London Borough of Havering Pension Fund

Q4 2023 Investment Monitoring Report

Simon Jones – Partner

The person responsible for this advice is Simon Jones. Members of the London Borough of Havering client team who contributed to the production of this paper but are not responsible for the advice are Meera Devlia and Jennifer Aitken.

Hymans Robertson LLP is a limited liability partnership registered in England and Wales with registered number OC310282. A list of members of Hymans Robertson LLP is available for inspection at One London Wall, London EC2Y 5EA, the firm's registered office. Authorised and regulated by the Financial Conduct Authority and licensed by the Institute and Faculty of Actuaries for a range of investment business activities. Hymans Robertson is a registered trademark of Hymans Robertson LLP.

HYMANS ROBERTSON

Headlines

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 rose significantly with the Fund benefiting strongly from this	• Due to expectations of greater and sooner interest cuts, markets anticipated the positive impact on economic activity of decreased interest rates and the Fund's global equity mandates all returned positively over the period. • The LCIV Global Alpha Growth Paris Aligned Fund returned most strongly, due to its relative sector positioning and its sensitivity to falling rates. • IG credit spreads continued to narrow - positively impacting both the Fund's allocation to RLAM MAC and newly appointed allocation to LCIV Global Bond Fund (appointed in November 2023) .
Long term real gilt yields fell sharply, pushing up expected liability values.	• Real gilt yields fell sharply over the quarter meaning the Fund's RLAM IL gilt mandate increased in value. The long duration position was a positive contributor to return, • However, the value of the Fund's liabilities are also expected to have risen in value due to the decrease in real gilt yields, as proxied by the return of the strategic benchmark.
Overall fund performance was positive, but the Fund underperformed the tactical benchmark over the quarter.	• The Fund's performance of 3.9% was slightly behind the tactical benchmark of 4.3% • Fund performance remains 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 the quarter indicates the funding level of the Fund has slightly fallen, this is likely due to the Fund's liabilities increasing by more so than the Fund's assets over a quarter when real gilt yields decreased sharply.
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. • GBP depreciated against the USD and EUR in the previous quarter but this was reversed in Q4 2023 when GBP appreciated against the USD and also marginally against the EUR.
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. Consequently, short-term performance has lagged given high levels of inflation. • Property remains weak as capital value continues to declines in the office, retail and industrial sectors.

Fund Performance

	Last 3 months (%)	Last 12 months (%)	Last 3 years (%)	Last 5 years (%)
Total Fund Performance	**3.9**	**6.4**	**2.2**	**6.4**
Tactical Benchmark	4.3	10.6	5.9	7.3
Strategic Benchmark	9.1	2.7	-9.5	-2.0

Fund Asset Valuation

	Fund value (£m)
Q3 2023	**899.2**
Q4 2023	**932.1**

The Fund's assets returned 3.9% over the quarter, slightly underperforming its 4.3% benchmark return.

All equity mandates delivered positive returns – driven by the shift in interest rate expectations, markets anticipated the positive impact of on economic activity of decreased interest rates and global equities returned positively.

Additionally, with lower real gilt yields supporting 'growth stock' valuations, the LCIV GAGPA delivered stronger returns than the Fund's other equity mandates.

The LCIV Absolute Return Fund also returned positively in absolute terms, benefitting from an increased underlying allocation to equities over the quarter. Additionally, the increase in duration of gilts held within the mandate contributed positively to performance as real gilt yields fell sharply over the period.

The Fund's real assets returned negatively in absolute and relative terms. This was as capital values continued to decline in wider property markets, offsetting income returns and as a result. UBS and CBRE's allocations to the industrials sector, which saw capital value losses for the first time in 7 months, also resulted in their benchmark underperformances.

Also driven by reduced interest rate expectations, government bond prices rallied, real gilt yields fell sharply and IG credit spreads narrowed over the quarter. As a result, the RLAM MAC and Index Linked Gilts mandates delivered positive returns.

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	51.7%												
LGIM Global Equity	4.1%	6.3	6.3	**0.0**	11.0	11.1	**-0.1**	9.4	9.5	**-0.1**	11.6	11.6	**-0.0**
LGIM Emerging Markets	4.0%	2.1	2.1	**0.0**	1.5	1.6	**-0.1**	1.8	2.0	**-0.2**	3.9	4.0	**-0.2**
LGIM Future World Fund	10.9%	5.5	5.5	**0.0**	10.7	10.9	**-0.1**	-	-	-	3.7	3.7	**-0.1**
LCIV Global Alpha Growth Paris Aligned Fund	15.5%	8.1	6.7	**1.3**	4.5	11.5	**-6.3**	-1.0	9.9	**-10.0**	11.9	11.8	**0.0**
LCIV PEPPA Passive Equity	5.4%	7.9	7.9	**0.1**	15.5	13.2	**2.0**	-	-	-	3.5	2.3	**1.2**
LCIV Absolute Return Fund	11.8%	2.2	2.3	**-0.1**	-3.7	8.1	**-10.9**	4.2	5.6	**-1.4**	4.5	5.1	**-0.6**
LCIV Diversified Growth Fund	0.0%	-0.3	0.7	**-1.0**	-0.6	7.7	**-7.7**	-1.5	5.2	**-6.4**	2.0	4.4	**-2.3**
Income	41.2%												
LCIV Global Bond Fund	5.1%	-	-	-	-	-	-	-	-	-	6.0	8.0	**-1.9**
UBS Property	5.3%	-2.7	-1.2	**-1.6**	-12.5	-14.3	**2.1**	4.1	3.2	**0.9**	4.9	5.5	**-0.5**
CBRE	3.5%	-6.1	1.3	**-7.3**	-11.6	11.6	**-20.7**	7.6	11.6	**-3.5**	5.3	9.2	**-3.6**
JP Morgan	5.3%	-3.7	1.3	**-5.0**	3.4	11.6	**-7.3**	9.6	11.6	**-1.8**	7.9	9.2	**-1.2**
Stafford Capital Global Infrastructure SISF II	4.7%	2.5	1.3	**1.1**	1.0	11.6	**-9.5**	7.7	11.6	**-3.5**	8.0	9.1	**-1.0**
Stafford Capital Global Infrastructure SISF IV		3.7	1.3	**2.3**	7.5	11.6	**-3.6**	-	-	-	16.9	11.1	**5.2**
LCIV Renewable Energy Infrastructure Fund	1.4%	1.7	1.3	**0.4**	31.3	11.6	**17.7**	-	-	-	12.5	12.1	**0.4**
RLAM Multi-Asset Credit	6.9%	4.8	4.6	**0.2**	8.8	10.7	**-1.7**	1.0	1.6	**-0.6**	6.8	6.5	**0.3**
Churchill Senior Loan Fund II	2.0%	-1.5	2.3	**-3.7**	-0.2	8.1	**-7.7**	9.5	5.6	**3.6**	6.1	5.5	**0.5**
Churchill Senior Loan Fund IV	1.8%	-1.1	2.3	**-3.3**	-1.7	8.1	**-9.1**	-	-	-	9.6	7.1	**2.4**
Permira IV	5.2%	2.4	2.3	**0.1**	8.0	8.1	**-0.1**	5.4	5.6	**-0.2**	4.9	5.7	**-0.7**
Permira V		2.5	2.3	**0.2**	6.9	8.1	**-1.2**	-	-	-	6.3	7.9	**-1.5**
Protection	**7.1%**												
RLAM Index Linked Gilts	2.7%	14.5	10.5	**3.6**	-24.9	-16.2	**-10.3**	-18.9	-16.0	**-3.5**	-10.4	-8.6	**-1.9**
Total		3.9	4.3	**-0.4**	6.4	10.6	**-3.8**	2.2	5.9	**-3.5**	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 increased over the quarter to c.41.5% (c.40.8% as at 31 December 2023) as global equities rallied.

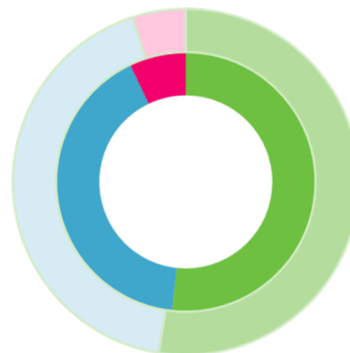
The allocation to corporate bonds increased to 6.1% (2.9% as at 30 September 2023) – this was due to the full redemption of the LCIV Diversified Growth Fund in November 2023 being used to fund the Fund's 5.0% strategic medium-term allocation to IG corporate bonds via the LCIV Global Bond Fund.

The allocation to gilts has remained unchanged from last quarter at c.7.0%, despite the full disinvestment of the LCIV DGF during Q4 2023, the LCIV Absolute Return offset this as the manager increased its allocation from c.43.0% to 54.0% and the LCIV Global Bond Fund's allocation to government bonds was 11.0%

The allocations to gilts, multi-asset credit, private debt, real assets and high yield assets remained relatively unchanged over the quarter.

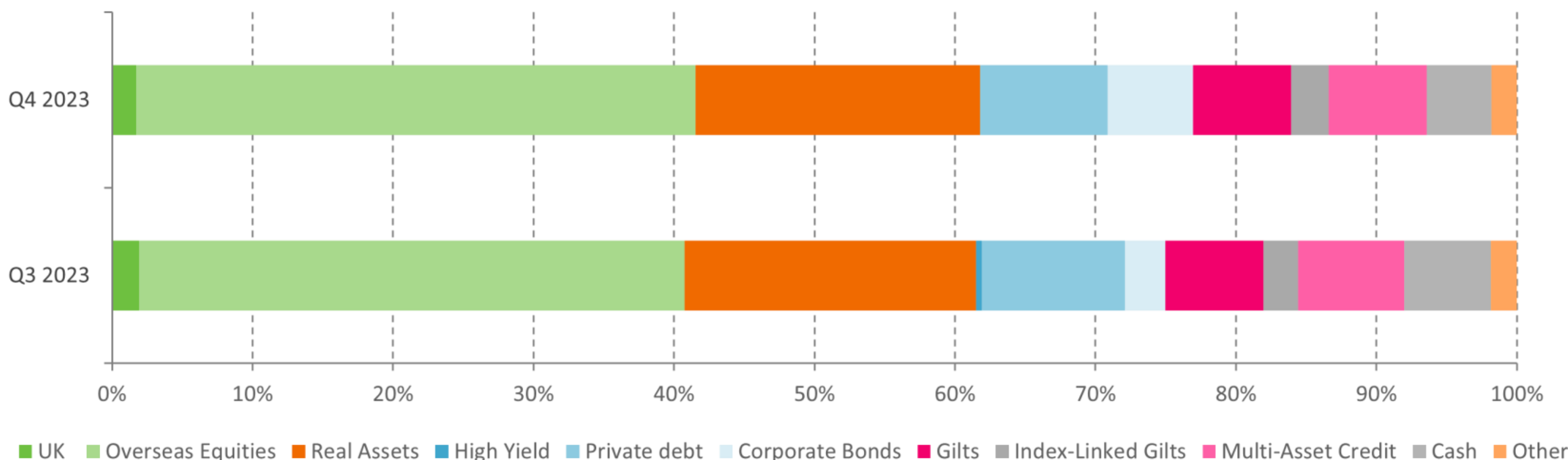
Asset Allocation

Long Term Target
- Growth 52.5%
- Income 42.5%
- Protection 5.0%



Actual
- Growth 51.7%
- Income 41.2%
- Protection 7.1%

Asset Class Exposures



Current Investment Implementation

The total value of the Fund's assets increased by £32.8m over the quarter to £932.1m as at 31 December 2023.

The increase in valuation can be attributed to the Fund's allocation to equities and the LCIV GAGPA Fund, specifically as equities rose over the last quarter of 2023.

This was followed by the Fund's allocation to index-linked gilts which increased in value as real gilt yields fell over the period.

As global investment grade spreads continued to tighten by 0.2% pa to 1.2% p.a. over the quarter, the RLAM MAC Fund also rose in value.

Following capital value declines in the office, retail and industrials sectors, the Fund's UBS and CBRE property mandates slightly fell in value.

The Fund's lagged JP Morgan valuation 'increased' over the quarter as the Infrastructure Fund returned well over the previous quarter and Sterling depreciated against the US Dollar over the same period.

In November 2023, the Fund fully redeemed its holdings in the LCIV Diversified Growth Fund and used the disinvestment to fund the Fund's 'interim' investment strategy via a 5.0% allocation to IG corporate bonds achieved through the LCIV Global Bond Fund.

The Fund paid the following capital calls during the quarter:

- c.£1.96m to the Stafford IV Fund.
- c.542k to the LCIV Renewables Fund
- c.542k to the Churchill IV Fund

Asset Allocation

Manager		Valuation (£m)		Actual Proportion	Benchmark	Relative
		Q3 2023	Q4 2023			
Growth		**507.4**	**481.9**	**51.7%**	**52.5%**	**-0.8%**
LGIM Global Equity	LCIV aligned	36.1	38.4	4.1%	5.0%	-0.9%
LGIM Emerging Markets	LCIV aligned	36.4	37.2	4.0%	5.0%	-1.0%
LGIM Future World Fund	LCIV aligned	96.3	101.6	10.9%	10.0%	0.9%
LCIV Global Alpha Growth Paris Aligned Fund	LCIV	133.9	144.7	15.5%	15.0%	0.5%
LCIV PEPPA Passive Equity	LCIV	46.5	50.2	5.4%	5.0%	0.4%
LCIV Absolute Return Fund	LCIV	107.5	109.8	11.8%	12.5%	-0.7%
LCIV Diversified Growth Fund	LCIV	50.7	0.0	0.0%	0.0%	0.0%
Income		**324.4**	**384.4**	**41.2%**	**42.5%**	**-1.3%**
LCIV Global Bond Fund	LCIV	0.0	47.7	5.1%	5.0%	0.1%
UBS Property	Retained	51.2	49.6	5.3%	6.0%	-0.7%
CBRE	Retained	34.3	32.3	3.5%	4.0%	-0.5%
JP Morgan	Retained	38.9	49.3	5.3%	5.5%	-0.2%
Stafford Capital Global Infrastructure SISF II	Retained	19.1	19.8	4.7%	3.5%	1.2%
Stafford Capital Global Infrastructure SISF IV	Retained	21.2	23.6			
LCIV Renewable Energy Infrastructure Fund	LCIV	12.6	13.3	1.4%	3.5%	-2.1%
RLAM Multi-Asset Credit	Retained	61.8	64.8	6.9%	7.5%	-0.6%
Churchill Senior Loan Fund II	Retained	21.4	18.8	3.8%	3.0%	0.8%
Churchill Senior Loan Fund IV	Retained	17.0	16.9			
Permira IV	Retained	30.6	30.4	5.2%	4.5%	0.7%
Permira V	Retained	16.3	17.9			
Protection		**67.4**	**65.8**	**7.1%**	**5.0%**	**2.1%**
RLAM Index Linked Gilts	Retained	21.8	24.9	2.7%	5.0%	-2.3%
Cash at Bank	Retained	42.7	35.6	3.8%	0.0%	3.8%
Currency Hedging P/L	Retained	2.9	5.3	0.6%	0.0%	0.6%
Total Fund		**899.2**	**932.1**	**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

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 4.8% 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.

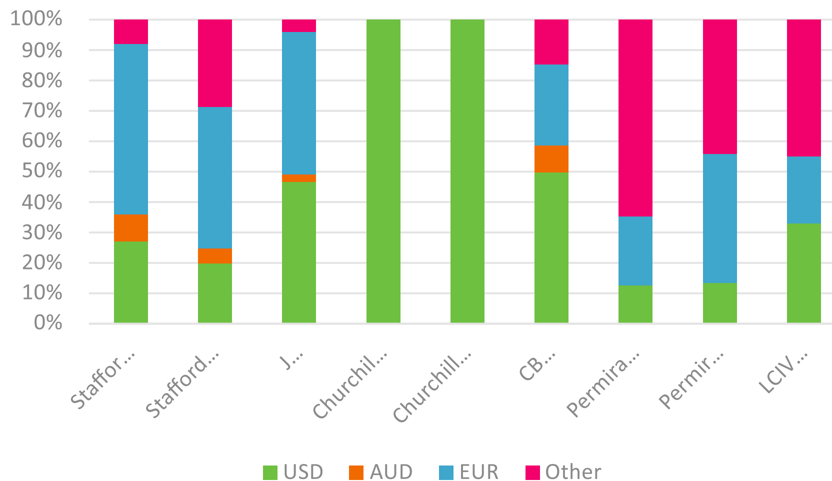
Q4 2023 Performance

	Asset return (inc. FX impact)	Currency return (via Russell mandate)	Asset return (ex. FX impact)	BM return	Relative return (ex. FX impact)
Stafford II	2.5	1.3	3.7	1.3	2.4
Stafford IV	3.7	1.0	4.7	1.3	3.3
JPM	-3.7	2.1	-1.6	1.3	-2.9
Churchill II	-1.5	4.2	2.7	2.3	0.5
Churchill IV	-1.1	4.2	3.1	2.3	0.8
CBRE	-6.1	2.1	-3.9	1.3	-5.2
Permira IV	2.4	0.9	3.2	2.3	1.0
Permira V	2.5	1.3	3.8	2.3	1.5
LCIV RIF	1.7	1.4	3.1	1.3	1.7

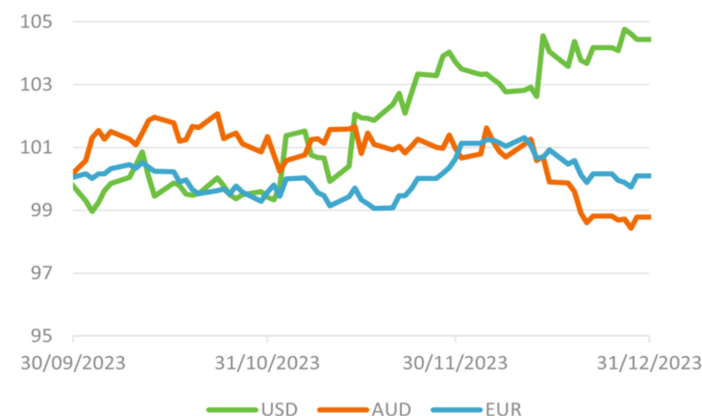
Performance Since Mandate Inception*

	Asset return (inc. FX impact)	Currency return (via Russell mandate)	Asset return (ex. FX impact)	BM return	Relative return (ex. FX impact)
Stafford II	8.6	-0.5	8.1	9.1	-0.9
Stafford IV	18.5	-1.6	17.0	11.1	5.3
JPM	8.9	-0.8	8.1	9.2	-1.0
Churchill II	7.3	-2.0	5.3	5.5	-0.2
Churchill IV	9.6	-4.4	5.3	7.1	-1.7
CBRE	5.3	-0.7	4.6	9.2	-4.2
Permira IV	4.9	0.1	5.0	5.7	-0.6
Permira V	6.3	-0.0	6.3	7.9	-1.5
LCIV RIF	12.5	-0.7	11.9	12.1	-0.2

Hedged Currency Exposure **



Sterling Performance vs. Foreign Currencies (Rebased to 100 at 31 December 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 31 December 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 31 December 2023.

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	-	£20.8m	-	-
Capital Called During Quarter (Payments Less Returned Capital)	-	£2.0m	£0.5m	0.5m	-	-
Capital Drawn To Date	£26.3m	£17.4m	£10.5m	£17.8m	£31.2m	£16.2m
Distributions/Returned Capital To Date (Includes Income and Other Gains)	£14.3m	£1.3m	-	£2.5m	£6.8m	£2.1m
NAV at Quarter End	£19.8m	£23.6m	£13.3m	£16.9m	£30.4m	£17.9m
Net IRR Since Inception *	8.5%	16.2%	7-10% p.a. (Target)	8.9%**	7.9%	15.5%
Net Cash Yield Since Inception*	7.0% p.a.	4.4%	3-5% p.a. (Target)	-	-	-
Number of Holdings*	22 funds	16 funds	6 investments	138 investments	86 investments	36 investments

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

Source: Investment Managers

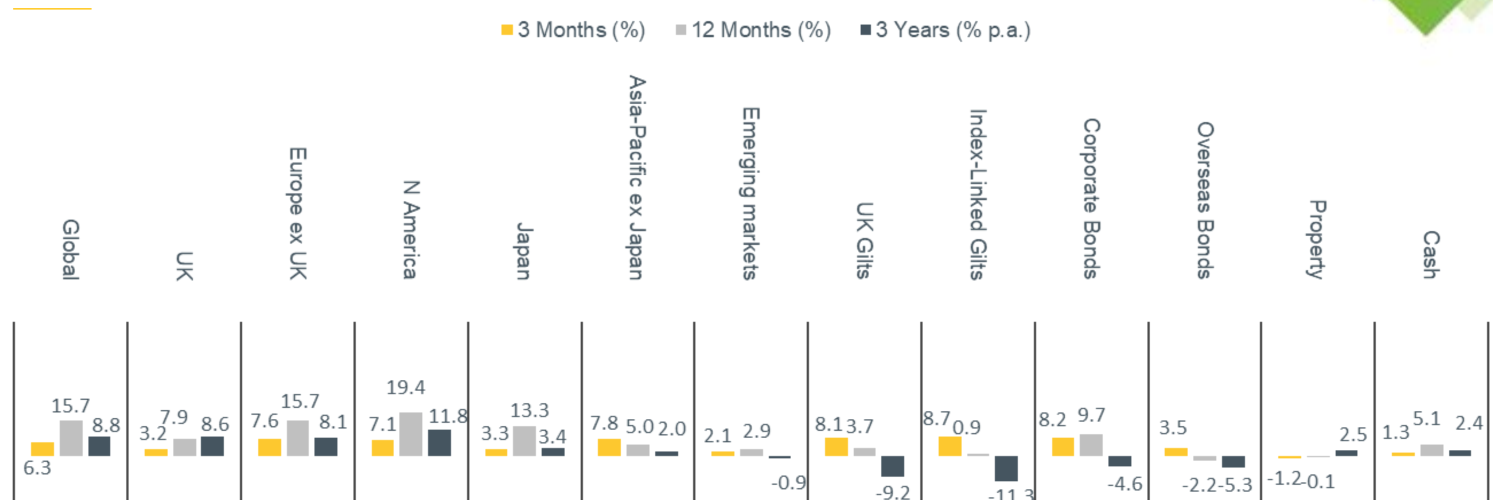
US GDP forecasts for 2023 and 2024 were again revised higher in Q4, given unexpectedly strong growth driven by consumer spending. Despite this, global growth is expected to ease to its slowest pace since the Global Financial Crisis (excluding 2020). However, it isn't expected to collapse.

Year-on-year CPI inflation in the major advanced economies fell more than expected over Q4, easing to 3.9%, 3.1%, and 2.4% in the UK, US, and eurozone in November, respectively. The main drivers were a decline in energy prices and a moderation in food prices. However, core inflation, which excludes both, also fell more than expected. The respective core measures are 5.1%, 4.0%, and 3.6% in the UK, US and eurozone.

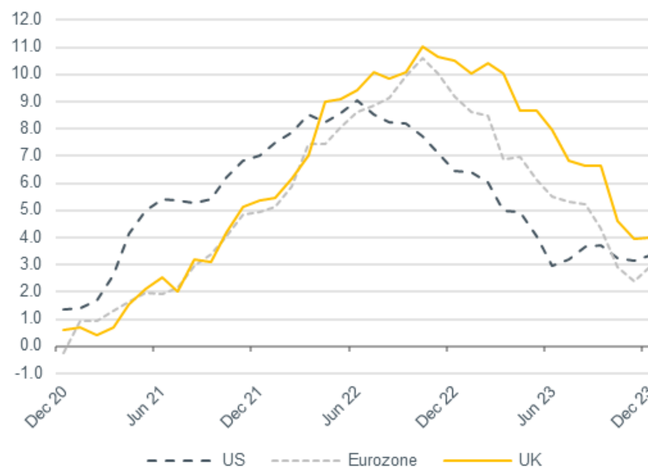
As expected, the major central banks left interest rates unchanged in Q4. Larger-than-expected falls in inflation prompted markets to price in earlier and larger rate cuts in 2024, reinforced by the Federal Reserve's mid-December revised policy projections. Despite the ECB and Bank of England reiterating a more cautious approach, markets expect a similar scale and timing of rate cuts in Europe and the UK.

Rate cut expectations and lower real yields contributed to a 3.1% fall in the trade-weighted US dollar. Equivalent sterling and euro measures rose 1.3% and 1.0%, respectively, while the equivalent yen measure strengthened 2.6% as expected interest-rate differentials with major economies narrowed.

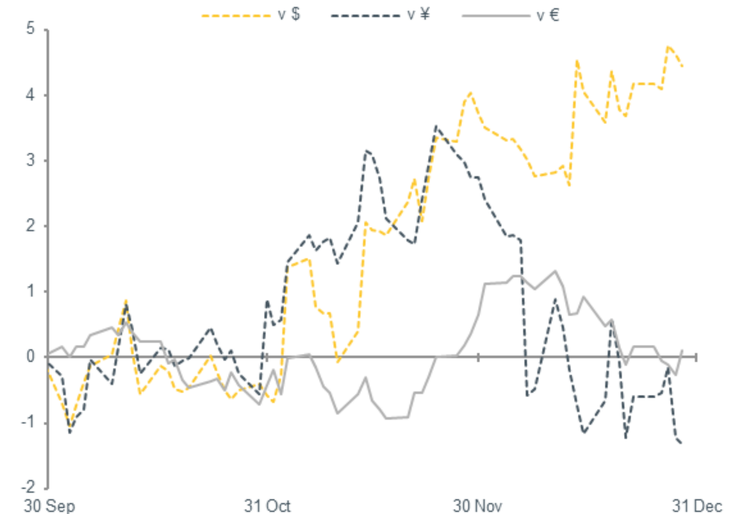
Historic returns for world markets [1]



Annual CPI Inflation (% year on year)



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

Market Background

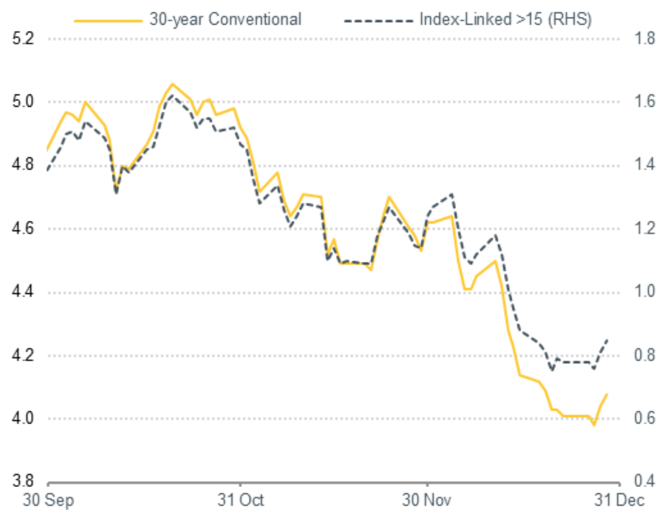
Amid expectations of larger – and sooner – rate cuts in 2024, bond prices rose and yields fell sharply. US 10-year treasury yields declined 0.7% pa over Q4 to 3.9% pa, while equivalent UK gilt yields fell 0.9% pa, to 3.5% pa. German bund yields fell 0.8% pa, to 2.0% pa. Japanese government bond yields fell less, by 0.2% pa to 0.6% pa, given potential divergence in monetary policy between Japan and the other major advanced economies.

Global investment-grade credit spreads declined 0.2% pa to 1.2% pa over Q4, while global speculative credit spreads declined by 0.6% pa to 3.8% pa. Despite a larger decline in speculative-grade credit spreads, the longer-duration investment grade market outperformed.

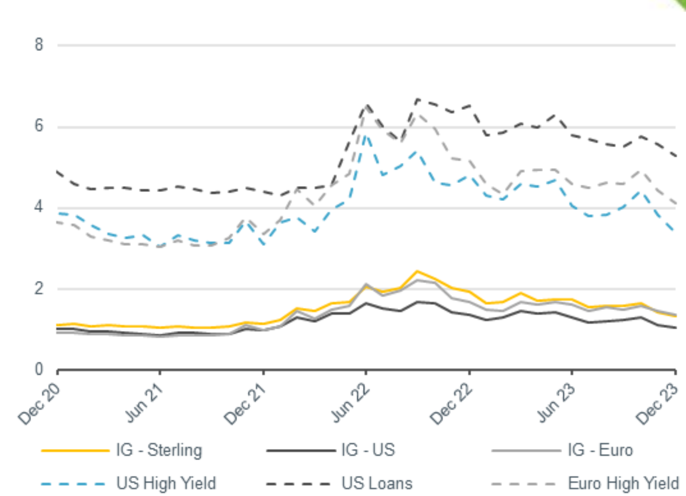
The FTSE All World Total Return Index returned 9.3% over Q4 in local-currency terms, as markets anticipated the positive impact on economic activity of rate cuts. Meanwhile, lower yields lent support to valuations. North American equity markets outperformed, given their exposure to the technology sector. All other regions underperformed, while still producing positive returns. Japan and the UK notably underperformed, given yen and sterling strength, which weighed on the high proportion of overseas earnings in both markets. UK stocks were also impacted by above-average exposure to the energy sector.

The MSCI UK Monthly Property Index fell 1.2% as income was offset by capital value declines. Values fell most sharply in the office and retail sectors, which are down 16.6% and 5.6%, respectively, over 12 months. Industrial values also declined 0.7% in Q4 following seven months of capital growth, resulting in flat growth over 12 months.

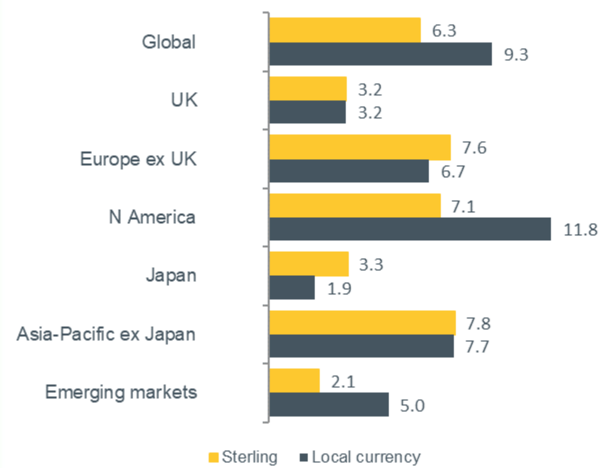
Gilt yields chart (% p.a.)



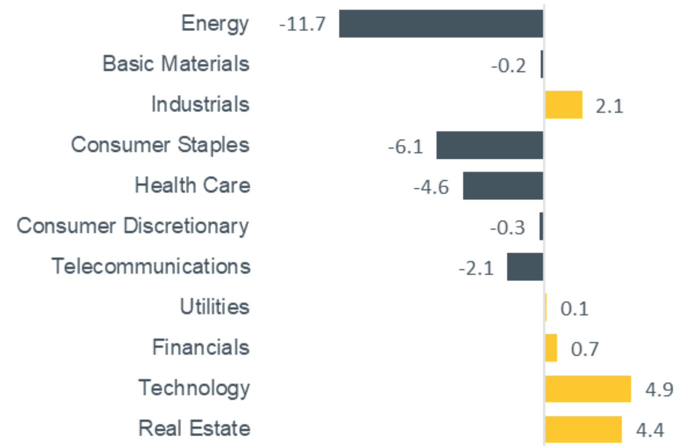
Investment and speculative grade credit spreads (% p.a.)



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	Following flat, full-year earnings growth in 2023, analysts' earnings forecasts for global equities for 2024 and 2025 are healthier, at 10% and 12%, respectively. However, there remain risks to the earnings outlook as growth and demand slows: the expectation that global profit margins rebound towards their post-pandemic high may be challenged by higher effective interest rates and employment costs, and waning corporate pricing power. Market performance in the final couple of months of 2023 has driven cyclically adjusted valuations above long-term averages – something that has historically augured periods of more subdued subsequent returns.
Investment Grade Credit	Effective interest rates continue to move higher as debt matures and is refinanced, which will continue to place downwards pressure on debt affordability metrics. However, corporate balance sheets are in a healthy position and weaker inflation, easing financial conditions, and a slightly better global growth outlook, should help limit the potential deterioration in fundamentals. Spread tightening towards the end of 2023 means global credit spreads are now below long-term median levels.
Emerging Market Debt	Weak global inflation momentum and positive real rates in several emerging market (EM) economies, providing scope for a broadening of monetary policy easing cycles, is supportive for local currency duration. Expectations of rate cuts from the US Federal Reserve, which should put downwards pressure on US treasury yields and the dollar, makes for a more favourable technical backdrop.
Liquid Sub-Investment Grade Debt	Speculative-grade default rates have risen slightly above long-term averages, but forecasters think they have peaked and will fall below fall below averages in 2024, given healthy corporate balance sheets, limited near-term refinancing requirements, and anticipated interest rate cuts in 2024. The improved outlook is more than reflected in credit spreads, which have fallen well below long-term median levels
Private Lending	Leverage is higher and interest coverage is lower in the traded loan market and current high interest rates may make it harder for lower-rated loan issuers to refinance debt. However, interest rate cuts would provide relief and some issuers may be able to refinance with private debt funds. Loan spreads, broadly in-line with long-term medians, look far less compressed than speculative-grade bond spreads.
Core UK Property	As inflation has fallen, real rental growth has risen, improving the fundamental outlook for UK commercial property, but further declines in the MSCI UK Monthly Property Capital Value Index highlight the structural challenges facing the office and retail sectors. However, net initial yields, based on current rental income, have risen to reasonable levels. Gross reversionary yields, based on estimated rental value, have risen much more, perhaps highlighting the increasing asset management opportunities available in the market.
Conventional Gilts	Declining inflation, alongside lacklustre real growth forecasts, improves the fundamental support for nominal gilts. Despite the recent rally, longer-term forward nominal yields look very elevated versus our long-term fair value. Longer-term forward real yields also still offer some value. BoE's gilt sales and increased new supply provide for a fragile technical backdrop, particularly for nominal gilts. However, an easing of inflation concerns, and weak growth should improve sentiment towards the asset class in 2024.
Index-Linked Gilts	Subsiding fears about long-term inflation to a certain extent reduce the fundamental support for index-linked gilts, but real yields remain at reasonable levels at a time when real growth is expected to be barely positive in the near-term. Furthermore, the technical picture is arguably better for index-linked gilts: they were not included in the Bank of England's asset purchase program, and so are not being sold as part of Quantitative Tightening (QT), and benefit from a captive institutional buyer base in the UK.

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.

Hymans Robertson LLP has relied upon third party sources and all copyright and other rights are reserved by such third party sources as follows: DataStream data: © DataStream; Fund Manager data: Fund Manager; Morgan Stanley Capital International data: © and database right Morgan Stanley Capital International and its licensors 2023. All rights reserved. MSCI has no liability to any person for any losses, damages, costs or expenses suffered as a result of any use or reliance on any of the information which may be attributed to it; Hymans Robertson data: © Hymans Robertson. Whilst every effort has been made to ensure the accuracy of such estimates or data - including third party data - we cannot accept responsibility for any loss arising from their use. © Hymans Robertson LLP 2024.

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.