---|---|---|---|---|
| | | Q4 2021 | Q1 2022 | | | |
| **Equity** | | **398.3** | **366.2** | **39.8%** | **40.0%** | **-0.2%** |
| LGIM Global Equity | LCIV aligned | 35.8 | 35.0 | 3.8% | 5.0% | -1.2% |
| LGIM Emerging Markets | LCIV aligned | 38.8 | 37.8 | 4.1% | 5.0% | -0.9% |
| LGIM Future World Fund | LCIV aligned | 96.6 | 93.4 | 10.2% | 10.0% | 0.2% |
| LCIV Global Alpha Growth Paris Aligned Fund | LCIV | 179.7 | 155.3 | 16.9% | 15.0% | 1.9% |
| LCIV PEPPA Passive Equity | LCIV | 47.3 | 44.7 | 4.9% | 5.0% | -0.1% |
| **Multi-Asset** | | **205.3** | **204.8** | **22.3%** | **20.0%** | **2.3%** |
| LCIV Absolute Return Fund | LCIV | 114.3 | 119.4 | 13.0% | 12.5% | 0.5% |
| LCIV Diversified Growth Fund | LCIV | 91.0 | 85.4 | 9.3% | 7.5% | 1.8% |
| **Real-Assets** | | **144.8** | **152.4** | **16.6%** | **20.0%** | **-3.4%** |
| UBS Property | Retained | 57.5 | 62.1 | 6.8% | 6.0% | 0.8% |
| CBRE | Retained | 30.1 | 32.3 | 3.5% | 4.0% | -0.5% |
| JP Morgan | Retained | 23.3 | 23.3 | 2.5% | 4.0% | -1.5% |
| Stafford Capital Global Infrastructure SISF II | Retained | 21.7 | 20.3 | 3.0% | 3.5% | -0.5% |
| Stafford Capital Global Infrastructure SISF IV | Retained | 5.3 | 7.5 | | | |
| LCIV Renewable Energy Infrastructure Fund | LCIV | 6.9 | 6.9 | 0.8% | 2.5% | -1.7% |
| **Bonds and Cash** | | **200.0** | **196.2** | **21.3%** | **20.0%** | **1.3%** |
| RLAM Index Linked Gilts | Retained | 43.5 | 40.4 | 4.4% | 5.0% | -0.6% |
| RLAM Multi-Asset Credit | Retained | 64.1 | 63.3 | 6.9% | 7.5% | -0.6% |
| RLAM Corporate Bonds | Retained | 28.1 | 22.4 | 2.4% | 0.0% | 2.4% |
| Churchill Senior Loan Fund II | Retained | 18.6 | 20.9 | 2.3% | 3.0% | -0.7% |
| Churchill Senior Loan Fund IV | Retained | 5.3 | 7.8 | 0.8% | 0.0% | 0.8% |
| Permira | Retained | 26.4 | 26.5 | 2.9% | 4.5% | -1.6% |
| Cash at Bank | Retained | 13.1 | 16.5 | 1.8% | 0.0% | 1.8% |
| Currency Hedging P/L | Retained | 0.8 | -1.5 | -0.2% | 0.0% | -0.2% |
| **Total Fund** | | **948.3** | **919.6** | **100.0%** | **100.0%** | |

*Source: Northern Trust, Investment Managers*

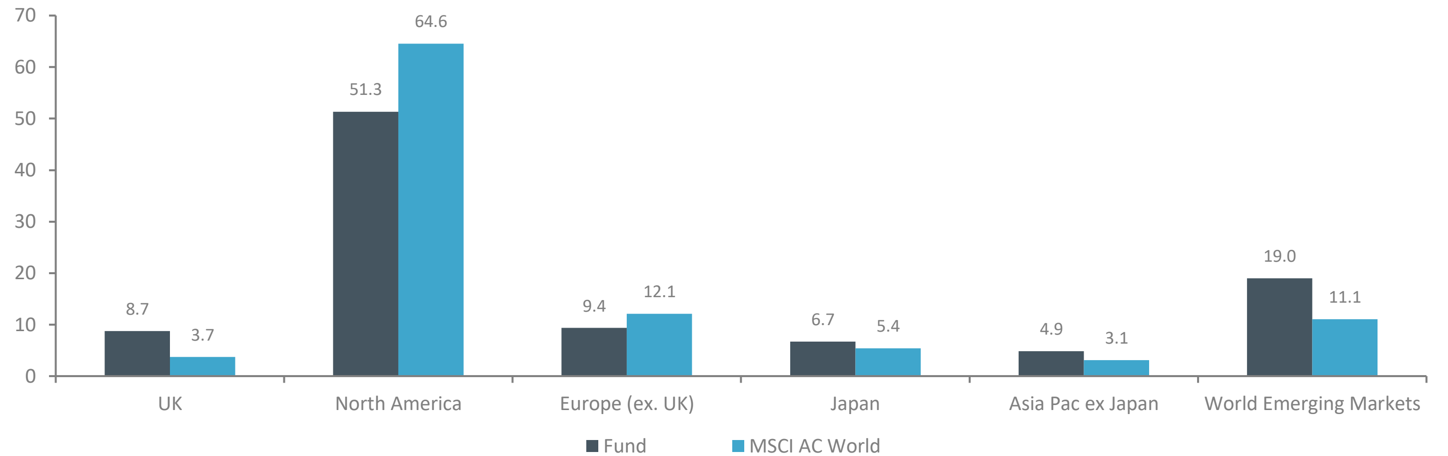
# Asset Allocation

- The chart right illustrates the underlying asset allocation of the Fund, i.e. taking account of the underlying holdings in the multi-asset funds on a 'look through' basis.
- The Fund's overall allocation to equities decreased over the quarter to c.46.4% as at 31 March 2022 (c.49.2% at 31 December 2021) – this was primarily driven by the fall in equity values over the quarter.
- The allocation to private debt increased to c.6.5% as at 31 March 2022 (c.5.9% as at 31 December 2021) – this was due to the Fund's private debt assets performing positively over the quarter, coupled with the fall in value of other assets.
- The allocation to real assets continued to increase to c.19.4% as at 31 March 2022 (c.18.3% as at 31 December 2021) – this movement was driven by capital calls from Stafford over the quarter and economically sensitive infrastructure assets significantly recovering in the first quarter of the year.

## Asset Class Exposures




## Regional Equity Allocation




*Source: Investment Managers, Datastream*

- Please note the early stage performance of the Fund's private market investments can be very volatile using this method of performance measurement. This is to be expected and should not provide cause for concern.
- The LGIM mandates continued to broadly track their respective benchmarks over the quarter.
- The LCIV Global Alpha Growth Paris Aligned Fund significantly underperformed its benchmark. The Global Alpha Fund's bias towards 'growth' stocks and bias away from 'value' stocks continued to negatively impact its performance over a period when the 'growth' style has been out of favour, due to faster and further increases in interest rates. More specifically, overweights to consumer discretionary goods and I.T. dragged on the mandate's performance.
- The LCIV PEPPA mandate delivered negative absolute returns. The largest sectoral allocation to I.T. (23.3%) and the largest regional allocation to the US (65.8%), detracted from overall mandate performance over the quarter.
- The majority of the Fund's property and infrastructure mandates performed positively in both absolute and relative terms, as both infrastructure and property assets recovered over the quarter. The UBS and CBRE mandates' majority sector weighting to Industrials contributed positively to overall Fund returns.
- The RLAM mandates delivered negative absolute negative due to interest rates rising and credit spreads widening over the quarter.
- Please note that all asset performance is in GBP terms and does not make an allowance for currency fluctuations. The total Fund performance includes the impact of the Russell currency overlay mandate. Please note the separate slide for further detail on the Russell mandate, along with asset performance excluding the impact of currency fluctuations.

# Manager Performance

| | Last 3 months (%) | | | Last 12 months (%) | | | Last 3 years (% p.a.) | | | Since Inception (% p.a.) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Fund | B'mark | Relative | Fund | B'mark | Relative | Fund | B'mark | Relative | Fund | B'mark | Relative |
| **Growth** | | | | | | | | | | | | |
| LGIM Global Equity | -2.4 | -2.4 | **0.0** | 12.7 | 12.7 | **-0.1** | 13.8 | 13.8 | **0.0** | 12.7 | 12.7 | **0.0** |
| LGIM Emerging Markets | -2.5 | -2.5 | **0.0** | -3.6 | -3.3 | **-0.3** | 5.5 | 5.7 | **-0.2** | 6.6 | 6.7 | **-0.2** |
| LGIM Future World Fund | -3.4 | -3.4 | **0.0** | - | - | - | - | - | - | 0.5 | 0.5 | **0.0** |
| LCIV Global Alpha Growth Paris Aligned Fund | -13.6 | -2.4 | **-11.4** | -8.6 | 14.1 | **-19.9** | 12.1 | 14.1 | **-1.7** | 13.9 | 12.9 | **0.9** |
| LCIV PEPPA Passive Equity | -5.5 | -5.8 | **0.3** | - | - | - | - | - | - | -5.5 | -5.8 | **0.3** |
| LCIV Absolute Return Fund | 4.4 | 1.1 | **3.3** | 7.3 | 4.1 | **3.0** | 10.2 | 4.5 | **5.5** | 5.8 | 4.7 | **1.0** |
| LCIV Diversified Growth Fund | -6.1 | 1.0 | **-7.0** | 3.3 | 3.7 | **-0.3** | 3.6 | 3.8 | **-0.2** | 4.1 | 4.0 | **0.1** |
| **Income** | | | | | | | | | | | | |
| UBS Property | 8.7 | 5.6 | **2.9** | 25.7 | 23.1 | **2.1** | 9.7 | 8.1 | **1.5** | 7.8 | 8.3 | **-0.5** |
| CBRE | 7.4 | 3.0 | **4.3** | 16.2 | 12.1 | **3.7** | 9.1 | 7.9 | **1.2** | 8.3 | 7.6 | **0.6** |
| JP Morgan | 4.5 | 3.0 | **1.5** | 9.2 | 12.1 | **-2.6** | 9.9 | 7.9 | **1.9** | 8.3 | 7.6 | **0.6** |
| Stafford Capital Global Infrastructure SISF II | 3.6 | 3.0 | **0.6** | 11.6 | 12.1 | **-0.4** | 8.1 | 7.9 | **0.2** | 6.2 | 7.6 | **-1.4** |
| Stafford Capital Global Infrastructure SISF IV | 15.5 | 3.0 | **12.2** | 28.1 | 12.2 | **14.3** | - | - | - | 21.9 | 9.6 | **11.3** |
| LCIV Renewable Energy Infrastructure Fund | -5.2 | 3.0 | **-8.0** | - | - | - | - | - | - | -0.1 | 8.8 | **-8.1** |
| **Protection** | | | | | | | | | | | | |
| RLAM Index Linked Gilts | -6.4 | -6.4 | **0.0** | 5.0 | 4.8 | **0.1** | - | - | - | 3.7 | 3.7 | **0.0** |
| RLAM Multi-Asset Credit | -2.9 | -2.9 | **0.0** | 0.7 | -1.4 | **2.2** | 6.0 | 5.0 | **1.0** | 7.8 | 7.0 | **0.8** |
| RLAM Corporate Bonds | -10.1 | -10.3 | **0.3** | -6.1 | -7.6 | **1.7** | - | - | - | 1.1 | 0.3 | **0.8** |
| Churchill Senior Loan Fund II | 4.2 | 1.1 | **3.1** | 10.9 | 4.1 | **6.5** | 5.4 | 4.5 | **0.8** | 4.2 | 4.5 | **-0.3** |
| Churchill Senior Loan Fund IV | 3.7 | 1.1 | **2.6** | - | - | - | - | - | - | 3.7 | 1.1 | **2.6** |
| Permira | 1.7 | 1.1 | **0.6** | 6.2 | 4.1 | **2.0** | - | - | - | 3.4 | 4.4 | **-1.0** |
| **Total** | -3.2 | -0.7 | **-2.5** | 4.6 | 8.1 | **-3.2** | 8.8 | 7.9 | **0.8** | 8.1 | - | - |

*Source: Northern Trust, investment managers. Please note that benchmark performance for Baillie Gifford DGF and Ruffer Absolute Return funds is inclusive of outperformance targets. In addition, longer term performance for Baillie Gifford Global Equity, Baillie Gifford DGF and Ruffer Absolute Return funds is inclusive of performance prior to their transfer in to the London CIV. LGIM Global and Fundamental Equity mandates were managed by SSGA prior to November 2017 and we have retained the performance history for these allocations. Performance figures for CBRE, Stafford ad JP Morgan has been taken from the managers rather than Northern Trust. The Fund performance figure includes the effect of the currency hedging mandate managed by Russell.*

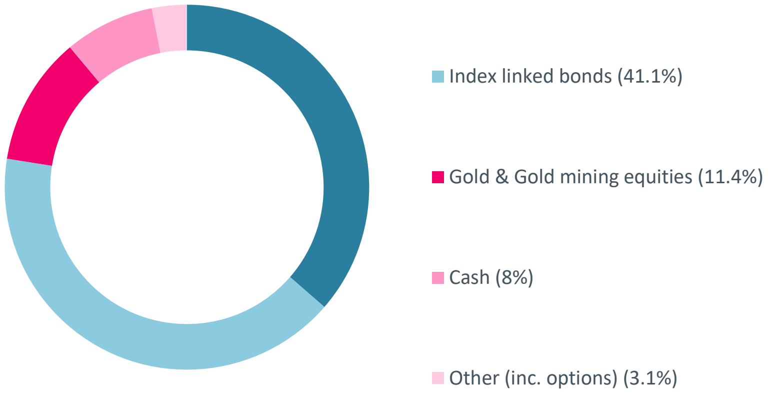
*Please note the 3 month performance figure for the LCIV PEPPA Passive Equity mandate reflects performance over the period since inception in early 2022 to 31 March 2022.*

- The sub-fund is managed by Ruffer.
- The sub-fund's objective is to achieve low volatility and positive returns in all market conditions.
- Benchmark is 3 month SONIA + 4% p.a.
- The sub-fund returned an impressive 4.4% during a difficult quarter for growth markets, outperforming its benchmark by 3.3%. The sub-fund has also continued to outperform its benchmark over the longer periods of 12 months, 3 years and since inception.
- Despite the sub-fund's largest allocations to equity and index-linked bonds, performance was positive. This was due to the sub-fund's holdings in interest rate options, which offset the fall in value experienced by index-linked bonds over a period when gilt yields rose faster than inflationary expectations.
- The greatest contributor to the sub-fund's overall performance was its 11.4% allocation to gold and gold mining equities. With increased economic uncertainty around increasing interest rates and upwards inflationary pressures (as well as events in Russia and Ukraine), the demand and price of gold increased over the first quarter of 2022, positively impacting the sub-fund's performance over the period.

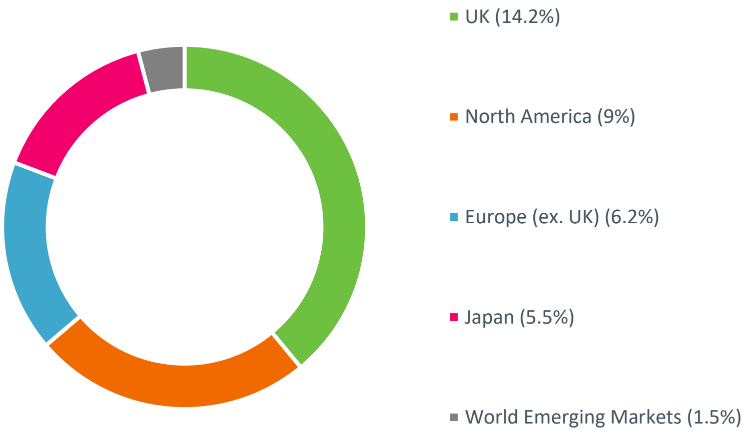
## LCIV Absolute Return Fund

| | Last 3 months (%) | Last 12 months (%) | Last 3 years (% p.a.) | Since Inception (% p.a.) |
|---|---|---|---|---|
| **LCIV Absolute Return** | 4.4 | 7.3 | 10.2 | 5.8 |
| **Benchmark** | 1.1 | 4.1 | 4.5 | 4.7 |
| **Relative** | 3.3 | 3.0 | 5.5 | 1.0 |

## Asset Allocation




## Regional Equity Allocation



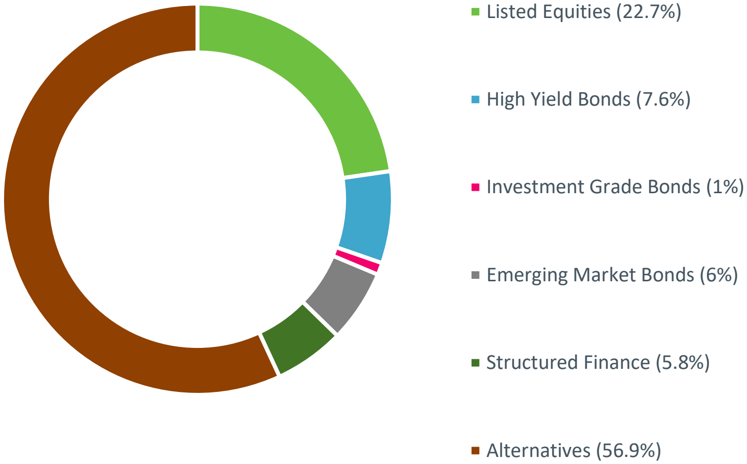

*Source: Investment Managers, LCIV, Northern Trust*
*Absolute Return Fund inception date: 13/09/2010*

- The sub-fund is managed by Baillie Gifford through their Diversified Growth strategy.
- The sub-fund's objective is to achieve long term capital growth at lower risk than equity markets.
- Benchmark is UK base rate + 3.5% (net).
- The sub-fund returned -6.1% over the quarter, underperforming its benchmark by 7.0%. However, over the longer period, the sub-fund remains ahead of its benchmark by 0.1% since inception.
- The negative return over the quarter can be attributed to the sub-fund's 23% allocation to listed equities, which were the biggest detractors to the sub-fund's performance, contributing -2.2% to overall sub-fund performance over the quarter. Furthermore, the sub-fund's exposure to Chinese stocks also continued to negatively impact returns due to the ongoing Chinese real estate crisis.
- Of the 56.9% allocation to Alternatives, the 4.2% allocation to commodities were the greatest contributor to the sub-fund's overall performance. As the conflict between Russia and Ukraine continues and the subsequent impact of this on oil prices, it is expected that the sub-fund's holding in commodities will continue to return positively. Furthermore, the sub-fund's 22.0% allocation to infrastructure also contributed positively to overall performance.

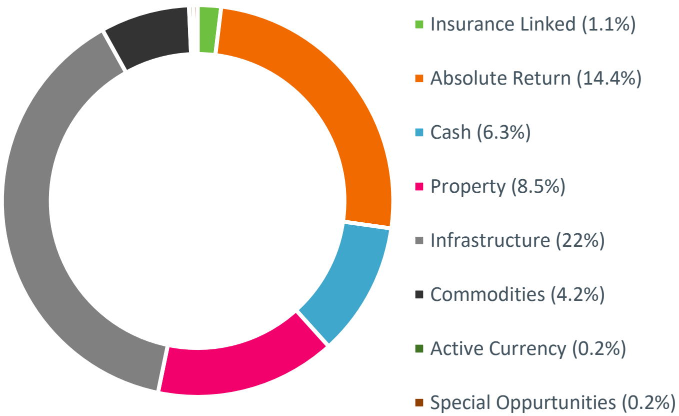
## LCIV Diversified Growth Fund

| | Last 3 months (%) | Last 12 months (%) | Last 3 years (% p.a.) | Since Inception (% p.a.) |
|---|---|---|---|---|
| LCIV Diversified Growth | -6.1 | 3.3 | 3.6 | 4.1 |
| Benchmark | 1.0 | 3.7 | 3.8 | 4.0 |
| Relative | -7.0 | -0.3 | -0.2 | 0.1 |

## Asset Allocation




## Alternatives Asset Allocation




*Source: Investment Managers, LCIV, Northern Trust*
*Absolute Return Fund inception date: 13/09/2010*

## Russell Currency Hedging

- Russell Investments have been appointed to manage the Fund's currency overlay mandate.
- The current policy is to hedge non-sterling exposures in the Fund's private markets mandates. Currency exposure in equity mandates is retained.
- At present, 100% of the exposure to USD, EUR and AUD from the private market investments is hedged within any residual currency exposure retained on a de-minimis basis.
- The volatility of returns (measured as the standard deviation of quarterly returns since inception) is 4.5% to date when the impact of currency fluctuations is included and only 4.0% when currency movements are stripped out by the Russell currency overlay mandate. This continues to indicate that the Russell mandate is reducing overall volatility and increasing the predictability of returns, as intended.

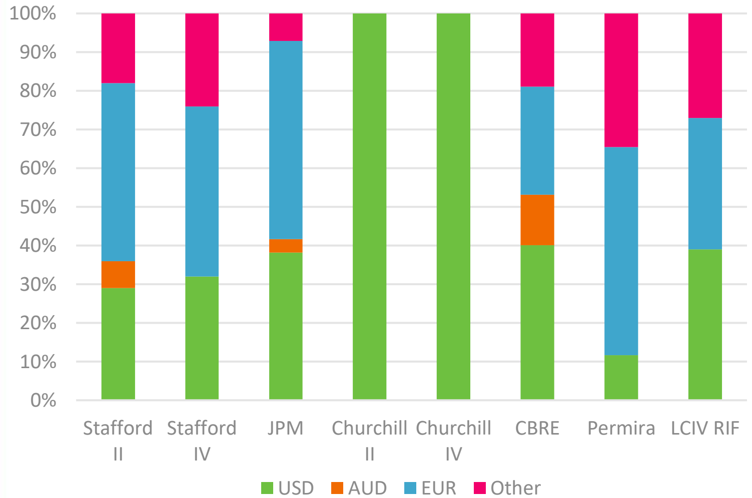
## Q1 2022 Performance

| | Asset Return (inc. FX impact) | Currency Return (via Russell mandate) | Asset Return (ex. FX impact) | BM Return | Relative Return (ex. FX impact) |
|---|---|---|---|---|---|
| Stafford II | 3.6 | -1.6 | 2.0 | 3.0 | -1.0 |
| Stafford IV | 15.5 | -1.3 | 14.2 | 3.0 | 10.9 |
| JPM | 4.5 | -1.5 | 3.0 | 3.0 | 0.0 |
| Churchill II | 4.2 | -2.8 | 1.4 | 1.1 | 0.3 |
| Churchill IV | 3.7 | -2.9 | 0.8 | 1.1 | -0.3 |
| CBRE | 7.4 | -2.0 | 5.3 | 3.0 | 2.3 |
| Permira | 1.7 | -0.6 | 1.1 | 1.1 | 0.1 |
| LCIV RIF | -5.2 | -1.2 | -6.5 | 3.0 | -9.2 |

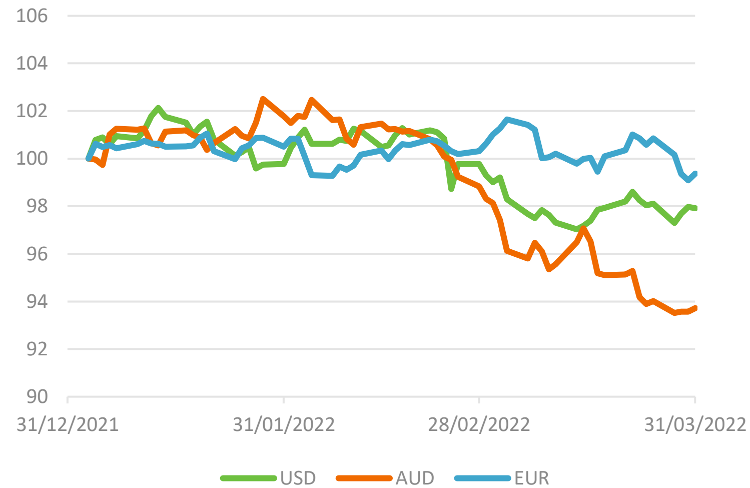
## Performance Since Mandate Inception*

| | Asset Return (inc. FX impact) | Currency Return (via Russell mandate) | Asset Return (ex. FX impact) | BM Return | Relative Return (ex. FX impact) |
|---|---|---|---|---|---|
| Stafford II | 6.2 | -0.2 | 6.0 | 7.6 | -1.6 |
| Stafford IV | 21.9 | -0.5 | 21.4 | 9.6 | 10.8 |
| JPM | 8.3 | -1.1 | 7.2 | 7.6 | -0.4 |
| Churchill II | 4.2 | -1.2 | 3.0 | 4.5 | -1.5 |
| Churchill IV | 3.7 | -0.4 | 3.3 | 1.1 | 2.2 |
| CBRE | 8.3 | -1.3 | 6.9 | 7.6 | -0.6 |
| Permira | 3.4 | 1.0 | 4.4 | 4.4 | 0.0 |
| LCIV RIF | -0.1 | -0.1 | -0.2 | 8.8 | -8.2 |

## Hedged Currency Exposure **




## Sterling Performance vs. Foreign Currencies (Rebased to 100 at 31 December 2021)




*Source: Northern Trust, Investment managers*
** Performance shown since 31 December 2019 which was the first month end after inception.*
*** As at Q4 2021. LCIV RIF as at 30 September 2021 (latest available).*

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- Since March 2018, the Fund has made commitments to seven private markets funds as outlined right. The table provides a summary of the commitments and drawdowns to 31 March 2022.
- It has been agreed that an additional £12m will be allocated to JP Morgan and this will be funded from the Baillie Gifford Global Alpha Growth Paris Aligned fund. This was drawn down shortly after quarter-end.
- There are outstanding commitments of approximately £55m to the remaining funds which will be funded from the RLAM corporate bond mandate and the LCIV Diversified Growth Fund alongside capital being returned from other mandates.

| Mandate | Infrastructure | | | Private Debt | | |
|---|---|---|---|---|---|---|
| Vehicle | Stafford Infrastructure Secondaries Fund II | Stafford Infrastructure Secondaries Fund IV | LCIV Renewable Energy Infrastructure Fund | Churchill Middle Market Senior Loan Fund II | Churchill Middle Market Senior Loan Fund IV | Permira Credit Solutions IV Senior Fund |
| Commitment Date | 25/04/2018 | 18/12/2020 | 30/06/2021 | 12/2018 | 29/09/2021 | 12/2018 |
| Fund Currency | EUR | EUR | GBP | USD | USD | EUR |
| Gross Commitment | €28.5m | €30m | £25m | $31.0m | $26.5m | £36 m |
| Gross Commitment (GBP estimate) | £24.1m | £25.4m | - | £23.5m | £20.1m | - |
| Net Capital Called During Quarter (Payments Less Returned Capital) | - | £1.4m | £0.4m | £0.9m | £2.3m | - |
| Net Capital Drawn To Date | £18.8m | £11.5m | £6.9m | £19.3m | £6.4m | £26.6m |
| Distributions/Returned Capital To Date (Includes Income and Other Gains) | £10.2m | £0.1m | - | £3.5m | - | £2.6m |
| NAV at Quarter End | £20.3m | £7.5m | £6.9m | £20.9m | £7.8m | £26.5m |
| Net IRR Since Inception | 8.7% p.a. (v. 8-9% target) | - | - | 7.25%** | - | 9.3%* |
| Net Cash Yield Since Inception | 4.5% p.a. (v. 5% target) | - | - | - | - | - |
| Number of Holdings | 22 funds | 8 funds | - | 95 investments | 78 investments | 80 investments* |

*as at 31/12/2021 (latest available) **Refers to IRR of realised assets in the portfolio

Source: Investment Managers

## Capital Markets Outlook

| Asset Class | Market Summary |
|---|---|
| **Equities** | • Equity valuations remain stretched versus historical averages, albeit with wide regional disparities. Earnings growth will inevitably slow sharply from an expected 54% in 2021. However, demand and revenue growth remain strong and there is evidence that businesses expect to be able to pass on most of their higher costs. |
| **Investment Grade Credit** | • Global investment grade spreads have risen considerably since the start of the year and, om a ratings-consistent basis, are now slightly above long-term median levels. Corporate fundamentals are also in decent shape, however high current and forecast inflation, and its corrosive effect on nominal fixed income coupons, sees us retain a degree of caution. |
| **Emerging Market Debt** | • While yields and spreads are now touching attractive levels, rising developed market sovereign yields and general Emerging Market risk aversion, may mean the technical picture remains challenged in the near term. |
| **Liquid Sub-Investment Grade Debt** | • Slowing economic growth raises the risk of default and downgrades, but cash balances, income and capital leverage metrics are in robust shape, bolstered by the scale of refinancing in recent years at extremely low rates and a recovery in earnings. Negative fund flows have driven credit spreads wider, particularly within European high yield markets, where spreads have risen above long-term median levels whilst US credit spreads remain below long-term medians. |
| **Private Lending** | • Fundamentals have improved post-COVID, but inflation and labour cost impacts are now the prevailing concerns. Valuations have moved to unattractive due to the increase in traded loan spreads. There remains a very high level of activity in the market with most managers achieving high levels of deployment, which is expected to taper as 2022 progresses. |
| **Core UK Property** | • UK core property market fundamentals continue to show improvement and rental growth offers the prospect of at least some inflation protection. UK property yields are very low versus history but, as with equities, demanding valuations are offset to some extent by the current and projected level of real government bond yields. |
| **Long Lease Property** | • Whilst yields remain very low versus history, the long lease property market benefits from a greater degree of explicit inflation-linkage than core markets and is seeing very strong investor demand. |
| **Conventional Gilts** | • The path of cash rates currently implied by instantaneous forward nominal yields, rising to 2.25% p.a. over the next 10 to 15 years, does not look unreasonable. Implied cash rates falling beyond 15 years makes us wary of longer-term forward yields. |
| **Index-Linked Gilts** | • Given elevated inflation forecasts, near-term implied inflation does not look unreasonable relative to fundamentals. From 2030, index-linked gilts will be re-referenced to CPIH, which is typically 1% p.a. lower than RPI. This suggests a substantial inflation risk premium is embedded in the gilt market at longer maturities, especially the 10-20Y part of the curve. Beyond 25 years, inflation pricing doesn't look particularly demanding. |

*The table summarises our broad views on the outlook for markets. The ratings used are Positive, Attractive, Neutral, Cautious and Negative. The ratings are intended to give a guide to our views on the prospects for markets over a period of around three years; although they are updated quarterly, they are not intended as tactical calls. The ratings reflect our expectations of absolute returns and assume no constraints on investment discretion. In practice, they need to be interpreted in the context of the strategic framework within which individual schemes are managed.*

*Source: Hymans Robertson*

## Risk Warning

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

In some cases, we have commercial business arrangements/agreements with clients within the financial sector where we provide services. These services are entirely separate from any advice that we may provide in recommending products to our advisory clients. Our recommendations are provided as a result of clients' needs and based upon our independent research. Where there is a perceived or potential conflict, alternative recommendations can be made available.



## Geometric vs. Arithmetic Performance

Hymans Robertson are among the investment professionals who calculate relative performance geometrically as follows:

$$\frac{(1 + Fund\ Performance)}{(1 + Benchmark\ Performance)} - 1$$

Some industry practitioners use the simpler arithmetic method as follows:

$$Fund\ Performance\ - Benchmark\ Performance$$

The geometric return is a better measure of investment performance when compared to the arithmetic return, to account for potential volatility of returns.

The difference between the arithmetic mean return and the geometric mean return increases as the volatility increases.