London Borough of Havering Pension Fund

Q1 2024 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.

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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 assets continued to rally	• Equities continued to perform strongly over the first quarter of the year and as a result, all the Funds equity mandates performed positively and rose in value. • The LCIV PEPPA Fund was the best performing allocation over the quarter, and over the last 12 months
Long term real gilt yields rose, pushing down expected liability values.	• Real gilt yields rose over the quarter meaning the Fund's RLAM index-linked gilt mandate decreased in value. • The value of the Fund's liabilities is expected to have fallen due to this over the same period (as proxied by the Fund's strategic benchmark).
Overall fund performance was positive, but the Fund underperformed the tactical benchmark over the quarter.	• The Fund's performance of 3.7% was slightly behind the tactical benchmark of 4.1% • The Absolute Return mandate was the primary contributor to this underperformance given its defensive positioning. The LCIV Global Alpha Growth Paris Aligned Fund was also behind benchmark.
Positive returns were observed across most of the Fund's real asset and private debt mandates.	• Most mandates are measured relative to cash-plus/inflation-plus comparators, but whilst mandates demonstrated underperformance, most delivered positive absolute returns. • Property capital value declines slowed over the quarter and offsetting income returns meant wider property markets returned slightly positively. The Triton Fund underperformed over the quarter although longer-term returns are closer to benchmark

Fund Performance

	Last 3 months (%)	Last 12 months (%)	Last 3 years (%)	Last 5 years (%)
Total Fund Performance	**3.7**	**7.4**	**2.7**	**5.9**
Tactical Benchmark	4.1	11.7	6.7	7.2
Strategic Benchmark	-1.4	-3.3	-8.1	-3.4

Fund Asset Valuation

	Fund value (£m)
Q4 2023	**932.1**
Q1 2024	**970.0**

The Fund's assets returned 3.7% over the quarter, slightly underperforming its 4.1% benchmark return.

All equity mandates continued to deliver positive returns, driven by economic optimism and continued enthusiasm for AI. The LCIV Global Alpha Growth Paris Aligned Fund remained behind benchmark for the quarter.

The LCIV Absolute Return Fund returned negatively and underperformed due to its protective positioning over periods of strong equity and credit performance and rising real gilt yields reducing the value of the fund's allocation to gilts over the same period.

IG credit spreads continued to narrow over the quarter and the LCIV Global Bond Fund returned positively – outperforming its benchmark which returned relatively flatly, given real gilt yields also rose over the same period.

Property capital values continued to decline, however, offsetting income returns have meant wider property markets returned positively overall. The Fund's property assets have therefore underperformed wider property markets and their respective benchmarks over the period.

As sub-investment grade spreads continued narrowing, RLAM MAC delivered positive returns but still underperformed its credit benchmark although remains ahead over the longer term.

Despite falling inflation, expectations around fewer and later interest rate cuts in 2024 resulted in real gilt yields rising over the quarter. As a result, the RLAM ILG Fund delivered negative returns – also underperforming its benchmark, given its longer-term positioning.

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	52.6%												
LGIM Global Equity	4.3%	9.1	9.1	**0.0**	20.9	21.0	**-0.1**	10.5	10.6	**-0.1**	12.1	12.1	**0.0**
LGIM Emerging Markets	4.0%	3.3	3.4	**-0.1**	6.1	6.2	**-0.1**	-0.7	-0.4	**-0.3**	4.3	4.5	**-0.2**
LGIM Future World Fund	11.1%	6.0	6.1	**-0.1**	15.4	15.5	**-0.1**	-	-	-	5.5	5.6	**-0.1**
LCIV Global Alpha Growth Paris Aligned Fund	16.2%	8.7	9.9	**-1.1**	16.0	22.5	**-5.3**	0.1	11.4	**-10.1**	12.4	12.4	**-0.1**
LCIV PEPPA Passive Equity	5.7%	10.6	10.6	**0.0**	26.2	25.7	**0.4**	-	-	-	7.4	6.3	**1.0**
LCIV Absolute Return Fund	11.2%	-0.8	2.3	**-3.0**	-6.0	9.2	**-13.9**	0.7	6.5	**-5.5**	4.4	5.2	**-0.8**
Income	**40.2%**												
LCIV Global Bond Fund	4.9%	0.5	0.0	**0.5**	-	-	-	-	-	-	6.5	8.0	**-1.4**
UBS Property	5.0%	-1.1	0.5	**-1.6**	-2.4	-0.7	**-1.7**	1.3	1.5	**-0.2**	4.7	5.4	**-0.6**
CBRE	3.3%	0.6	1.8	**-1.2**	-6.4	8.1	**-13.5**	5.3	11.7	**-5.8**	5.1	9.1	**-3.7**
JP Morgan	5.2%	6.4	1.8	**4.5**	8.6	8.1	**0.4**	9.5	11.7	**-2.0**	8.8	9.1	**-0.3**
Stafford Capital Global Infrastructure SISF II	4.7%	1.1	1.8	**-0.8**	2.4	8.1	**-5.3**	11.2	11.7	**-0.5**	7.8	9.0	**-1.1**
Stafford Capital Global Infrastructure SISF IV		-1.5	1.8	**-3.3**	8.7	8.1	**0.5**	16.3	11.8	**4.1**	15.0	10.8	**3.8**
LCIV Renewable Energy Infrastructure Fund	1.5%	0.0	1.8	**-1.8**	-3.4	8.1	**-10.6**	-	-	-	11.3	11.6	**-0.3**
RLAM Multi-Asset Credit	6.8%	1.4	2.1	**-0.7**	8.7	10.9	**-2.0**	1.5	2.5	**-1.0**	6.8	6.6	**0.2**
Churchill Senior Loan Fund II	3.6%	4.2	2.3	**1.8**	9.2	9.2	**0.0**	10.7	6.5	**4.0**	6.6	5.7	**0.8**
Churchill Senior Loan Fund IV		3.8	2.3	**1.5**	9.0	9.2	**-0.1**	-	-	-	10.3	7.4	**2.8**
Permira IV	5.2%	2.6	2.3	**0.3**	9.0	9.2	**-0.2**	7.1	6.5	**0.5**	5.2	5.9	**-0.6**
Permira V		3.0	2.3	**0.7**	9.8	9.2	**0.5**	-	-	-	7.2	8.1	**-0.9**
Protection*	**7.3%**												
RLAM Index Linked Gilts	2.5%	-4.0	-2.4	**-1.6**	-12.2	-6.8	**-5.7**	-14.7	-12.1	**-2.9**	-10.7	-8.6	**-2.2**
Total		3.7	4.1	**-0.4**	7.4	11.7	**-3.9**	2.7	6.7	**-3.8**	5.9	-	-

Please note, Northern Trust provided performance figures for UBS are currently being reviewed and reconciled against UBS provided performance figures over the respective periods. In the coming months, Hymans are to conduct a wider review of Northern Trust provided performance figures for the Fund's mandates against investment manager provided performance figures over the same respective periods.

Source: 3m, 12m and 3yr performance returns – Northern Trust and Investment Managers. Individual SI performance returns – Hymans calculated chain-linked. Performance figures for RLAM have been taken from the Investment Manager, rather than Northern Trust.
Longer term performance for Baillie Gifford Global Equity and Ruffer Absolute Return funds is inclusive of performance prior to their transfer into the LCIV.
LGIM Global Equity mandate was managed by SSGA prior to November 2017 and we have retained the performance history for these allocations. 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.

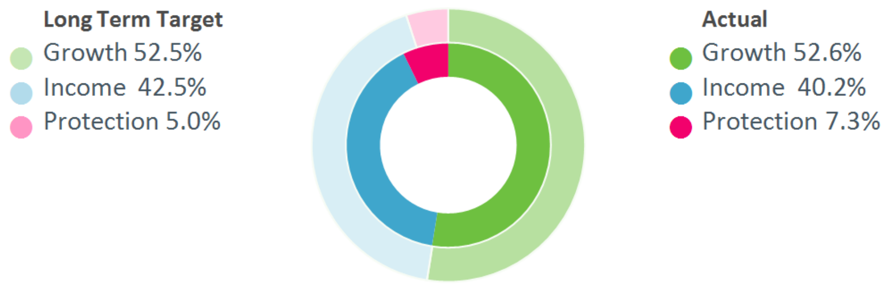
The Fund's overall allocation to equities increased over the quarter to c.43.0% (c.41.5% as at 31 December 2023) as global equities continued to rally over the quarter.

The Fund's overall allocation to gilts decreased over the quarter to c.6.2% (c.7.0% as at 31 December 2023), as both the LCIV Absolute Return Fund and LCIV Global Bond Funds allocations to government bonds decreased over the period – from c.53.9% to c.50.7% and from c.11.1% to c.8.8%, respectively.

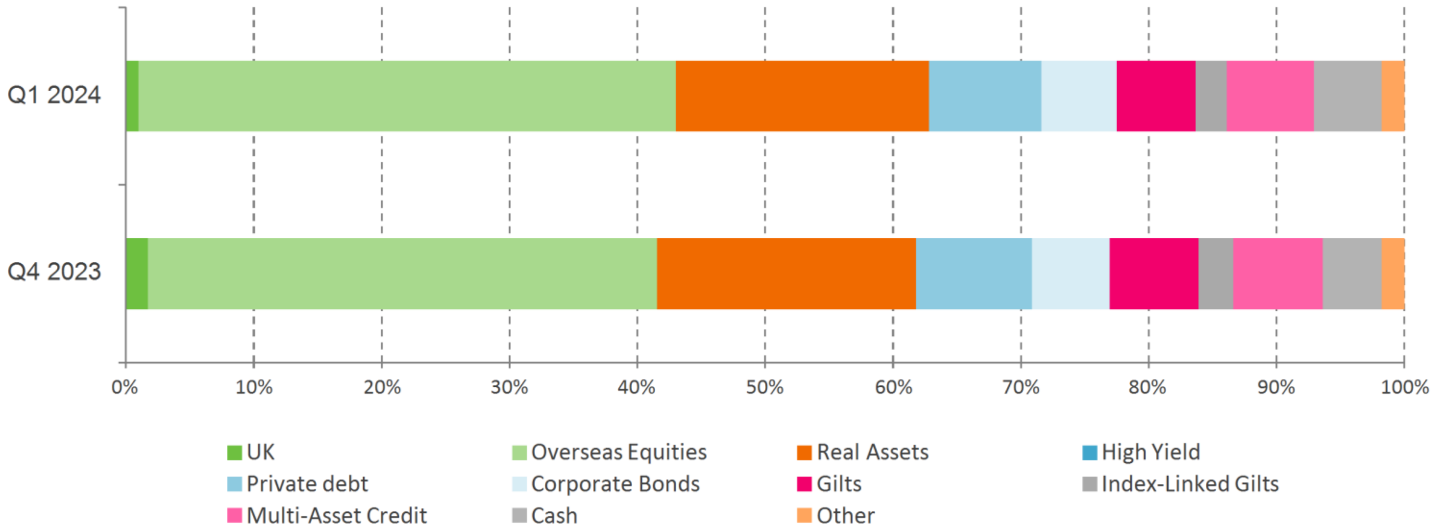
The Fund's overall allocation to real assets, despite the Stafford Capital Global Infrastructure SISF IV LCIV Renewables Fund and LCIV Renewable Energy Infrastructure Fund continuing to draw down capital, decreased over the quarter to c.19.8% (from c.20.3% as at 31 December 2023) as real assets represented a smaller proportion of the Fund's overall assets at quarter-end following the rally in global equities.

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

Asset Allocation



Asset Class Exposures



The total value of the Fund's assets increased by £37.9m over the quarter to £970m as at 31 March 2024.

The increase in valuation can be primarily attributed to the Fund's allocation to equities which continued to perform positively.

The Fund's 'Income' assets overall remained relatively unchanged over the period – the slight increase in value primarily due to the draw down of capital to these funds over the period.

The pace of capital value declines, particularly in the office, retail and industrials sectors slowed over the period and as a result, the Fund's CBRE property mandate slightly increased in value. However, the Fund's UBS property mandate still slightly fell in value.

The Fund's lagged JP Morgan valuation continued to increase over the quarter as the mandate returned well over the previous quarter and Sterling further depreciated against the US Dollar over the same period.

Sub-investment grade credit spreads narrowed, European spreads by 0.4% p.a. to 3.5% p.a. and US spreads by 0.2% p.a. to 3.1% p.a. over the quarter, resulting in the RLAM MAC Fund increasing in value.

The Fund's allocation to the LCIV Global Bond Fund and the RLAM ILG Fund, slightly decreased in value over the quarter primarily due to the rise in gilt yields.

The Fund paid the following capital calls during the quarter:

- c.£817k to the LCIV Renewables Fund
- c.£2.2m to the Stafford IV Fund
- c.£2.0m to the Permira V Fund

Asset Allocation

Manager		Valuation (£m) Q4 2023	Valuation (£m) Q1 2024	Actual Proportion	Benchmark	Relative
Growth		**481.9**	**509.8**	**52.6%**	**52.5%**	**0.1%**
LGIM Global Equity	LCIV aligned	38.4	41.9	4.3%	5.0%	-0.7%
LGIM Emerging Markets	LCIV aligned	37.2	38.4	4.0%	5.0%	-1.0%
LGIM Future World Fund	LCIV aligned	101.6	107.8	11.1%	10.0%	1.1%
LCIV Global Alpha Growth Paris Aligned Fund	LCIV	144.7	157.3	16.2%	15.0%	1.2%
LCIV PEPPA Passive Equity	LCIV	50.2	55.5	5.7%	5.0%	0.7%
LCIV Absolute Return Fund	LCIV	109.8	108.9	11.2%	12.5%	-1.3%
Income		**384.4**	**389.8**	**40.2%**	**42.5%**	**-2.3%**
LCIV Global Bond Fund	LCIV	47.7	47.4	4.9%	5.0%	-0.1%
UBS Property	Retained	49.6	48.9	5.0%	6.0%	-1.0%
CBRE	Retained	32.3	32.5	3.3%	4.0%	-0.7%
JP Morgan	Retained	49.3	50.8	5.2%	5.5%	-0.3%
Stafford Capital Global Infrastructure SISF	Retained	43.4	45.3	4.7%	3.5%	1.2%
LCIV Renewable Energy Infrastructure Fund	LCIV	13.3	14.2	1.5%	3.5%	-2.0%
RLAM Multi-Asset Credit	Retained	64.8	65.7	6.8%	7.5%	-0.7%
Churchill Senior Loan Funds	Retained	35.7	34.6	3.6%	3.0%	0.6%
Permira Credit	Retained	48.3	50.5	5.2%	4.5%	0.7%
Protection		**65.8**	**70.4**	**7.3%**	**5.0%**	**2.3%**
RLAM Index Linked Gilts	Retained	24.9	23.9	2.5%	5.0%	-2.5%
Cash at Bank	Retained	35.6	42.7	4.4%	0.0%	4.4%
Currency Hedging P/L	Retained	5.3	3.7	0.4%	0.0%	0.4%
Total Fund		**932.1**	**970.0**	**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 and Investment Managers.
Valuation figures for RLAM have been taken from the Investment Manager, rather than 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 4.7% to date when the impact of currency fluctuations is included and only 4.2% 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.

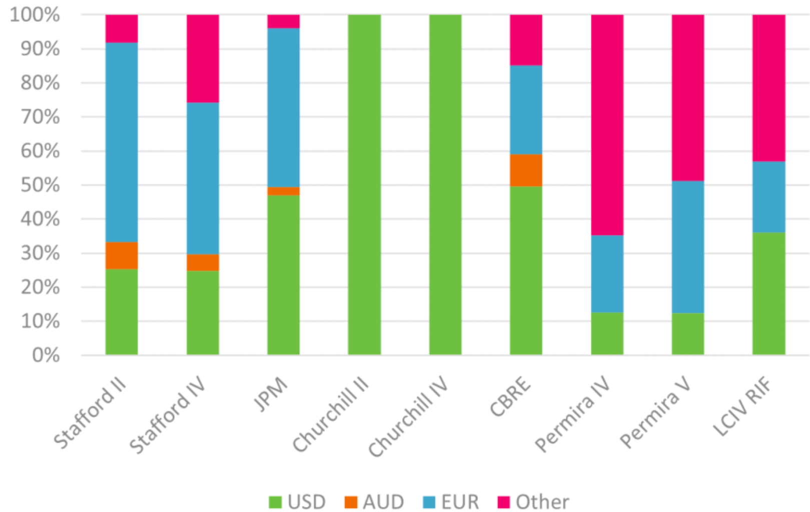
Q1 2024 Performance

	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	0.9	2.0	1.8	0.2
Stafford IV	-1.5	0.6	-0.8	1.8	-2.6
JPM	6.4	0.4	6.8	1.8	4.9
Churchill II	4.2	-0.9	3.2	2.3	0.9
Churchill IV	3.8	-0.9	2.9	2.3	0.6
CBRE	0.6	0.3	0.9	1.8	-0.9
Permira IV	2.6	0.7	3.2	2.3	0.9
Permira V	3.0	0.5	3.5	2.3	1.2
LCIV RIF	0.0	0.0	0.0	1.8	-1.8

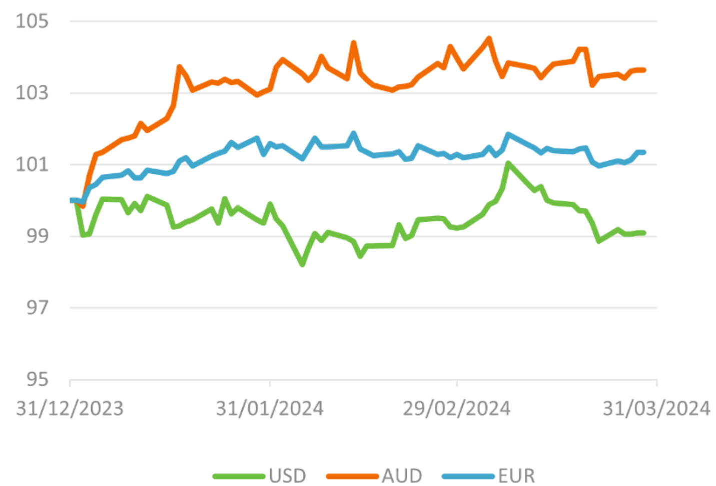
Performance Since Mandate Inception*

	Asset return (inc. FX impact)	Currency return (via Russell mandate)	Asset return (ex. FX impact)	BM return	Relative return (ex. FX impact)
Stafford II	8.3	-0.2	8.1	9.0	-0.8
Stafford IV	16.3	-1.0	15.3	10.8	4.1
JPM	9.9	-0.5	9.4	9.1	0.2
Churchill II	7.8	-1.9	6.0	5.7	0.2
Churchill IV	10.3	-3.4	7.0	7.4	-0.4
CBRE	5.1	-0.5	4.7	9.1	-4.1
Permira IV	5.2	0.2	5.4	5.9	-0.4
Permira V	7.2	-0.4	6.8	8.1	-1.2
LCIV RIF	11.3	-0.5	10.8	11.6	-0.8

Hedged Currency Exposure **



Sterling Performance vs. Foreign Currencies (Rebased to 100 at 31 March 2024)



Source: Northern Trust and 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 March 2024.

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)	£24.4m	£25.6m	-	£21.0m	-	-
Capital Called During Quarter (Payments Less Returned Capital)	-	£2.2m	£0.8m	-	-	£2.0m
Capital Drawn To Date	£26.3m	£17.4m	£11.2m	£17.8m	£31.2m	£18.2m
Distributions/Returned Capital To Date (Includes Income and Other Gains)	£14.5m	£1.3m	-	£3.4m	£7.9m	£2..6
NAV at Quarter End	£19.9m	£25.4m	£14.1m	£17.1m	£30.1m	£20.4m
Net IRR Since Inception *	8.5%	12.7%	7-10% p.a. (Target)	8.8%**	7.1%	14.8%
Net Cash Yield Since Inception*	6.9% p.a.	4.5%	3-5% p.a. (Target)	-	-	-
Number of Holdings*	22 funds	16 funds	14 investments	145 investments	46 investments	16 investments

**as at 31 March 2024 (latest available) **Refers to IRR of realised assets in the portfolio*

Source: Investment Managers

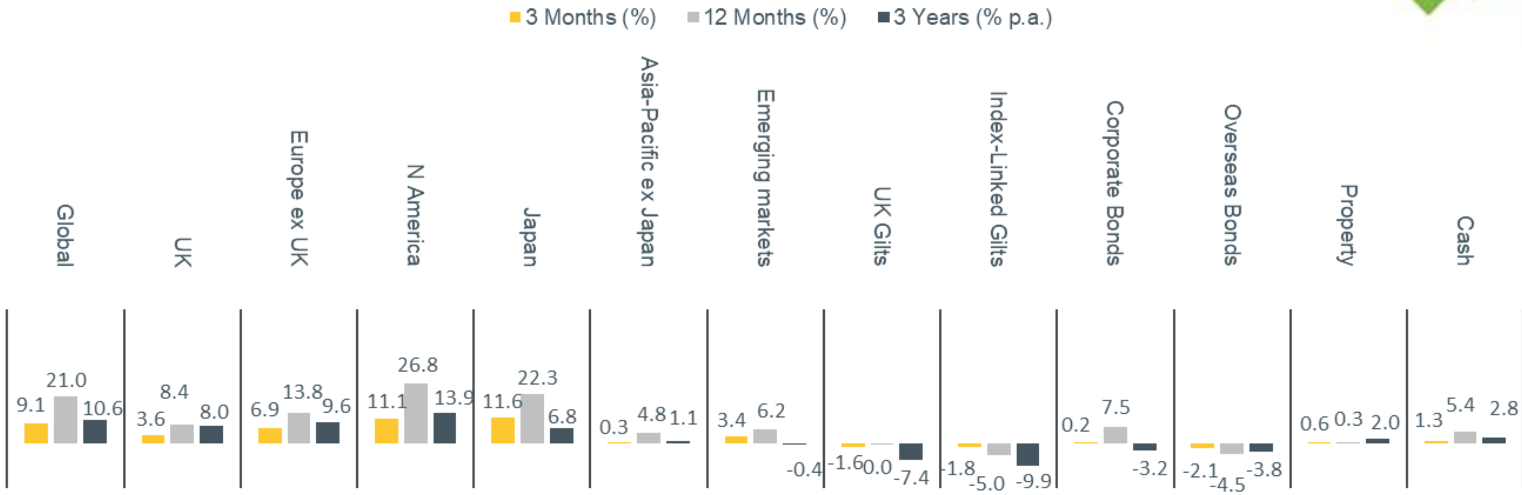
US economy grew more quickly at the end of 2023 than previously anticipated, and composite PMIs indicate global growth gained momentum in Q1. Consensus forecasts for year-on-year US GDP growth in 2024 jumped from 1.4% in January to 2.2% in March. Global growth forecasts have been revised up to 2.4%, though European and UK forecasts remain weaker.

US year-on-year headline CPI inflation rose unexpectedly, to 3.5%, in March and core inflation remained unchanged, at 3.8%, further fuelling fears that the downtrend in inflation is slowing. UK and eurozone headline CPI fell to 3.2% and 2.4%, respectively, but core inflation, which excludes energy and food prices, remains higher in the UK and eurozone, at 4.2% and 2.9%, respectively.

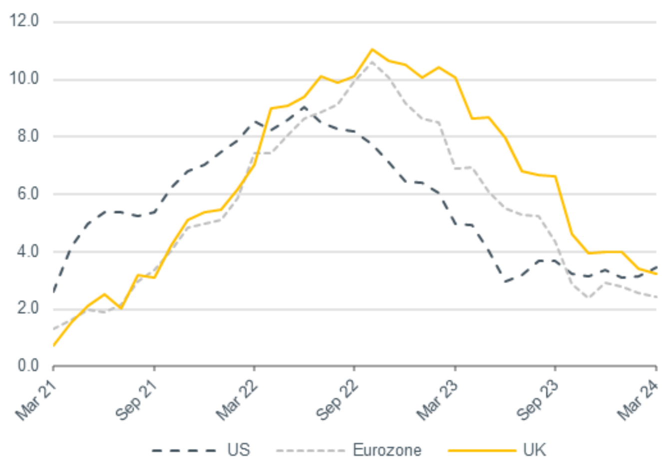
Amid stronger activity data and signs of persistence in underlying inflation, market expectations for rate cuts from the major central banks in 2024 fell from six to seven at the start of the year to two to three at the end of Q1. The US Fed, the BoE, and the ECB all left rates unchanged in Q1, but, in March, the Bank of Japan raised rates for the first time in 17 years, exiting negative rates.

Trade weighted US dollar and sterling rose 2.1% and 1.3%, respectively, as market-implied interest rates rose sharply. The equivalent yen measure fell 4.5% as markets continue to bet on a wide interest rate differential between Japan and its major peers. Gold prices rose 7.2% amid inflation concerns, geopolitical tensions, and strong demand among central banks and Chinese consumers. Oil prices rose 12.5% against a backdrop of supply cuts and conflict in the Middle East.

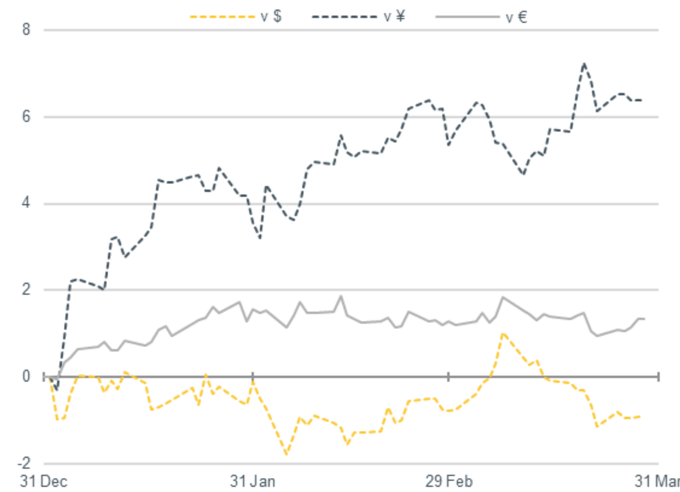
Historic returns for world markets [1]



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

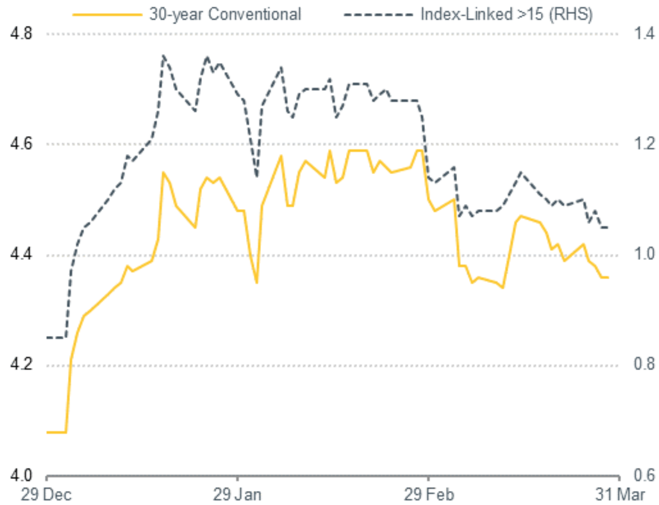
Sovereign bond yields rose sharply over the quarter amid expectations that rates might be cut less than previously anticipated. UK and US 10-year bond yields rose 0.4% pa and 0.3% pa to 3.9% pa and 4.2% pa, respectively, while equivalent German yields rose 0.3% pa, to 2.3% pa. Despite the Bank of Japan raising rates, Japanese yields rose by a modest 0.1% pa, to 0.7% pa.

Global investment-grade credit spreads fell 0.1% pa, to 1.0% pa. Speculative grade spreads fell more, with European spreads narrowing 0.4% pa to 3.5% pa and equivalent US spreads coming down 0.2% pa to 3.1% pa. Despite spread tightening, sterling investment-grade total returns were broadly flat, given the rise in underlying sovereign bond yields. Speculative-grade credit markets outperformed, with US high yield producing a total return of 1.5%.

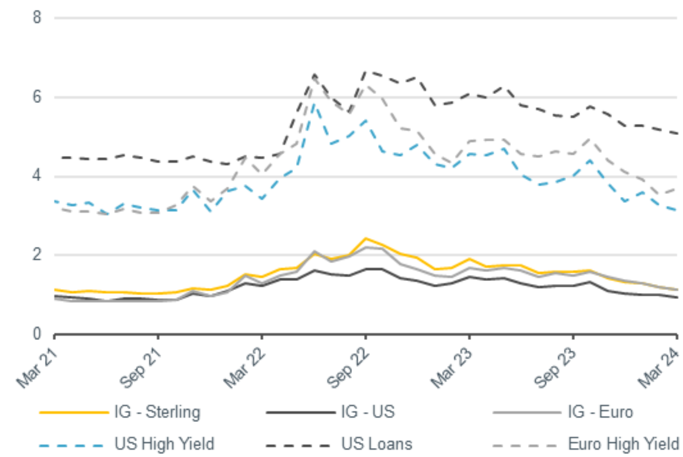
Global equities rose 9.5% in local-currency terms, as economic optimism and AI enthusiasm offset expectations of slower rate cuts. Technology stocks outperformed as massive earnings-beats by some high-profile US tech companies benefitted the sector. Also outperforming, but to a lesser extent, were cyclical sectors, such as financials, energy and industrials, in that order. Basic materials, as well as defensive sectors, such as consumer staples, utilities, telecoms and healthcare, were the worst performers.

The MSCI UK Monthly Property Total Return Index has risen 0.6% in the first quarter of 2024, bringing the 12-month total return to end-March to 0.3%. Over 12 months, capital values fell more steeply in the office sector, relative to the retail and industrial sectors.

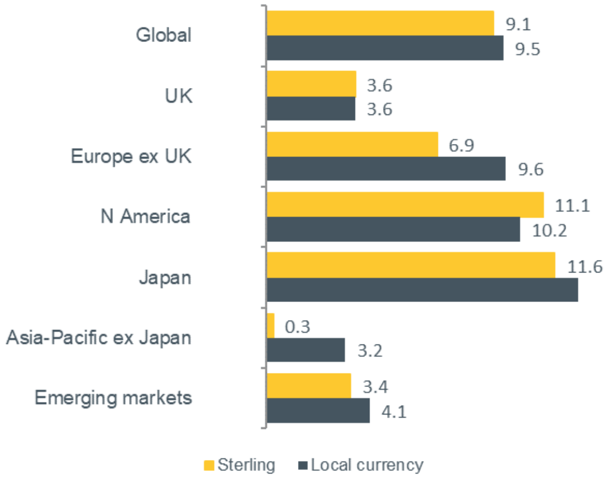
Gilt yields chart (% p.a.)



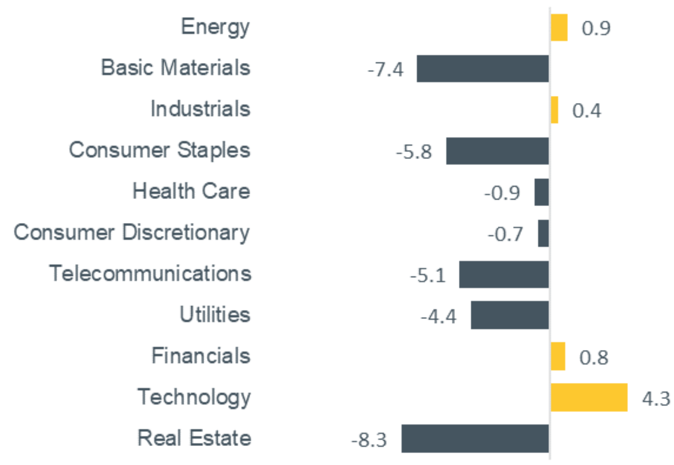
Investment and speculative grade credit spreads (% p.a.)



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.

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Capital Markets Outlook

Asset Class	Market Summary
Equities	Economic resilience, particularly in US, easing inflation, and the prospect of interest rate cuts in 2024 mean the fundamental outlook, and the balance of risks to that outlook, has improved modestly. Global equity earnings forecasts, sitting at 9% and 13% for 2024 and 2025, respectively, may yet still prove a little optimistic but even a substantial disappointment would not be disastrous. A more favourable fundamental outlook to some extent justifies recent positive performance, but recent price moves leave cyclically adjusted global equity valuations looking stretched; now moderately above long-term medians.
Investment Grade Credit	While we expect further negative pressure on debt affordability metrics as effective interest rates continue to rise for some time, the increase in debt costs will be gradual and looks manageable, given limited near-term refinancing pressure, and the prospect of interest rate cuts and a recovery in corporate earnings in 2024 and 2025. Supported by strong yield-driven institutional demand, spread tightening leaves credit looking expensive relative to risk-free rates, with spreads now at the 25th percentile of their long-term history
Emerging Market Debt	Declining inflation, relatively subdued growth, and high real policy rates leave further room for interest rate cuts, supporting local currency duration. Additionally, easing cycles in the major developed economies have tended to be supportive of EM currencies and asset flows. However, a packed election calendar, in both EM and DM markets, in 2024, and very low EM/DM long-term yield differentials relative to history, temper our optimism here. Furthermore, EM bond yields do not look particularly high relative to our assessment of fair value.
Liquid Sub-Investment Grade Debt	Default rates have risen, and are slightly above long-term averages, but Moody's estimates that this represents the current cycle's peak and that default rates will fall below historic averages by the end of the year. However, high breakeven yields have supported demand in a shrinking market, and speculative-grade bond spreads are very low, providing little cushion against downside risks.
Private Lending	Speculative-grade loan spreads, which are in line with long-term medians, offer better value relative to similarly rated bonds, and a more modest pace of interest-rate cuts points to a potentially attractive income-based return over the medium term.
Core UK Property	Less negative property survey data and rise in real rental growth, which has turned positive for the first time in several years, point to an improvement in the outlook for UK commercial property. Valuations are no longer demanding, given the large fall in capital values over the last few years, and yields have continued to edge higher. Transaction yields, which sometimes include secondary-market discounts, have often been higher than those at index level, but some major valuation houses are suggesting that yields are stabilising across many sub-sectors. However, despite these tentative signs of improvement, the technical backdrop remains challenging.
Conventional Gilts	Weak real growth forecasts lend a degree of fundamental support to both nominal and index-linked gilts. While short-term yields look, at best, fairly valued, we still think longer-term nominal yields are attractive relative to long-term real growth and inflation forecasts. The technical backdrop remains fragile for nominal gilts, amid heavy supply, Bank of England gilts sales, and waning institutional demand.
Index-Linked Gilts	Following recent declines, we now think long-term real yields are broadly in line with our assessment of long-term fair value, which is set in line with long-term real growth forecasts minus an inflation risk premium (IRP). 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.

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.

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.