London Borough of Havering Pension Fund

Q3 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 were up slightly.	• Due to weaker economic activity and the rise in government bond yields, large exposures to manufacturing and technology sector, global equities rose only slightly. • The majority of the Fund's equity mandates delivered positive absolute returns. • The LCIV Global Alpha Growth Paris Aligned Fund continued to underperform due to its relative sector positioning, when interest rates have continued to rise. • Both the LCIV DGF and LCIV Global Alpha funds performed negatively in both absolute and relative terms due to the impact of rising real gilt yields on their portfolio holdings.
Long term real gilt yields rose.	• Headline inflation figures fell but central banks continued to raise interest rates, though more gradually than previously. The Funds IL gilt mandate fell in value. • The value of the Fund's liabilities are also expected to have fallen in value due to the increase in gilt yields, as proxied by the return of the strategic benchmark.
Overall fund performance was marginally negative, but the Fund significantly outperformed the strategic benchmark.	• The Fund's performance of -0.5% was behind the tactical benchmark of 1.0%. • Fund performance remains comfortably ahead of the strategic benchmark (the proxy assumed growth of liabilities) over longer time periods. • This performance of the assets relative to the strategic benchmark over all time periods indicates the funding level of the Fund has improved significantly in recent times
USD and EUR denominated assets were negatively impacted as GBP appreciated, but the currency hedging programme offset this	• 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.
Mixed returns were observed across the Fund's real asset and private debt mandates, but there are no immediate concerns.	• Most of these mandates are measured against inflation and 'cash plus' based benchmarks. • Property remains weak as capital value declines in the office and retail sectors persist.

Fund Performance

	Last 3 months (%)	Last 12 months (%)	Last 3 years (%)	Last 5 years (%)
Total Fund Performance	**-0.5**	**2.8**	**3.2**	**4.4**
Tactical Benchmark	1.0	7.0	6.0	5.9
Strategic Benchmark	-4.3	-10.9	-11.6	-3.2

Fund Asset Valuation

	Fund value (£m)
Q2 2023	**905.0**
Q3 2023	**899.2**

- The Fund's assets returned -0.5% over the quarter, underperforming its 1.0% benchmark return.
- The majority of equity mandates delivered positive returns as sovereign bond yields increased and economic activity weakened,
- The LCIV GAGPA Fund returned negatively and underperformed its MSCI All Country World benchmark. This was due to the Fund's 'growth' stock orientation and the nature of these stocks' sensitivity to interest rates, over a period when the BoE continued to raise interest rates, amidst inflationary pressures.
- The LCIV Absolute Return Fund stabilised from last quarter. However, positive gains the Fund achieved in the second quarter from holdings in 'value' stocks and commodities were offset by its high allocation to inflation linked bonds, which fell over the quarter as interest rates rose.
- The LCIV DGF has continued to drag in absolute and relative returns. The Fund increased its allocation to government bonds over a period when real gilt yields rose – resulting in negative performance.
- The Fund's real assets returned mostly positively in absolute terms; despite capital values (once again, primarily in the office and retail sectors) declining over the quarter.
- The RLAM Index Linked Gilts mandate has continued to deliver negative absolute returns as long term real gilt yields continued to rise 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

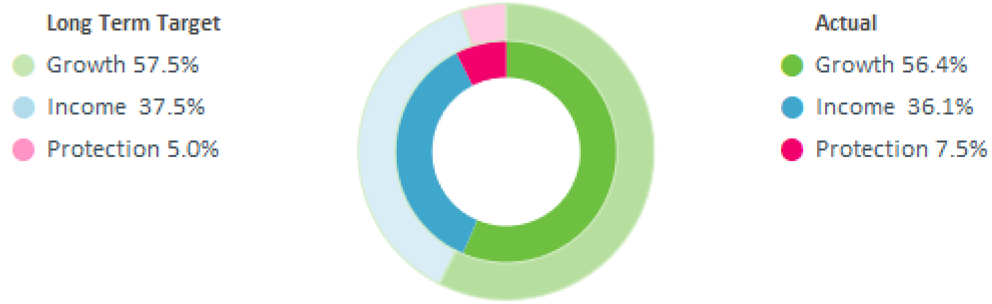
	Actual Proportion	Last 3 months (%)			Last 12 months (%)			Last 3 years (% p.a.)			Since Inception (% p.a.)		
		Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative
Growth	**56.4%**												
LGIM Global Equity	*4.0%*	0.9	0.9	**0.0**	11.0	11.1	**-0.1**	9.4	9.5	**-0.1**	11.2	11.3	**0.0**
LGIM Emerging Markets	*4.1%*	2.6	2.6	**0.0**	1.5	1.6	**-0.1**	1.8	2.0	**-0.2**	3.6	3.8	**-0.2**
LGIM Future World Fund	*10.7%*	1.2	1.2	**0.0**	10.7	10.9	**-0.1**	-	-	-	1.6	1.7	**-0.1**
LCIV Global Alpha Growth Paris Aligned Fund	*14.9%*	-4.3	0.6	**-4.9**	4.5	11.5	**-6.3**	-1.0	9.9	**-10.0**	11.4	11.5	**-0.1**
LCIV PEPPA Passive Equity	*5.2%*	0.5	0.4	**0.1**	15.5	13.2	**2.0**	-	-	-	0.0	-1.2	**1.3**
LCIV Absolute Return Fund	*11.9%*	-0.8	2.3	**-2.9**	-3.7	8.1	**-10.9**	4.2	5.6	**-1.4**	4.4	5.0	**-0.6**
LCIV Diversified Growth Fund	*5.6%*	-2.1	2.1	**-4.1**	-0.6	7.7	**-7.7**	-1.5	5.2	**-6.4**	2.0	4.4	**-2.3**
Income	**36.1%**												
UBS Property	*5.7%*	0.6	-0.4	**1.0**	-12.5	-14.3	**2.1**	4.1	3.2	**0.9**	5.3	5.7	**-0.4**
CBRE	*3.8%*	2.1	1.6	**0.5**	-11.6	11.6	**-20.7**	7.6	11.6	**-3.5**	6.9	9.4	**-2.2**
JP Morgan	*4.3%*	6.4	1.6	**4.8**	3.4	11.6	**-7.3**	9.6	11.6	**-1.8**	9.2	9.4	**-0.2**
Stafford Capital Global Infrastructure SISF II	*4.5%*	1.3	1.6	**-0.3**	1.0	11.6	**-9.5**	7.7	11.6	**-3.5**	7.9	9.2	**-1.2**
Stafford Capital Global Infrastructure SISF IV		3.3	1.6	**1.8**	7.5	11.6	**-3.6**	-	-	-	17.0	11.6	**4.8**
LCIV Renewable Energy Infrastructure Fund	*1.4%*	-4.0	1.6	**-5.4**	31.3	11.6	**17.7**	-	-	-	13.2	12.8	**0.3**
RLAM Multi-Asset Credit	*6.9%*	1.2	1.9	**-0.7**	8.8	10.7	**-1.7**	1.0	1.6	**-0.6**	6.5	6.2	**0.2**
Churchill Senior Loan Fund II	*2.4%*	7.0	2.3	**4.6**	-0.2	8.1	**-7.7**	9.5	5.6	**3.6**	6.7	5.3	**1.3**
Churchill Senior Loan Fund IV	*1.9%*	6.9	2.3	**4.6**	-1.7	8.1	**-9.1**	-	-	-	11.8	6.8	**4.7**
Permira IV	*5.2%*	1.7	2.3	**-0.5**	8.0	8.1	**-0.1**	5.4	5.6	**-0.2**	4.6	5.4	**-0.8**
Permira V		1.6	2.3	**-0.7**	6.9	8.1	**-1.2**	-	-	-	5.5	7.6	**-1.9**
Protection	**7.5%**												
RLAM Index Linked Gilts	*2.4%*	-11.4	-6.4	**-5.4**	-24.9	-16.2	**-10.3**	-18.9	-16.0	**-3.5**	-14.4	-11.7	**-3.0**
Total		-0.5	1.0	**-1.5**	2.8	7.0	**-3.9**	3.2	6.0	**-2.7**	7.7	-	-

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.

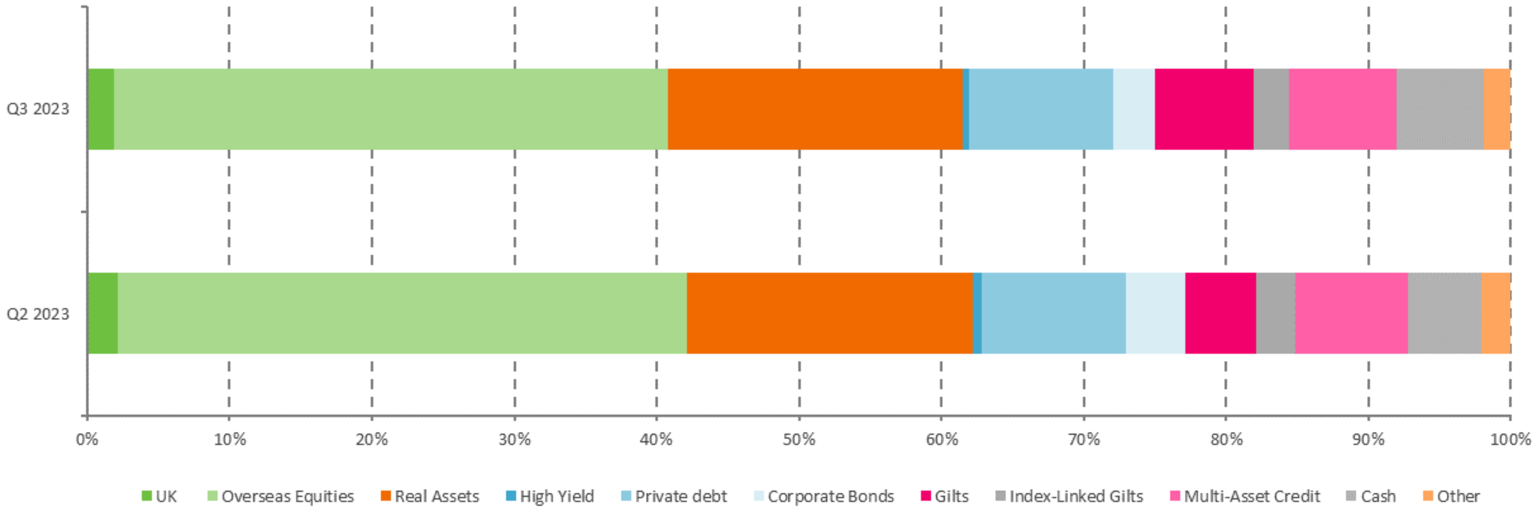
**Includes cash at bank and currency hedging*

- 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 61.0% 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 decreased over the quarter to c.40.8% (c.42.5% as at 30 June 2023) – this was due to both the LCIV Absolute Return Fund and LCIV DGF Fund's equity allocation decreasing from 15.2% to 11.5% and 13.3 to 10.6%, respectively, over the quarter.
- The allocation to gilts has increased over the quarter to c.7.0% (5% as at 30 June 2023) – this was primarily due to the LCIV Absolute Return Fund's allocation to government bonds increasing from 26.6% to 42.7% and the LCIV DGF Fund's allocation to government bonds increasing from 23.9% to 33.1% as yields have increased.
- The allocation to corporate bonds decreased to 2.9% (4.2% as at 30 June 2023) – this was due to the LCIV Absolute Return Fund's allocation to inflation linked bonds decreasing from 34.5% to 23.9%.
- The allocations to multi- asset credit, private debt, real assets 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 decreased by £5.8m over the quarter to £899.2m as at 30 September 2023.

The decrease in valuation can be primarily attributed to the Fund's allocation to the LCIV GAGPA Fund specifically. This was then followed by the Fund's allocation to index-linked gilts which continued to decrease in value as real gilt yields rose over the longer terms as the BofE raised interest rates, despite the downward trend in UK inflation over the period.

Despite the interest rate rises, corporates continued to perform well and sub-investment grade credit spreads continued to narrow, positively impacting the RLAM MAC mandate.

Additionally, despite capital value declines experienced in the office and retail sectors, the Fund's real assets remained relatively unchanged.

The Fund's allocation to its multi-asset mandates fell in value over the quarter. This remains due to the LCIV Absolute Return Fund's defensive positioning and majority allocation to fixed income assets.

The LCIV DGF's allocation also reduced over the period, as c.£13m was disinvested to top up the Fund's allocation to the JP Morgan Fund shortly after quarter-end.

The Fund paid the following capital calls during the quarter:

- c.£2.2m to the Permira V Fund.

Asset Allocation

Manager	Pooling	Valuation (£m) Q2 2023	Valuation (£m) Q3 2023	Actual Proportion	Benchmark	Relative
Growth		**526.0**	**507.4**	**56.4%**	**57.5%**	**-1.1%**
LGIM Global Equity	LCIV aligned	35.8	36.1	4.0%	5.0%	-1.0%
LGIM Emerging Markets	LCIV aligned	35.5	36.4	4.1%	5.0%	-0.9%
LGIM Future World Fund	LCIV aligned	95.2	96.3	10.7%	10.0%	0.7%
LCIV Global Alpha Growth Paris Aligned Fund	LCIV	139.9	133.9	14.9%	15.0%	-0.1%
LCIV PEPPA Passive Equity	LCIV	46.3	46.5	5.2%	5.0%	0.2%
LCIV Absolute Return Fund	LCIV	108.3	107.5	11.9%	12.5%	-0.6%
LCIV Diversified Growth Fund	LCIV	65.1	50.7	5.6%	5.0%	0.6%
Income		**315.3**	**324.4**	**36.1%**	**37.5%**	**1.1%**
UBS Property	Not pooled	51.2	51.2	5.7%	6.0%	-0.3%
CBRE	Not pooled	33.6	34.3	3.8%	4.0%	-0.2%
JP Morgan	Other pooled	37.0	38.9	4.3%	5.5%	-1.2%
Stafford Capital Global Infrastructure SISF II	Not pooled	19.3	19.1	4.5%	3.5%	1.0%
Stafford Capital Global Infrastructure SISF IV	Not pooled	17.5	21.2			
LCIV Renewable Energy Infrastructure Fund	Not pooled	13.0	12.6	1.4%	3.5%	-2.1%
RLAM Multi-Asset Credit	Not pooled	61.1	61.8	6.9%	7.5%	-0.6%
Churchill Senior Loan Fund II	Other pooled	21.0	21.4	2.4%	3.0%	-0.6%
Churchill Senior Loan Fund IV	Other pooled	16.3	17.0	1.9%		
Permira IV	Other pooled	31.1	30.6	5.2%	4.5%	0.7%
Permira V	Other pooled	14.4	16.3			
Protection		**63.6**	**67.4**	**7.5%**	**5.0%**	**2.5%**
RLAM Index Linked Gilts	Not pooled	24.6	21.8	2.4%	5.0%	-2.6%
Cash at Bank	n/a	29.1	42.7	4.7%	0.0%	4.7%
Currency Hedging P/L	Not pooled	9.9	2.9	0.3%	0.0%	0.3%
Total Fund		**905.0**	**899.2**	**100.0%**	**100.0%**	

Pooling refers to whether the holding benefits from some form of collective bargaining. LCIV and LCIV aligned reflect mandates aligned with or managed by the LCIV. Other pooled indicates mandates where there are collective LGPS fee arrangements in place. Not pooled indicates mandates outside pooling arrangements.

Source: Northern Trust, Investment Managers

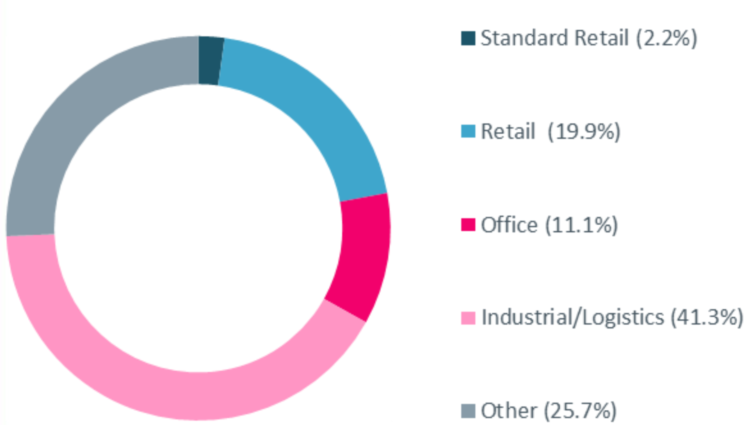
UBS Triton Property Fund

- The objective of the fund is to deliver returns broadly in line with a peer group of other UK property funds.
- During the quarter the fund returned 0.6%, ahead of the peer group benchmark return of -0.4%. The fund remains comfortably ahead of its benchmark oner the 1 year and 3 years period, driven by taking an underweight position to the traditional office sector which has struggled and experienced capital value declines over these periods. However, over the longer period since inception, the fund returned marginally negatively, relative to its benchmark.
- The fund invests directly in UK properties with returns generated through the collection of rental income and growth in both rental levels and capital values.
- Over the quarter, the Triton fund concluded several key asset management objectives. This includes the surrender of the WeWork lease for premium, concluding the first two lettings at the new urban logistics development and an agreement for lease with Hobbycraft for 5 years, effective October 2023. UBS also received planning approval for their life sciences scheme ‘Elevate Quarter’ in Stevenage, to which the fund has indirect holdings exposure to.

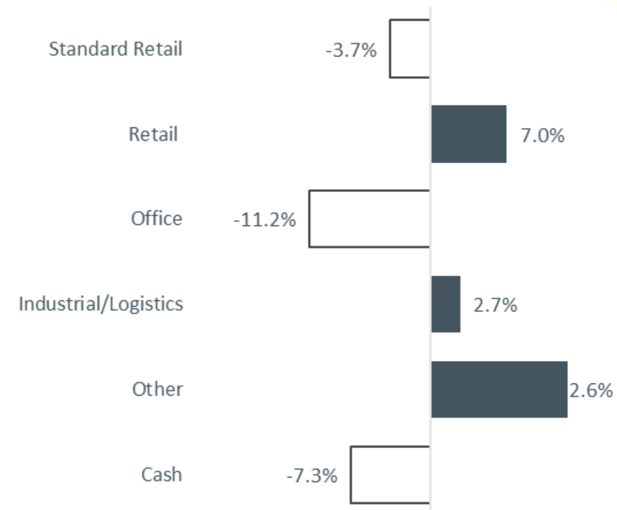
CBRE Global Alpha Fund

- The objective of the fund is to Outperform UK CPI inflation by 5% per annum (net of fees).
- The Global Alpha Fund is a global mandate and invests across a range of regions (as displayed in the chart, far right) rather than just the UK – as is the case with the UBS fund.

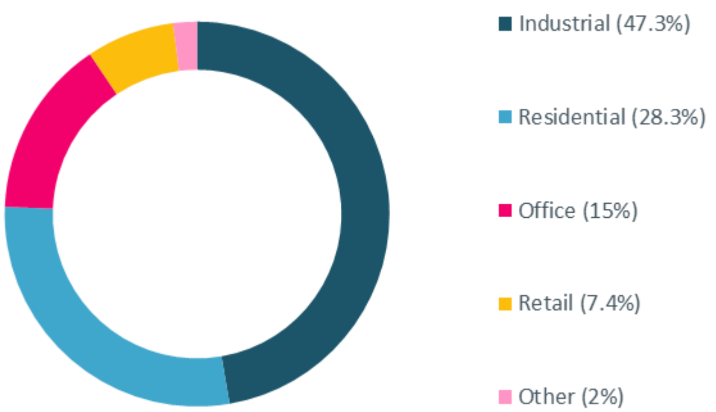
UBS Sector Allocation



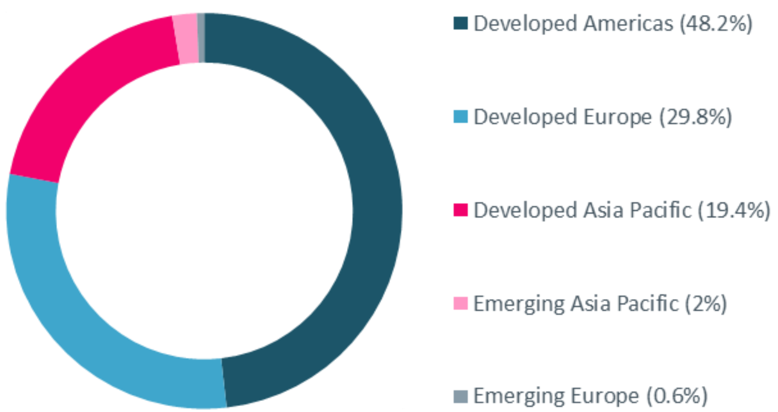
UBS Sector Allocation Relative to Benchmark



CBRE Sector Allocation*



CBRE Regional Allocation*



Source: Northern Trust, UBS, CBRE
**as at 30 June 2023 (latest available)*

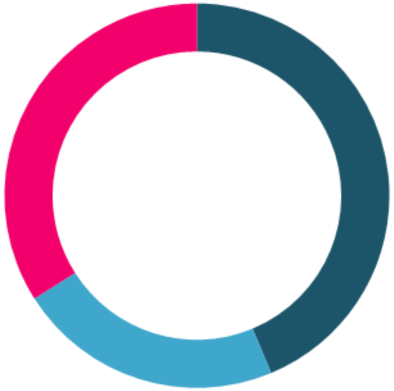
JP Morgan Infrastructure Fund

- The objective of the fund is to Outperform UK CPI inflation by 5% per annum (net of fees).
- Over the quarter the fund has outperformed its benchmark, returning 6.4% to relative to its benchmark of 1.6%.
- The fund was invested across and underlying 21 portfolio companies, 979 assets and 1,274 investors as at 30 June 2023.

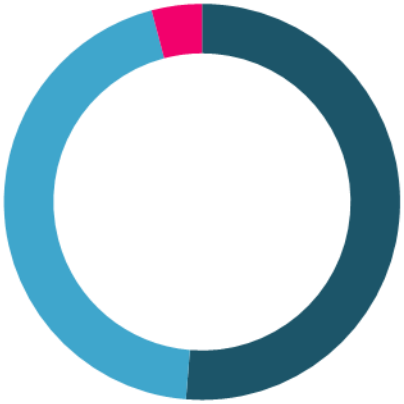
LCIV Renewable Energy Infrastructure Fund

- The objective of the fund is to Outperform UK CPI inflation by 5% per annum (net of fees).
- As a fund of funds, the table summarises the status of the LCIV Renewable Infrastructure Fund in terms of its commitments, their weights in the portfolio and their respective capital amounts called.
- Over second quarter of 2023 and to 31 August 2023, the fund made no further investments.

JP Morgan Sector Allocation*



JP Morgan Regional Allocation*



LCIV Renewable Infrastructure Fund Schedule of Investments*

Fund	Transaction Type	Weight	Local Currency	Commitment (£m)	31/03/2023 Fair Value (£m)	Capital Calls (£m)	Distributions (£m)	30/09/2023 Fair Value (£m)	FX and Unrealised Gain/Loss
BlackRock Global Renewable Power III	Primary	12.5%	$	110.1	55.9	11.6	0.0	69.6	2.056
Quinbrook Renewable Impact Fund	Primary	11.3%	£	100.0	93.8	21.9	0.0	108.7	-6.954
Stonepeak Global Renewables Fund	Primary	21.3%	$	188.1	19.5	10.3	0.0	28.4	-1.407
Foresight European Infrastructure Partners	Primary	16.0%	€	141.3	81.1	0.0	-98.0	79.7	-99.455
Macquarie GIG Energy Transition Solutions	Primary	13.4%	€	118.4	0.0	29.2	0.0	30.2	0.947
BlackRock UK Renewable Income Fund	Secondary	11.2%	£	99.3	121.8	0.0	0.0	107.3	-14.509
Total Investments		**85.7%**		**757.2**	**372.2**	**73.0**	**-98.0**	**423.9**	**-119.322**
Unallocated Commitments	-	**14.3%**	-	**126.3**	**5.6**	**-6.3**	**98.0**	**2.7**	-
Total		**100.0%**		**883.5**	**377.8**	**66.7**	-	**426.6**	-

Source: Northern Trust, JP Morgan, LCIV
**as at 30 June 2023 (latest available)*

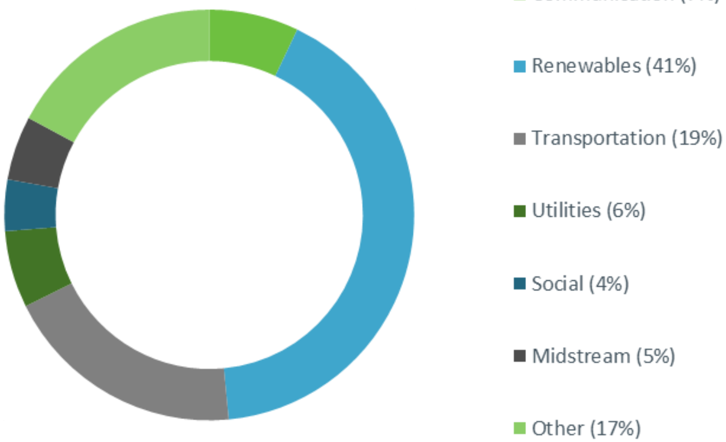
Stafford Capital Global Infrastructure SISF II

- The objective of the fund is to Outperform UK CPI inflation by 5% per annum (net of fees).
- Over the quarter the fund has marginally underperformed its benchmark, returning 1.3% to relative to its performance objective of 1.6%. The fund continues to lag behind its performance objective over the longer time periods of 1 years, 3 years and since inception. We expect performance to be back loaded with the more attractive returns coming later in the funds life as the underlying investments mature.
- As at 30 June 2023, the fund is comprised of 22 funds, 16 co-investments and 336 underlying assets while 237 assets remain today.
- As at 30 June 2023, the fund's top 10 assets accounted for 37.4% of the total portfolio.

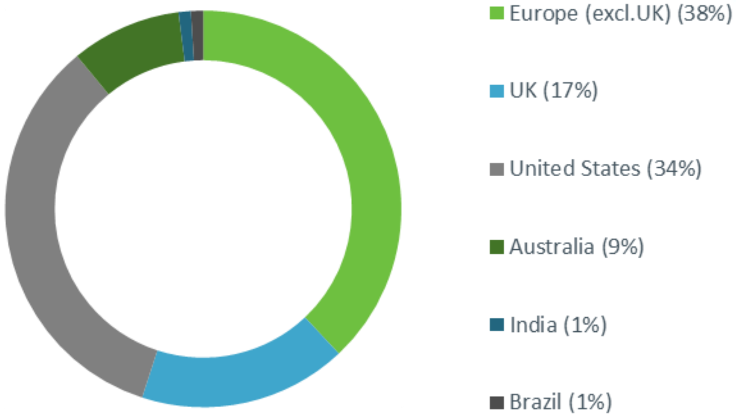
Stafford Capital Global Infrastructure SISF IV

- The objective of the fund is to Outperform UK CPI inflation by 5% per annum (net of fees).
- Over the quarter the fund has outperformed its benchmark, returning 3.3% to relative to its performance objective of 1.6%. However, over the period of 1 year, the fund lags behind its performance objective. But again, over the longer period of since inception the fund continues to outperform its performance objective. We expect performance to be back loaded with the more attractive returns coming later in the funds life as the underlying investments mature.
- As at 30 June 2023, the fund is comprised of 17 funds and 4 co-investments, providing exposure to 266 underlying infrastructure assets.
- As at 30 June 2023, the fund's top 10 assets accounted for 49.4% of the total portfolio.

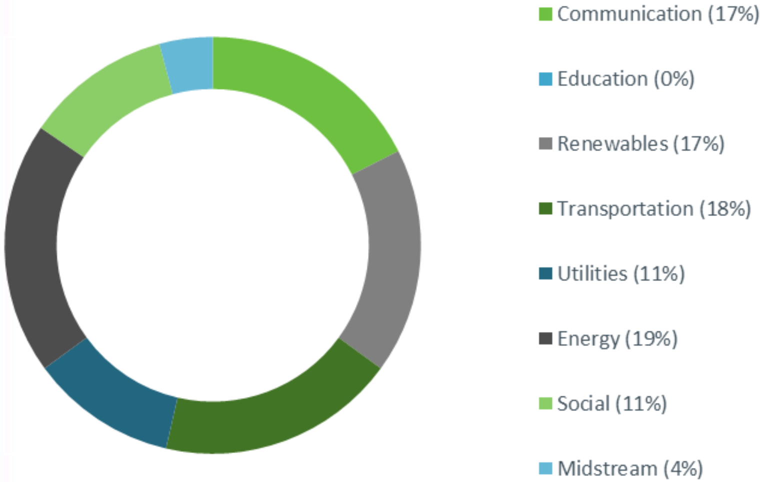
Stafford Capital Global Infrastructure SISF II Sector Allocation*



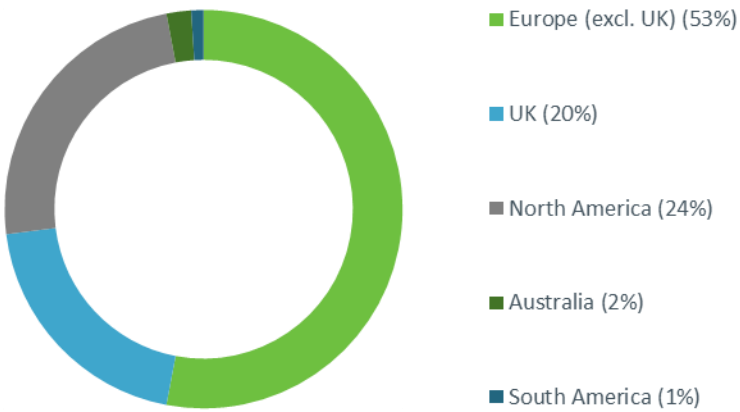
Stafford Capital Global Infrastructure SISF II Regional Allocation*



Stafford Capital Global Infrastructure SISF IV Sector Allocation*



Stafford Capital Global Infrastructure SISF IV Regional Allocation*



Source: Northern Trust, Stafford Capital
**as at 30 June 2023 (latest available)*

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 4.9% to date when the impact of currency fluctuations is included and only 4.3% 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.

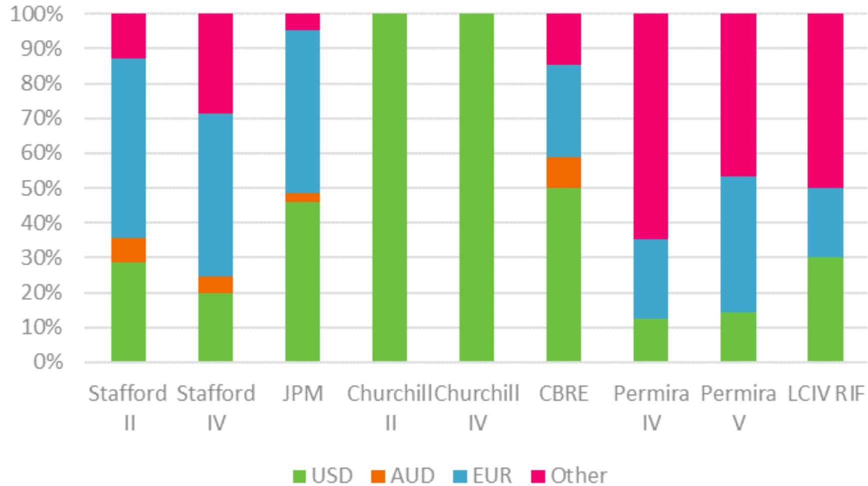
Q3 2023 Performance

	Asset Return (inc. FX impact)	Currency Return (via Russell mandate)	Asset Return (ex. FX impact)	BM Return	Relative Return (ex. FX impact)
Stafford II	1.3	-1.6	-0.3	1.6	-1.9
Stafford IV	3.3	-1.1	2.3	1.6	0.7
JPM	6.4	-1.9	4.5	1.6	2.9
Churchill II	7.0	-4.2	2.8	2.3	0.5
Churchill IV	6.9	-4.1	2.8	2.3	0.6
CBRE	2.1	-2.3	-0.3	1.6	-1.8
Permira IV	1.7	-1.0	0.7	2.3	-1.5
Permira V	1.6	-1.2	0.3	2.3	-1.9
LCIV RIF	-4.0	-1.0	-4.9	1.6	-6.4

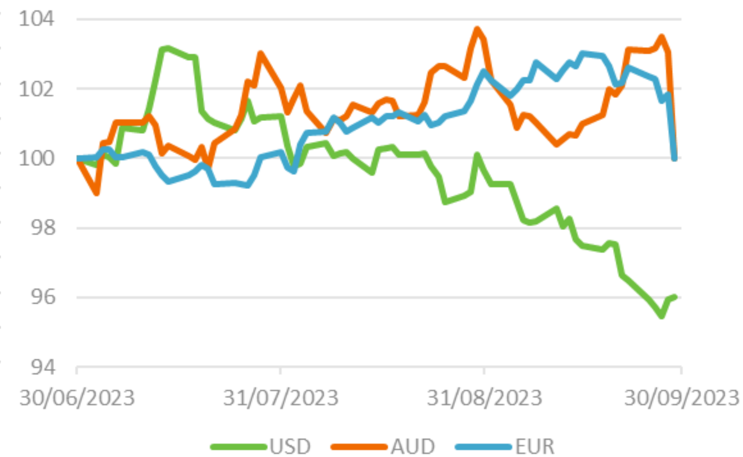
Performance Since Mandate Inception*

	Asset Return (inc. FX impact)	Currency Return (via Russell mandate)	Asset Return (ex. FX impact)	BM Return	Relative Return (ex. FX impact)
Stafford II	8.5	-0.9	7.6	9.2	-1.5
Stafford IV	18.8	-2.0	16.8	11.6	4.7
JPM	10.5	-1.3	9.2	9.4	-0.2
Churchill II	8.1	-3.1	5.0	5.3	-0.3
Churchill IV	11.8	-6.8	5.0	6.8	-1.7
CBRE	7.3	-1.3	6.0	9.4	-3.1
Permira IV	4.6	-0.1	4.4	5.4	-0.9
Permira V	5.5	0.0	5.5	7.6	-2.0
LCIV RIF	13.2	-1.0	12.1	12.8	-0.6

Hedged Currency Exposure **



Sterling Performance vs. Foreign Currencies (Rebased to 100 at 30 September 2023)



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 30 June 2023 (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 30 September 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	$26.5m	£36.0m	£43.0m
Gross Commitment (GBP estimate)	£24.7m	£26.0m	-	£21.7m	-	-
Capital Called During Quarter (Payments Less Returned Capital)	-	-	-	-	-	£2.2m
Capital Drawn To Date	£26.3m	£15.4m	£9.8m	£17.2m	£31.2m	£16.2m
Distributions/Returned Capital To Date (Includes Income and Other Gains)	£13.4m	£0.9m	-	£2.0m	£5.9m	£1.0m
NAV at Quarter End	£19.1m	£21.2m	£12.6m	£17.0m	£30.6m	£16.3m
Net IRR Since Inception *	8.4% p.a. (v. 8-9% target)	15.7%	-	9.3%**	7.8%	17.6%
Net Cash Yield Since Inception*	6.8% p.a. (v. 5% target)	5.1%	-	-	-	-
Number of Holdings*	22 funds	17 funds	-	137 investments	82 investments	32 investments

**as at 30 June 2023 (latest available) **Refers to IRR of realised assets in the portfolio*

Source: Investment Managers

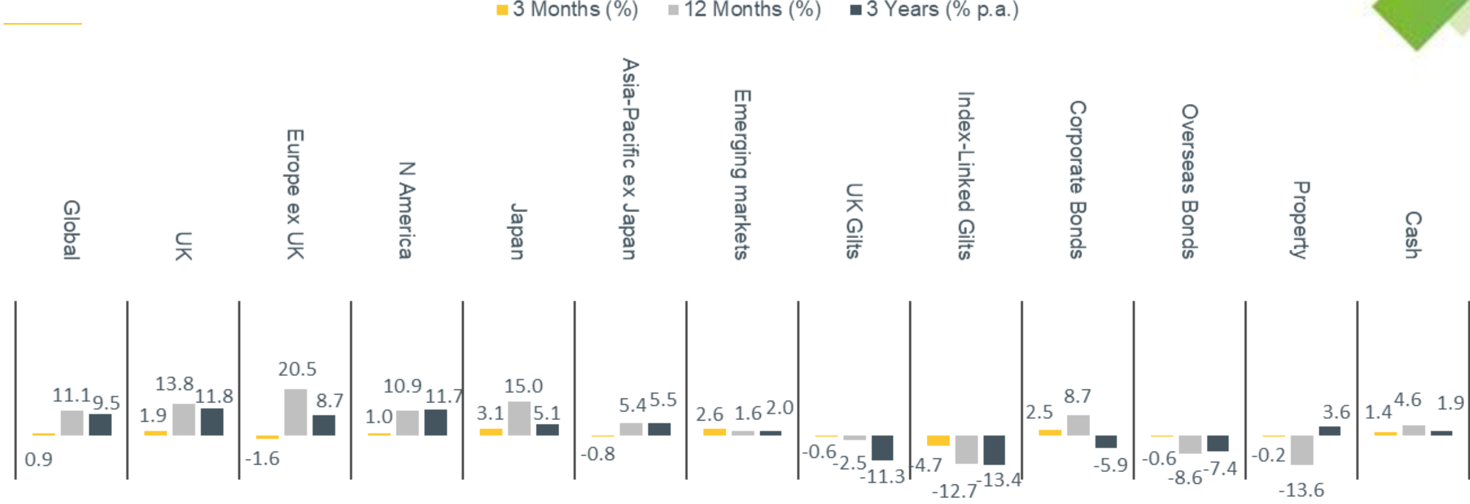
Better-than-expected Q2 data, released in Q3, led to further upwards revisions to 2023 global growth forecasts in Q3. However, survey indicators suggest that economic activity weakened throughout Q3, as services activity lost steam and the manufacturing sector remained in contraction. Europe looks a particular weak spot.

Headline inflation has generally stayed on a downwards trend, and came in at 3.7%, 6.7%, and 5.2% year on year in the US, UK, and eurozone, respectively. Core CPI inflation, which excludes volatile energy and food prices, has been falling more slowly, coming in at 4.3%, 6.2%, and 5.3%, in the US, UK and eurozone, respectively.

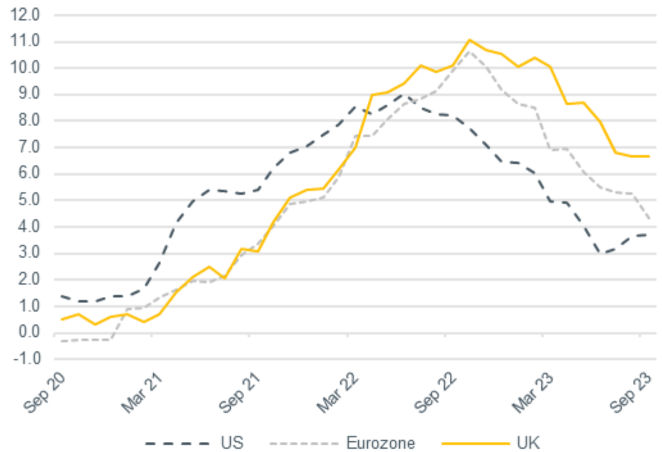
The Federal Reserve and Bank of England (BoE) raised rates 0.25% pa in Q3, to 5.5% pa and 5.25% pa. Both then left rates unchanged, unexpectedly so in the case of The BoE, at their September meetings. Meanwhile, the European Central Bank raised its deposit rate twice, to 4.0% p.a. The tone of central bank comments and market pricing suggest that policy rates are at, or close to peaking, but subsequent cuts will be more gradual than previously thought.

As a result, long-term sovereign bond yields rose. Heavy issuance amplified moves in 10-year US treasury yields which rose 0.7% pa to 4.6% pa. Equivalent German yields rose 0.5% p.a., to 2.8% p.a. Japanese government bond yields rose 0.4% pa, to 0.8% pa, as the Bank of Japan (BoJ) loosened its yield curve control policy in July. Short-term gilt yields fell, while longer-term yields rose – the 10-year yield saw more muted moves, rising 0.1% pa to 4.4% pa.

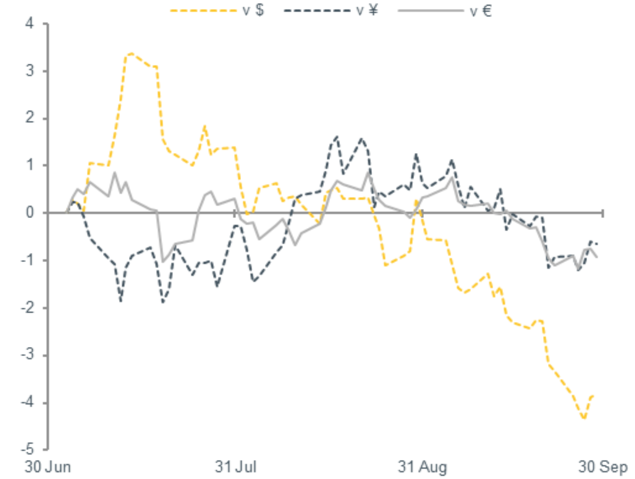
Historic returns for world markets [1]



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

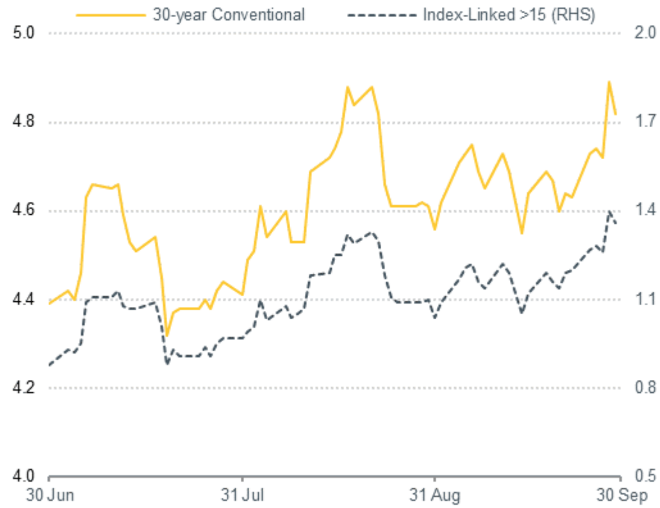
UK investment grade credit recorded positive total returns as short-term gilts yields and credit spreads fell. Global investment-grade spreads fell 0.1% pa to 1.3% pa. Speculative grade spread movements were muted with the US little changed, at 4.0% pa, and euro spreads tightening 0.1% to 4.4%.

The FTSE All World Total Return Index erased July's gains to end the quarter 2.1% lower, in local currency terms, as sovereign bond yields rose, and surveys indicated weaker global economic activity in Q3. Europe ex-UK underperformed, given weak business surveys and a large exposure to the struggling manufacturing sector. Above-average exposure to the tech sector saw North American equities also underperform. Japan outperformed as yen weakness lent support to the earnings of the export-heavy market. UK equities outperformed too, given above-average exposure to the energy sector.

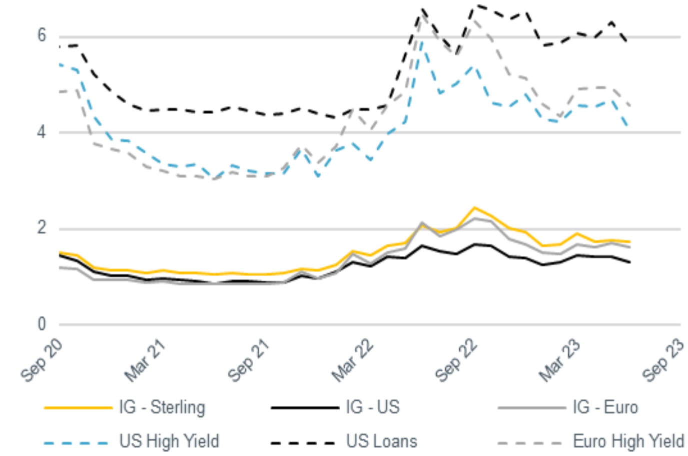
Oil prices rose 28% over the quarter on the back of supply shortfall fears, climbing close to $100 per barrel. On a year-over-year basis, oil prices are up 8.1%.Trade-weighted sterling fell 2.1% as near-term interest rate expectations fell, while the equivalent US dollar measure rose 2.0% and the Japanese yen fell a further 1.7%.

The MSCI UK Monthly Property Total Return Index returned -0.2% over the quarter as capital value declines in the office and retail sectors more than offset income. Over 12-months, capital values are down around 14%, 20%, and 23% in the retail, industrial, and office sectors, respectively. The office and retail sectors continue to see month-on-month capital value declines, while the industrial sector has recorded seven consecutive months of growth, though the pace has eased.

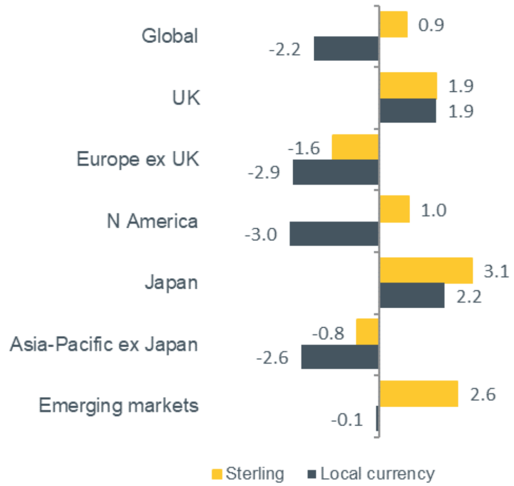
Gilt yields chart (% p.a.)



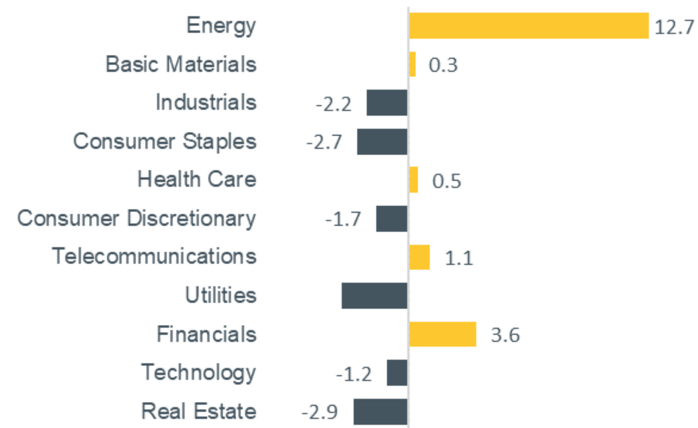
Investment and speculative grade credit spreads (% p.a.)



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	• 2023 aggregate earnings expectations appear to have bottomed out at an underwhelming 0.7%. Although consensus expectations suggest a more appealing earnings environment in 2024 and 2025, risks are skewed to the downside. One of the main uncertainties is whether markets have correctly assessed the longer-term impact of higher rates on the consumer and business activity. Moreover, there are risks surrounding central banks' ability to navigate the current inflation environment. Cyclically adjusted valuations are currently in line with long-term averages, but they appear more stretched in the context of higher real yields.
Investment Grade Credit	• Slowing global economic activity and shrinking profit margins points to an unattractive fundamental backdrop for corporates and will put pressure on the strength of corporate balance sheets. Furthermore, the impact of previous interest rate hikes is yet to be felt fully and higher for longer central bank rhetoric may put longer term pressure on debt affordability. However, the impact will be less severe and take longer to materialize in investment-grade markets than in speculative-grade markets given lower debt levels and longer maturities.
Emerging Market Debt	• Having embarked on tightening cycles earlier and more aggressively, some EM central banks are now reducing policy rates. EM countries that have enjoyed a strong disinflationary trend over the first half of the year now offer high real policy rates, and yields, which provides scope for further rate cuts, supporting local currency duration. Local currency yields have risen above the upper end of our neutral band and look reasonably attractive; however, that is set against a challenging fundamental backdrop for EM currencies, given higher US treasury yields, higher oil prices, weak Chinese, and global, growth, and a very low EM/DM yield differential.
Liquid Sub-Investment Grade Debt	• Speculative-grade default rates have risen above long-term average levels but given strong corporate balance sheets and unexpected economic resilience in the US, defaults are only expected to rise a little further. However, high yield bond spreads at long-term median levels provide little additional compensation against a greater-than-expected rise in defaults. Loans are more exposed to rising borrowing costs and forecast defaults are expected to be higher in this market. As a result, loans spreads are higher.
Private Lending	• Leverage levels on newly originated debt are low compared to historic averages as underwriting focuses on fixed charge and interest coverage ratios in a rising cost environment. However, despite these lower leverage levels, the corporate earnings outlook (across the board) remains challenging which may impact debt affordability.
Core UK Property	• UK Property yields, based on net asset value (NAV), have risen but remain below long-term average levels. Substantial selling pressure may mean investors can chieve more attractive yields, given discounts to NAV, but transaction activity remains very thin. Furthermore, real rental growth remains negative and the latest RICS survey points to further weakness in the occupational market.
Conventional Gilts	• Given the weak real growth outlook and expected declines in inflation, we think the fundamental outlook for gilts has improved. The recent back-up in yields means longer-term nominal yields look increasingly attractive relative to fair value. We also think a fall in long-term implied inflation is more likely to be driven by a fall in nominal yields than a rise in real yields. However, the technical backdrop remains challenging amid Bank of England asset sales and heavy government issuance to meet financing requirements.
Index-Linked Gilts	• Real yields are also reasonably attractive and continued above-target inflation still lends some relative fundamental support to index-linked gilts. We also think the technical backdrop is slightly less challenging for index-linked gilts seeing as index-linked gilts are not being sold as part of quantitative tightening.

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.

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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.