London Borough of Havering Pension Fund

Q1 2023 Investment Monitoring Report

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- This section outlines the key points included in this report.
- The tactical benchmark in the Fund Performance table represents the aggregate performance target of the Fund's assets and is a measure of relative outperformance / underperformance from the asset managers.
- The strategic benchmark represents the expected rate at which the Fund's liabilities are growing (or falling) in value. The asset performance relative to the strategic benchmark performance gives an indication of whether the funding level has improved or weakened over a given period.

Key Takeaways

Equity and credit assets performed well.	• Global growth figures were positive – due to resilient labour markets and falling energy prices. • All equity mandates performed positively in absolute terms. • The LCIV Global Alpha Growth Paris Aligned Fund underperformed due to sector positioning, despite growth stocks outperforming value stocks. • The LCIV Absolute Return Fund performed negatively in both absolute and relative terms, as would be expected in a more 'risk on' environment.
Overall fund performance was positive as the total Fund value increased by around 2.7%, significantly outperforming the strategic benchmark	• The Fund's performance of 2.7% was slightly behind the tactical benchmark of 3.0% • Fund performance remains comfortably ahead of the strategic benchmark (the proxy assumed growth of liabilities) over longer time periods.
USD and EUR denominated assets were negatively impacted as GBP appreciated. There were offsetting gains from the currency hedging programme.	• Many of the Fund's private market assets have either USD or EUR exposure. As a result, they demonstrated a weaker return when converted to GBP. However, currency hedging largely offset this.
Large negative relative returns were observed across some of the Fund's real asset and private debt mandates. However, there are no immediate concerns.	• The majority of these mandates are measured against inflation and 'cash plus' based benchmarks. Year on year core inflation and interest rates remain high with asset returns not having kept pace over the short term • Property capital value declines have just started to ease, after 8 consecutive months of decline and falling 17% over the last 12 months.

Fund Performance

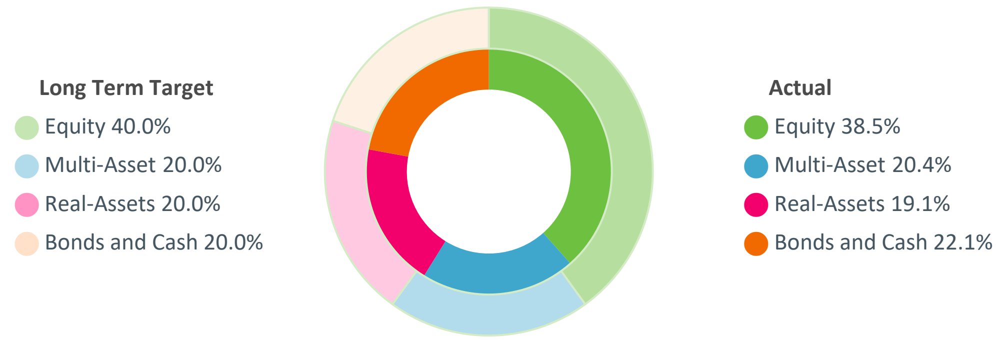
	Last 3 months (%)	Last 12 months (%)	Last 3 years (%)	Last 5 years (%)
Total Fund Performance	**2.7**	**-3.6**	**8.0**	**5.1**
Tactical Benchmark	3.0	0.7	8.4	6.0
Strategic Benchmark	4.8	-24.5	-5.7	-1.3

Fund Asset Valuation

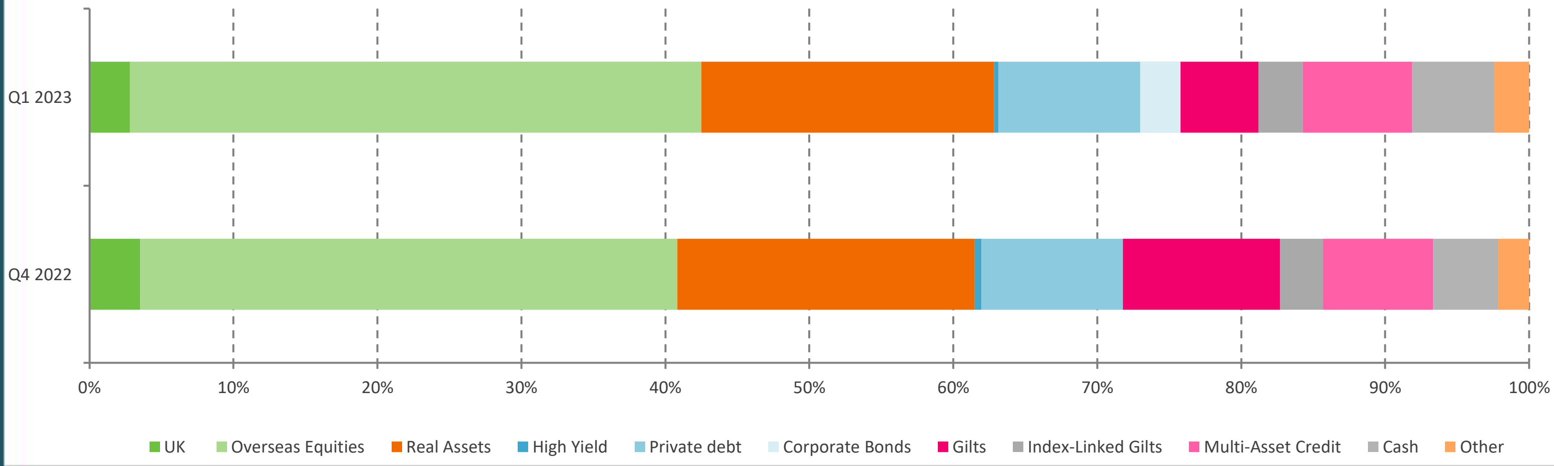
	Fund value (£m)
Q4 2022	**870.5**
Q1 2023	**894.1**

- The Fund's investment strategy is implemented through the London Collective Investment Vehicle ("LCIV"), and retained assets including life funds (with fee structures aligned with LCIV).
- 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.
- The chart below 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 increased over the quarter to c.42.5% as at 31 March 2023 (c.40.8% as at 31 December 2022) – this was due to the LCIV Absolute Return Fund's equity allocation increasing from 12.7% to 22.7%. Furthermore, the Fund's overall allocation to equities increased (in GBP terms) as global equities rose over the quarter.
- The allocation to gilts fell to c.5.4% as at 31 March 2023 (c.10.4% as at 31 December 2022) – this was due to the LCIV Absolute Return Fund's allocation to government fixed income assets decreasing from 67.6% to 29.7%. The LCIV Absolute Return Fund's previous 67.6% allocation to government fixed income assets is now split between a 29.7% allocation to government fixed income assets and a 21.5% allocation to other fixed income assets.
- The allocation to real assets fell to c.20.3% as at 31 March 2023 (c.20.7% as at 31 December 2022) – this was due to the LCIV Diversified Growth Fund further decreasing its allocation to infrastructure from 13.7 to 10.7% over the quarter.
- The allocations to multi-asset credit, private debt and high yield assets remained relatively unchanged over the quarter.

Asset Allocation



Asset Class Exposures



Current Investment Implementation

The total value of the Fund's assets increased by £23.6m over the quarter to £894.1m as at 31 March 2023.

The increase in valuation can be primarily attributed to the Fund's allocation to equities. Over the first quarter of 2023, global equities continued to rise as a result of lower energy prices and improved business sentiment, outweighing concerns regarding sustained inflationary pressures and associated high interest rates.

Despite volatility over the period, real gilt yields ended the quarter lower than they started, resulting in the Fund's RLAM Index linked Gilts mandate increasing in value.

Global sub-investment grade credit spreads tightened 0.1% p.a. to 0.5% p.a. over the quarter, positively impacting the RLAM MAC mandate.

Overall, the Fund's real assets rose in value over the quarter – with March 2023 being the first positive month, after 8 consecutive months of capital value declines.

The Fund's allocation to multi-asset mandates, specifically the LCIV Absolute Return Fund, fell in value over the period. This was due to defensive positioning, when wider equity and bond markets rallied, and allocations to GBP when Sterling appreciated over the quarter.

The Fund paid the following capital calls during the quarter:

- c.£1.8m to the Stafford SISF IV.
- c.£0.3m overall to the LCIV Renewable Energy Infrastructure Fund.
- c.£1.0m to the Churchill Fund IV.
- c.£0.8m to the Permira IV.
- c.£2.0m to the Permira V.

Asset Allocation

Manager		Valuation (£m) Q4 2022	Valuation (£m) Q1 2023	Actual Proportion	Benchmark	Relative
Equity		**330.4**	**343.9**	**38.5%**	**40.0%**	**-1.5%**
LGIM Global Equity	LCIV aligned	33.2	34.6	3.9%	5.0%	-1.1%
LGIM Emerging Markets	LCIV aligned	36.1	36.2	4.1%	5.0%	-0.9%
LGIM Future World Fund	LCIV aligned	90.2	93.4	10.4%	10.0%	0.4%
LCIV Global Alpha Growth Paris Aligned Fund	LCIV	129.6	135.6	15.2%	15.0%	0.2%
LCIV PEPPA Passive Equity	LCIV	41.3	44.0	4.9%	5.0%	-0.1%
Multi-Asset		**187.2**	**182.4**	**20.4%**	**20.0%**	**0.4%**
LCIV Absolute Return Fund	LCIV	122.2	115.9	13.0%	12.5%	0.5%
LCIV Diversified Growth Fund	LCIV	65.0	66.5	7.4%	7.5%	-0.1%
Real-Assets		**167.3**	**170.3**	**19.1%**	**20.0%**	**-0.9%**
UBS Property	Retained	51.0	51.1	5.7%	6.0%	-0.3%
CBRE	Retained	35.3	34.7	3.9%	4.0%	-0.1%
JP Morgan	Retained	35.4	37.0	4.1%	4.0%	0.1%
Stafford Capital Global Infrastructure SISF II	Retained	20.2	19.9	4.1%	3.5%	0.6%
Stafford Capital Global Infrastructure SISF IV	Retained	15.8	16.4			
LCIV Renewable Energy Infrastructure Fund	LCIV	9.6	11.2	1.3%	2.5%	-1.2%
Bonds and Cash		**185.5**	**197.5**	**22.1%**	**20.0%**	**2.1%**
RLAM Index Linked Gilts	Retained	26.0	27.3	3.1%	5.0%	-1.9%
RLAM Multi-Asset Credit	Retained	58.6	60.4	6.8%	7.5%	-0.7%
Churchill Senior Loan Fund II	Retained	23.4	21.8	2.4%	3.0%	-0.6%
Churchill Senior Loan Fund IV	Retained	14.8	15.3	1.7%		
Permira IV	Retained	29.6	31.0	4.9%	4.5%	0.4%
Permira V	Retained	10.9	13.2			
Cash at Bank	Retained	19.1	22.8	2.5%	0.0%	2.5%
Currency Hedging P/L	Retained	3.2	5.9	0.7%	0.0%	0.7%
Total Fund		**870.5**	**894.1**	**100.0%**	**100.0%**	

Source: Northern Trust, Investment Managers

- The Fund's assets returned 2.7% over the quarter, slightly underperforming its 3.0% benchmark return. All equity mandates delivered positive absolute returns as global equities performed positively over the quarter.
- The LCIV Global Alpha Growth Paris Aligned Fund marginally underperformed its benchmark index. Overweight allocations to financials and healthcare stocks dragged on the Fund's performance as both sectors returned negatively over the period. Similarly, the Fund's significant underweight to technology resulted in underperformance, as technology stocks rallied over the period.
- The RLAM Index Linked Gilts mandate also delivered positive absolute returns. Despite yields being volatile over the quarter, they ended the quarter down – after falling sharply in March 2023, amidst banking concerns in the US and Europe.
- There were mixed returns across the Fund's real assets, both in absolute terms and against their respective benchmarks, with the rate of capital value declines easing only in March 2023. Capital values have fallen by 17% over the last 12 months, with the most pronounced decline being in the industrial sector – to which the CBRE mandate has the largest allocation (46.1% as at 31 March 2023).
- The allocation to the LCIV Absolute Return Fund dragged relative returns as the fund was defensively positioned (i.e. aiming to provide protection against downside risk first, rather than asset growth) at the start of the quarter and as such, did not benefit from the rally in equity and bond markets in during the quarter.
- 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.
- 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

	Actual Proportion	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
Equity	***38.5%***												
LGIM Global Equity	*3.9%*	4.3	4.4	**0.0**	-1.0	-0.9	**-0.1**	15.9	16.0	**-0.1**	11.3	11.4	**0.0**
LGIM Emerging Markets	*4.1%*	0.3	0.2	**0.1**	-4.3	-3.9	**-0.4**	9.1	9.4	**-0.3**	3.9	4.1	**-0.2**
LGIM Future World Fund	*10.4%*	3.6	3.7	**-0.1**	0.1	0.2	**-0.2**	-	-	-	0.3	0.4	**-0.1**
LCIV Global Alpha Growth Paris Aligned Fund	*15.2%*	4.6	4.8	**-0.2**	-5.4	-1.0	**-4.4**	10.6	16.3	**-4.9**	12.1	11.6	**0.4**
LCIV PEPPA Passive Equity	*4.9%*	6.5	6.5	**0.0**	-1.6	-1.7	**0.1**	-	-	-	-4.9	-5.0	**0.1**
Multi-Asset	***20.4%***												
LCIV Absolute Return Fund	*13.0%*	-1.0	1.9	**-2.9**	1.3	6.3	**-4.7**	9.5	4.9	**4.4**	5.4	4.9	**0.5**
LCIV Diversified Growth Fund	*7.4%*	2.2	1.9	**0.3**	-8.5	6.0	**-13.7**	3.7	4.5	**-0.7**	2.6	4.2	**-1.5**
Real-Assets	***19.1%***												
UBS Property	*5.7%*	1.0	-0.2	**1.2**	-15.3	-14.5	**-1.0**	3.2	2.6	**0.6**	5.4	6.0	**-0.5**
CBRE	*3.9%*	-1.8	2.6	**-4.2**	7.3	15.1	**-6.7**	6.2	10.9	**-4.3**	8.0	9.3	**-1.2**
JP Morgan	*4.1%*	5.2	2.6	**2.6**	10.7	15.1	**-3.8**	6.0	10.9	**-4.5**	8.8	9.3	**-0.5**
Stafford Capital Global Infrastructure SISF II	*4.1%*	1.1	2.6	**-1.5**	20.3	15.1	**4.6**	7.1	10.9	**-3.5**	9.0	9.2	**-0.2**
Stafford Capital Global Infrastructure SISF IV		-3.6	2.6	**-6.0**	12.9	15.1	**-1.9**	-	-	-	17.8	12.0	**5.2**
LCIV Renewable Energy Infrastructure Fund	*1.3%*	7.7	2.6	**5.0**	39.0	15.1	**20.9**	-	-	-	20.7	13.7	**6.2**
Bonds	***22.1%***												
RLAM Index Linked Gilts	*3.1%*	4.8	5.0	**-0.1**	-32.6	-30.4	**-3.1**	-10.2	-9.2	**-1.0**	-10.2	-9.2	**-1.0**
RLAM Multi-Asset Credit	*6.8%*	3.2	3.1	**0.1**	-4.5	-1.4	**-3.1**	3.9	4.1	**-0.2**	6.6	6.2	**0.4**
Churchill Senior Loan Fund II	*2.4%*	-0.3	1.9	**-2.2**	12.1	6.3	**5.5**	5.2	4.9	**0.2**	6.0	4.9	**1.0**
Churchill Senior Loan Fund IV	*1.7%*	-1.2	1.9	**-3.1**	10.3	6.3	**3.8**	-	-	-	11.4	5.9	**5.1**
Permira IV	*4.9%*	2.1	1.9	**0.2**	6.1	6.3	**-0.2**	3.0	4.9	**-1.8**	4.1	4.9	**-0.8**
Permira V		2.1	1.9	**0.2**	-	-	**-**	-	-	-	2.8	5.0	**-2.1**
Total	*100.0%*	2.7	3.0	**-0.3**	-3.6	0.7	**-4.3**	8.0	8.4	**-0.4**	7.8	-	-

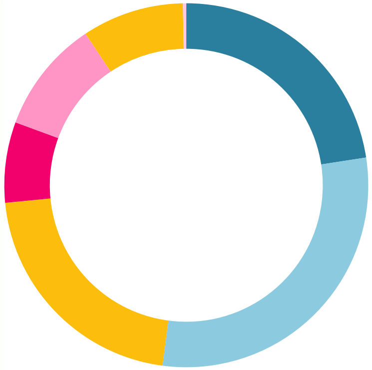
Source: Northern Trust, investment managers. Please note that benchmark performance for Baillie Gifford DGF and Ruffer Absolute Return funds is inclusive of outperformance targets. In addition, longer term performance for Baillie Gifford Global Equity, Baillie Gifford DGF and Ruffer Absolute Return funds is inclusive of performance prior to their transfer into 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 and 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.

- The sub-fund is managed by Ruffer.
- The sub-fund's objective is to achieve low volatility and positive annual returns in all market conditions.
- Comparator benchmark is 3 month SONIA + 4% p.a..
- Over the quarter, the sub-fund returned -1.0%, underperforming its benchmark return of 1.9. The sub-fund continues to underperform its benchmark return over the period of 12 months but over longer periods, the sub-fund outperforms its benchmark return.
- Despite the sub-fund's largest allocations being to index-linked bonds and equity as at 31 March 2023, performance was negative in absolute and relative terms. This was due to the sub-fund's allocations being defensively positioned at the start of the quarter and not benefitting from the rally in equity and bond markets in January 2023. Furthermore, when more risk assets were allocated later in the quarter, equity and bond markets reversed.
- Positive contributors to the sub-funds overall performance were still allocations to equity and index linked bonds, despite not being large allocations over the period. Gold also contributed positively to performance – exacerbated by concerns in the banking sector, the allocation to gold was increased over the period.
- In addition, the sub-fund's allocation to GBP (c.60%) contributed negatively to overall performance, as GBP appreciated against JPY, AUD and USD.

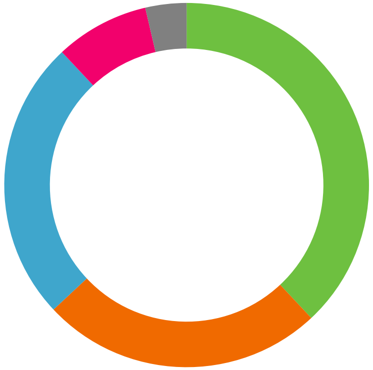
LCIV Absolute Return Fund

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Since Inception (% p.a.)
LCIV Absolute Return	-1.0	1.3	9.5	5.4
Benchmark	1.9	6.3	4.9	4.9
Relative	-2.9	-4.7	4.4	0.5

Asset Allocation



Regional Equity Allocation



Source: Investment Managers, LCIV, Northern Trust.

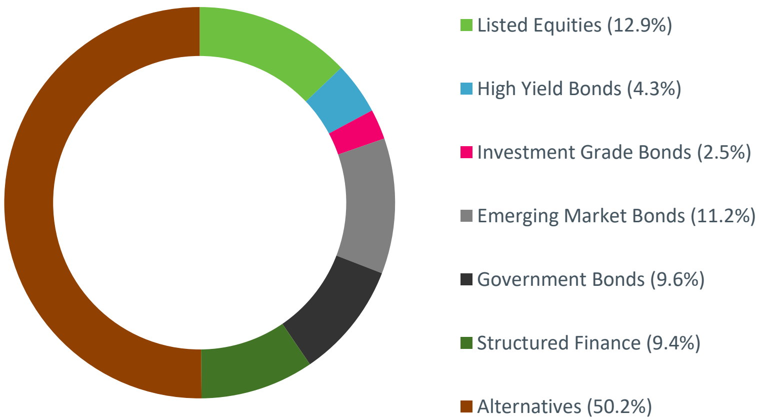
Manager Analysis

- 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).
- Over the quarter, the sub-fund returned 2.2%, outperforming its benchmark return of 1.9%. However, over all longer periods of 12 months, 3 years and since inception, the sub-fund underperforms its benchmark returns.
- The positive return over the quarter can partially be attributed to the sub-fund's 12.9% allocation to listed equities – as equities rose over the quarter and in particular, growth stocks outperformed. The overall allocations to government bonds (20.8%) and credit (16.2%) also contributed significantly positively to performance as gilt yields fell over the period and bond markets rallied.
- Of the 50.2% allocation to alternatives, property, insurance linked securities and infrastructure contributed most significantly and equally to the sub-fund's performance.
- The Committee agreed at their March 2023 meeting that as a result of the ongoing evolution of the Fund's investment strategy, the allocation to the DGF has effectively become redundant, as direct diversification within the investment strategy has increased over time. As such, it was agreed for the Fund to fully redeem its position in the LCIV Diversified Growth sub-fund.

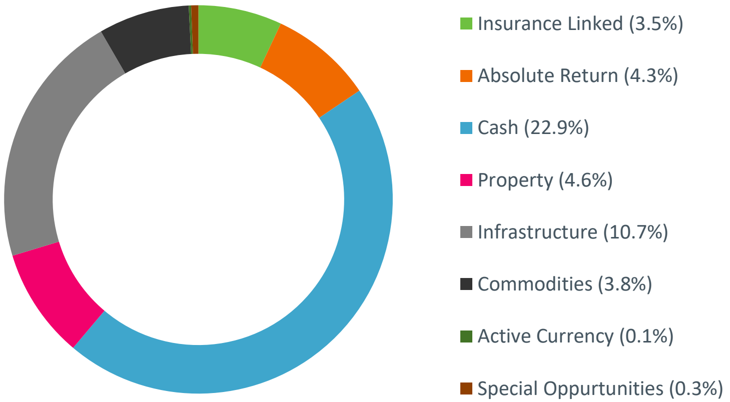
LCIV Diversified Growth Fund

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Since Inception (% p.a.)
LCIV Diversified Growth	2.2	-8.5	3.7	2.6
Benchmark	1.9	6.0	4.5	4.2
Relative	0.3	-13.7	-0.7	-1.5

Asset Allocation



Alternatives Equity Allocation



Source: Investment Managers, LCIV, Northern Trust.

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 5.1% to date when the impact of currency fluctuations is included and only 4.6% 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.

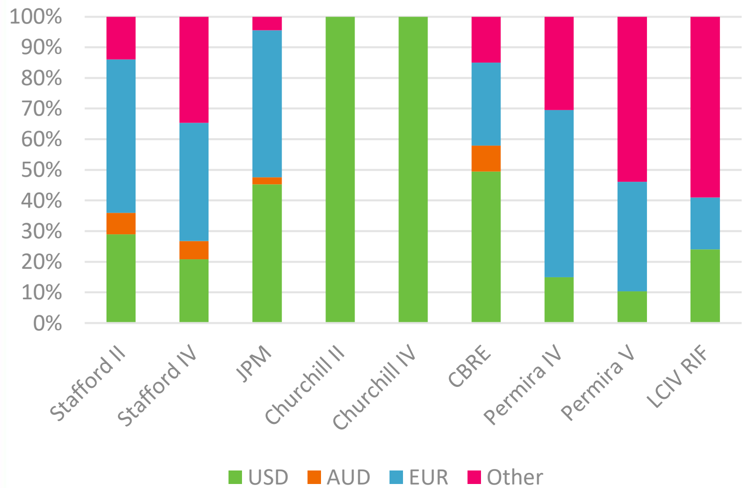
Q1 2023 Performance

	Asset Return (inc. FX impact)	Currency Return (via Russell mandate)	Asset Return (ex. FX impact)	BM Return	Relative Return (ex. FX impact)
Stafford II	1.1	1.7	2.7	2.6	0.2
Stafford IV	-3.6	1.2	-2.4	2.6	-4.8
JPM	5.2	1.9	7.1	2.6	4.4
Churchill II	-0.3	2.4	2.1	1.9	0.2
Churchill IV	-1.2	2.3	1.1	1.9	-0.8
CBRE	-1.8	2.0	0.2	2.6	-2.3
Permira IV	2.1	1.1	3.2	1.9	1.2
Permira V	2.1	1.4	3.5	1.9	1.6
LCIV RIF	7.7	0.7	8.4	2.6	5.7

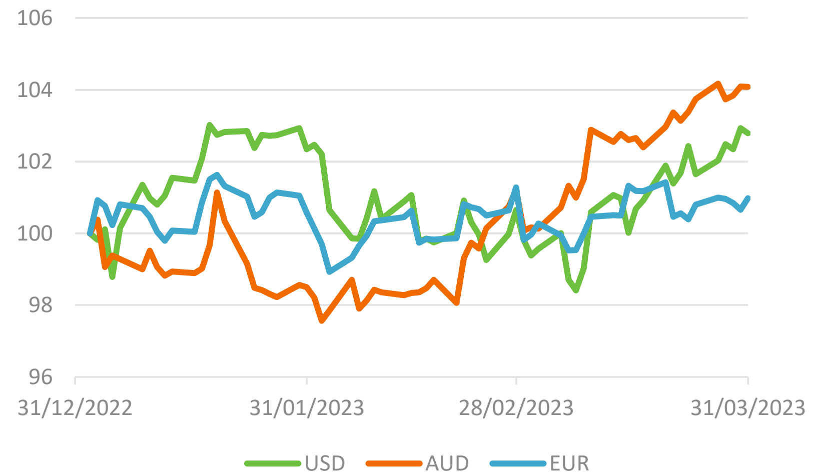
Performance Since Mandate Inception*

	Asset Return (inc. FX impact)	Currency Return (via Russell mandate)	Asset Return (ex. FX impact)	BM Return	Relative Return (ex. FX impact)
Stafford II	10.1	-1.2	8.9	9.2	-0.2
Stafford IV	20.3	-2.6	17.7	12.0	5.1
JPM	10.3	-1.6	8.6	9.3	-0.6
Churchill II	7.4	-2.8	4.6	4.9	-0.3
Churchill IV	11.4	-6.8	4.6	5.9	-1.3
CBRE	8.7	-1.3	7.4	9.3	-1.8
Permira IV	4.1	-0.4	3.8	4.9	-1.1
Permira V	2.8	-3.8	-1.0	5.0	-5.7
LCIV RIF	20.7	-1.1	19.6	13.7	5.2

Hedged Currency Exposure **



Sterling Performance vs. Foreign Currencies (Rebased to 100 at 31 December 2022)



Source: Northern Trust, Investment managers
**Since inception performance is since individual fund inception of inception of the currency hedging mandate, whichever is more recent. ** As at 31 December 2022 (latest available).*

- 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 2023.
- The outstanding commitments to the remaining funds will be funded from the LCIV Diversified Growth Fund, other overweight positions 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 IV	Permira Credit Solutions IV Senior Fund	Permira Credit Solutions V Senior Fund
Commitment Date	25/04/2018	18/12/2020	30/06/2021	29/09/2021	12/2018	07/11/2022
Fund Currency	EUR	EUR	GBP	USD	EUR	EUR
Gross Commitment	€28.5m	€30m	£25m	$31m	£36.0m	£43.0m
Gross Commitment (GBP estimate)	£25.0m	£26.4m	-	£25.1m	-	-
Net Capital Called During Quarter (Payments Less Returned Capital)	-	£1.2m	£0.8m	£1.0m	£0.8m	£2.0m
Net Capital Drawn To Date	£26.3m	£15.4m	£7.9m	£15.7m	£31.1m	£12.7m
Distributions/Returned Capital To Date (Includes Income and Other Gains)	£13.1m	£0.9m	-	£1.3m	£4.4m	£0.2m
NAV at Quarter End	£19.9m	£16.4m	£11.2m	£15.3m	£31.0m	£13.2m
Net IRR Since Inception *	9.2% p.a. (v. 8-9% target)	14.8%	-	10.59%**	7.8%	48.0%
Net Cash Yield Since Inception*	7.8% p.a. (v. 5% target)	3.5%	-	-	-	-
Number of Holdings*	22 funds	14 funds	-	124 investments	84 investments	31

**as at 31 December 2022 (latest available) **Refers to IRR of realised assets in the portfolio*

Source: Investment Managers

Global growth has surprised positively in Q1 with resilient labour market and falling energy prices, improving the outlook for consumers and businesses. Forecasted 2023 GDP growth was revised higher in most developed economies, while recession in the UK is now forecasted to be shorter and shallower than previously expected.

The European Central Bank (ECB), Bank of England (BoE) and Federal Reserve (the Fed) continued to announce rate hikes. The BoE and the Fed both raised policy rates by 0.25% p.a., to 4.25% p.a. and 5.0% p.a. respectively. The ECB raised rates by a larger 0.50% p.a., to 3.50% p.a.

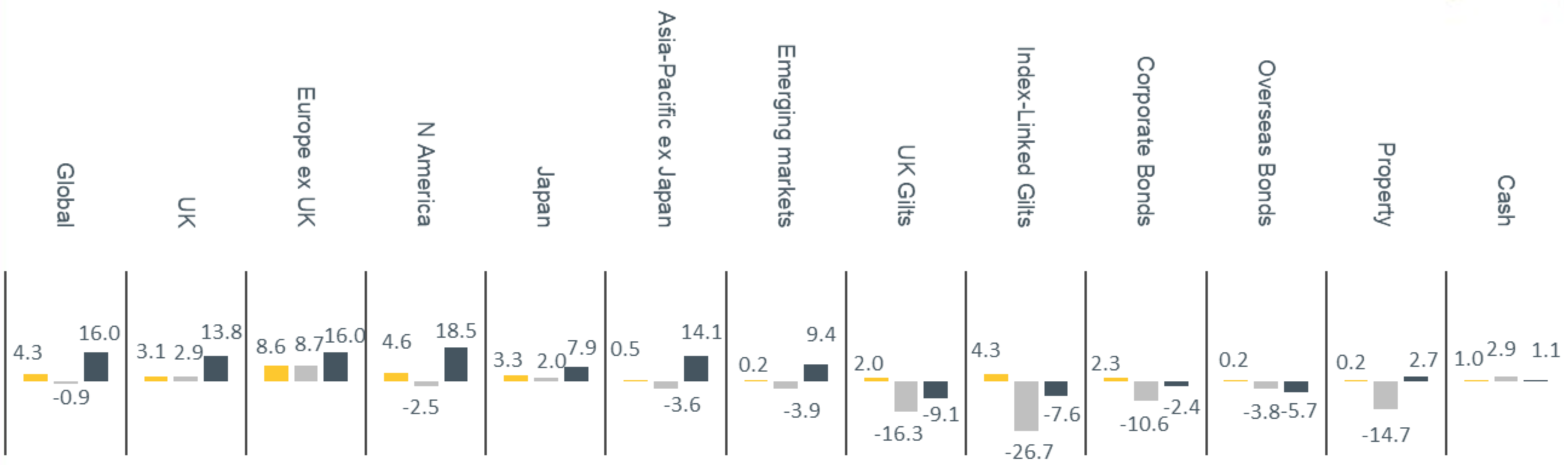
Year-on-year headline CPI inflation in the US and Eurozone fell to 6.0%, and 8.5%, respectively, as the UK measure rose to 10.4%. The equivalent core measures fell to 5.5% in the US as the UK and Eurozone measures rose to 6.2% and 5.6% respectively.

UK 10-year implied inflation is 3.8% p.a., 0.2% above end-December levels.

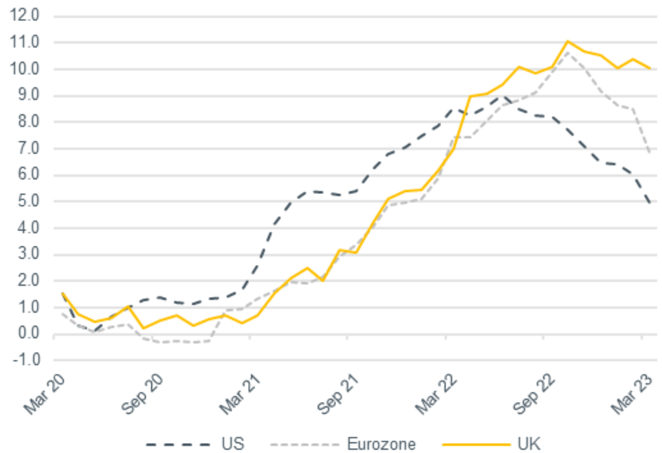
The US dollar gave back some of its February gains, falling 0.9% in trade-weighted terms over the quarter. Equivalent sterling, euro and yen measures rose 1.8%, 0.6% and 0.1%, respectively.

The MSCI UK Monthly Property Total Return Index ended consecutive falls and returned to positive territory in March, despite still declining -14.7% year-on-year. Capital values have also fallen 19% over the last 12 months, with the most pronounced declines being in the industrial sector.

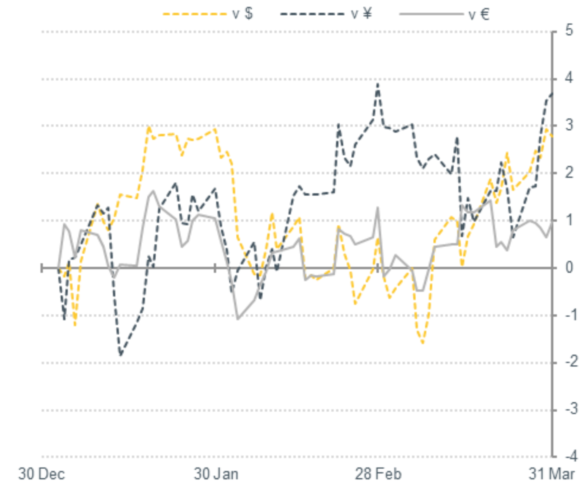
Historic returns for world markets [1]



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, ICE BofA Global Government Index, MSCI UK Monthly Property; UK Interbank 7 Day

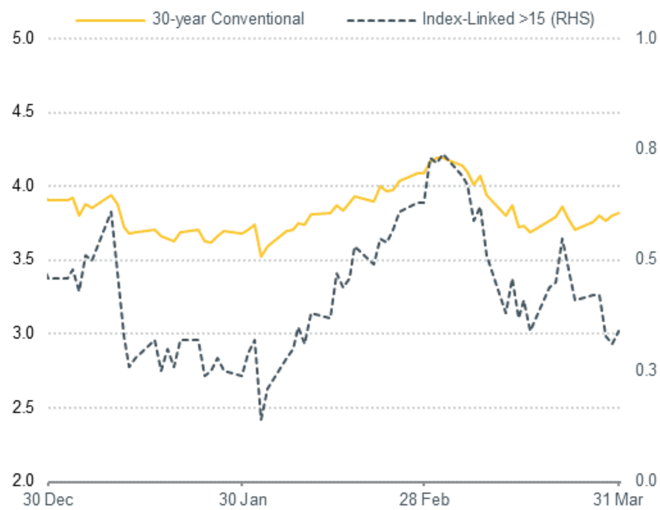
The S&P GSCI Commodity Spot Price Index ended March 5.9% below end-December levels, primarily driven by a decline in energy prices.

Bonds have been volatile over the quarter, rallying in January, posting losses in February and rallying again in March after investor flight to safety due to stresses in the banking sector. As a result, UK 10-year gilt yields ended the period at 3.5% p.a., 0.2% p.a. below end-December levels. Equivalent US yields fell 0.4% p.a., to 3.5% p.a., and Germans yields fell 0.3% p.a. to 2.3% p.a.

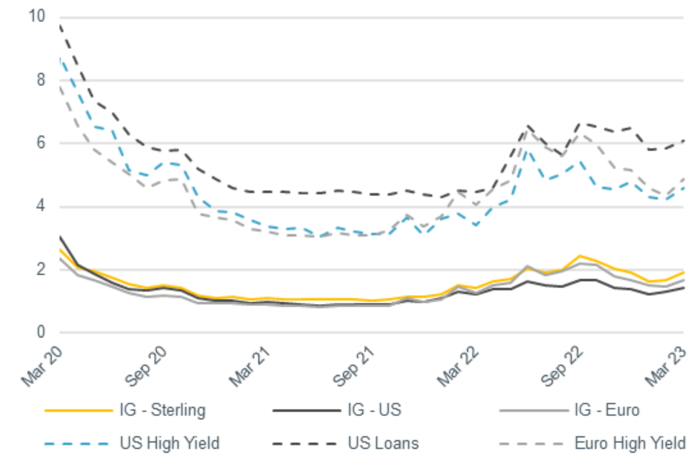
Credit had positive returns due to falling sovereign bond yields. Global investment-grade credit spreads widened 0.1% p.a. to 1.5% p.a. while speculative-grade credit spreads narrowed 0.1% p.a. to 5.0% p.a.

The FTSE All World Total Return Index rose 7.0%, buoyed by the support lent to stocks from resilient economic data which, together with high core inflation, led to investors reassessing interest rate expectations in higher for longer. The improvement in consumer and business sentiment in Europe, on the back of lower gas prices, led European equities to outperform. Growth stocks outperformed value stocks over the quarter, as falling bond yields supported the former while the latter were weighed down by stresses in the banking sector. By sector, energy, healthcare and financials were the worst underperformers.

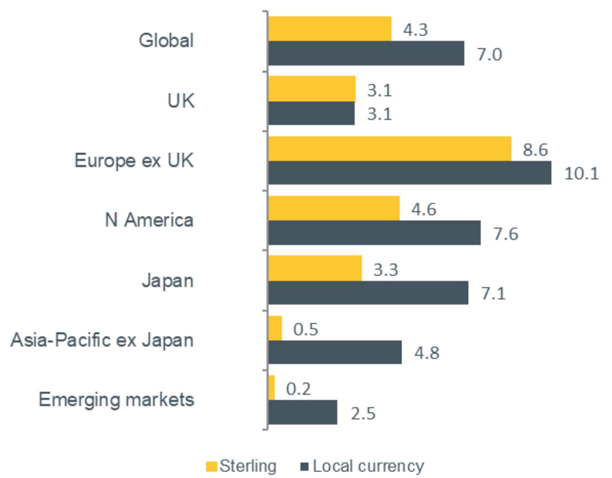
Gilt yields chart (% p.a.)



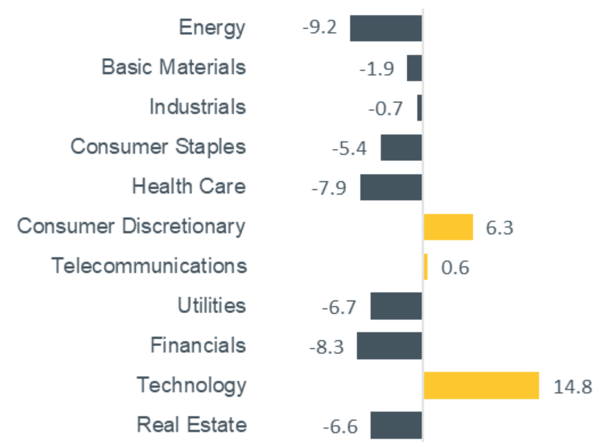
Investment and speculative grade credit spreads (% p.a.)



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.

Capital Markets Outlook

Asset Class	Market Summary
Equities	• Consensus global corporate earnings growth expectations for 2023 continue to see downward revisions and now sit at a negligible 0.6%. Although there are tentative signs that these earnings revisions are bottoming out, even with earnings forecasts at such low levels, we view the downside risks (higher inflation persists and interest rate stay higher for longer) as outweighing the upside. Valuation multiples are not especially demanding and in-line with historical averages, but given where real yields are, it is difficult to envisage multiple expansion being a significant driver of a market rally.
Investment Grade Credit	• Corporate balance sheets remain in reasonable shape and spreads are above long-term median levels but higher rates and slowing earnings growth are likely to weigh on debt affordability going forward. However, the impact on debt affordability will be less severe, and take longer to materialise, in investment- than speculative-grade markets. Attractive yields, peaking inflation, and anticipation of the end rate hiking cycles provides support for our overall assessment for investment grade.
Emerging Market Debt	• Emerging markets will not be immune to the global growth slowdowns despite emerging market growth showing more resilience to current global shocks. Peaking US yields will be welcome news to emerging markets, which have battled with a rising US dollar and treasury yields, helping to improve EM sentiment. Local currency emerging market yields remain high relative to history and the spread on hard currency debt over US treasuries is well-above long-term median levels.
Liquid Sub-Investment Grade Debt	• Speculative-grade default rates remain low versus longer term averages but expected to rise in 2023 due to increased pressures on margins. High yield spreads, around long-term median levels remain vulnerable to slowing growth and tightening lending conditions. Loan spreads are well above long-term median levels, reflecting the quicker transmission of higher interest rates to loan affordability and a more challenging technical backdrop.
Private Lending	• Leverage levels have come down in managers' pipelines and LTVs still remain low as PE funds have yet to write down assets. While defaults remain low, we expect these to rise with concerns on labour, input, and energy costs meaning EBITDA margins are likely being squeezed. Valuations, relative to the traded loan markets, remain unattractive despite some retrenchment in the secondary loan market.
Core UK Property	• Capital values continue to weaken into Q1 2023. However, the rate of decline is starting to ease as valuations begin to stabilise. Redemption levels remain high, but sales are progressing as transaction volumes have started to pick up. Rental growth remains positive, but rents aren't able to keep up with current inflation levels.
Conventional Gilts	• High inflation remains a fundamental challenge for nominal gilts while BoE asset sales and increased issuance pose a technical headwind. However, yields are attractive relative to longer term fair value and any cut to rates in 2023 is unlikely unless the recession proves much deeper than forecast. Quantitative tightening and low forward yields make us more cautious on both real and nominal longer-dated yields.
Index-Linked Gilts	• Based on implied inflation and allowing for high near-term forecast inflation and the re-referencing of RPI to CPIH, we prefer index-linked to conventional gilts at shorter terms, but conventional to index-linked gilts at longer-terms.

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.

Hymans Robertson LLP and our group companies have a wide range of clients some of which are fund managers, who may be parties in our recommendations to you in various circumstances including but not limited to manager selection, moving money to or from a manager or supporting retention of or disinvestment from a manager. We have a research team that advises on shortlisting fund managers in manager selection exercises and forming views on managers, which is separate from our client and other relationships with fund managers and therefore we do not believe there will be a conflict that would influence the advice given.

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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.