London Borough of Brent Pension Fund

Q1 2024 Investment Monitoring Report

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HYMANS ROBERTSON

Executive Summary

Performance Summary
The assets combined to return 4.1% over the quarter to 31 March 2024.

Global equities recorded the best first quarter in five years, rising 9.1% in Sterling terms. This was due to further optimism about the US economy and AI enthusiasm, which offset expectations of slower rate cuts.

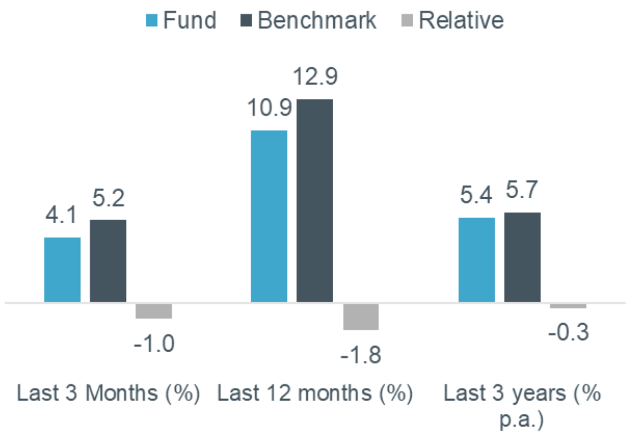
UK equities also produced positive returns (up 3.6%) although they lagged global markets due to having a small exposure to the outperforming technology sector, as well as economic weakness which contributed to UK-listed companies underperforming global peers across almost all sectors.

A rise in yields over the quarter saw negative returns from the UK government bond market. The property market also continued to underperform, specifically the office and retail sectors.

Key points to note

- The Fund has posted positive returns over the quarter, ending the period with a valuation of £1,259.7m up from £1,203.0m at the end of Q4 2023.
- The Fund's equities were again the main drivers of returns, with LGIM's global equity mandate the primary contributor in monetary terms. The Fund's exposure to UK equities also contributed to performance.
- Within the income assets, both property mandates and both multi-asset funds detracted from performance on a relative basis; however, allocations to these assets are much smaller relative to the growth assets.
- The Fund's UK government bond holdings experienced negative performance over the quarter, due to yields rising over the period, hence saw their value fall in monetary terms.
- The cash held by the Fund increased over the period to £44.3m. The cash allocation will be used to fund future capital calls and private market investments such as infrastructure and property.

Fund performance vs benchmark/target



High level asset allocation

	Actual	Benchmark	Relative
Growth	54.4%	58.0%	-3.6%
Income	27.8%	25.0%	2.8%
Protection	14.3%	15.0%	-0.7%
Cash	3.5%	2.0%	1.5%

Whilst on the journey to its interim and long-term targets for Property, Infrastructure and Private Debt, the Fund will hold a higher allocation to DGF's.

The target allocations reflected in this report are as follows. These will be updated next quarter to reflect the partial sale of the Baillie Gifford DGF (discussed further below).

Interim
Growth – 58%
Income/Diversifiers – 25%
Protection plus cash – 17%

Long-term
Growth – 50%
Income/Diversifiers – 35%
Protection – 15%

The LCIV infrastructure and private debt funds remain in their ramp up phase. We expect the Fund's commitments to continue to be drawn down over 2024.

During the last quarter, the LCIV Baillie Gifford Multi-asset fund's rating was downgraded. As a result, in Q1 the Committee agreed to reduce the allocation to the LCIV Baillie Gifford Multi-asset fund, consider further recommendations to sell and utilise the proceeds to meet the strategic objectives of the Fund.

Post quarter end, the Fund made a £35m commitment to the London CIV UK Housing Fund, as part of building up the property portfolio to its 10% long-term objective.

Asset allocation

Manager	Valuation (£m)		Actual Proportion	Benchmark	Relative
	Q4 2023	Q1 2024			
LGIM Global Equity	468.4	515.0	40.9%	40.0%	0.9%
LGIM UK Equity	73.1	75.8	6.0%	5.0%	1.0%
Capital Dynamics Private Equity	19.6	17.3	1.4%	5.0%	-3.6%
LCIV JP Morgan Emerging Markets	42.3	42.7	3.4%	5.0%	-1.6%
Blackrock Acs World Low Crbn	32.0	34.9	2.8%	3.0%	-0.2%
Total Growth	**635.4**	**685.8**	**54.4%**	**58.0%**	**-3.6%**
LCIV Baillie Gifford Multi Asset	126.7	127.7	10.1%	6.0%	4.1%
LCIV Ruffer Multi Asset	93.4	92.7	7.4%	6.0%	1.4%
Alinda Infrastructure	17.9	18.7	1.5%	0.0%	1.5%
Capital Dynamics Infrastructure	2.3	2.4	0.2%	0.0%	0.2%
LCIV Infrastructure	45.2	45.2	3.6%	5.0%	-1.4%
Fidelity UK Real Estate	13.4	13.3	1.1%	1.5%	-0.4%
UBS Triton Property Fund	11.0	10.9	0.9%	1.5%	-0.6%
LCIV Private Debt Fund	39.1	39.1	3.1%	5.0%	-1.9%
Total Income	**349.0**	**350.0**	**27.8%**	**25.0%**	**2.8%**
LCIV CQS MAC	60.4	61.8	4.9%	5.0%	-0.1%
BlackRock UK Gilts Over 15 yrs	122.1	117.8	9.4%	10.0%	-0.6%
Total Protection	**182.5**	**179.6**	**14.3%**	**15.0%**	**-0.7%**
Cash	36.0	44.3	3.5%	2.0%	1.5%
Total Scheme	**1203.0**	**1259.7**	**100.0%**	**100.0%**	

Figures may not add up due to rounding. The benchmark currently shown as the interim-target allocation as the first step in the journey towards the long-term target. As the Fund's allocations and commitments to private markets increase over time, we will move towards comparison against the long-term target.

Source: Investment Managers

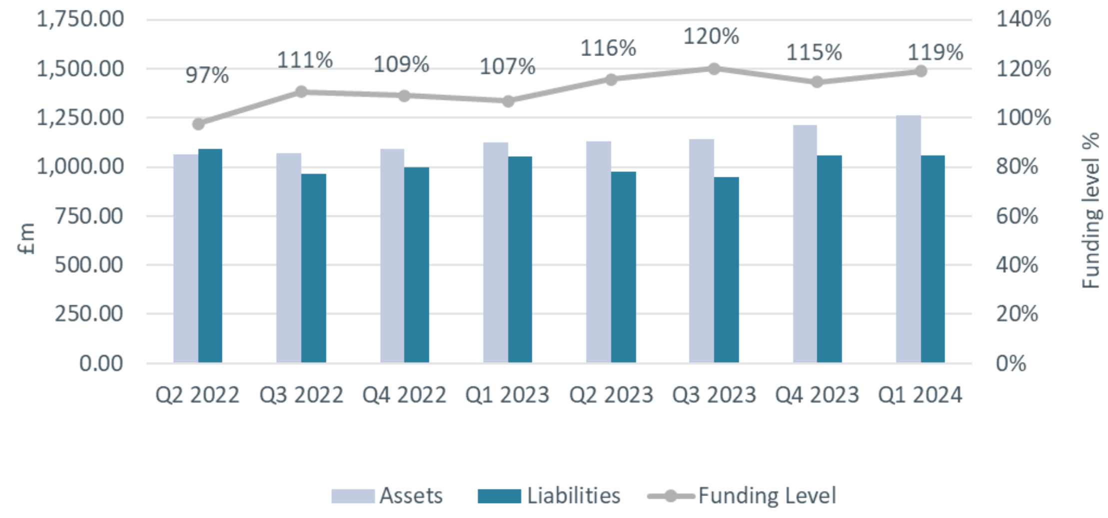
Funding position

As at 31 March 2024, we estimate the funding level to be 119%.

The graph shows the funding level has increased from 97% in Q2 2022 to 119% at the end of Q1 2024.

Please note the asset value shown (for the funding level calculation) may differ from the actual asset value as it is an estimate based on estimated cashflows. However, the estimate is consistent with liabilities, therefore gives more reliable estimate of the funding position.

Funding level progression



Latest funding level summary

	30 Sep 2023	31 Dec 2023	31 March 2024
Assets	1,139	1,212	1,262
Liabilities	949	1,057	1,064
Surplus/(deficit)	190	155	197
Funding Level	120%	115%	119%

Source: Hymans Robertson funding update report as at 31 March 2024.
Please see report for full details of approach used and reliances and limitations.

The total Fund return was positive during the period on an absolute basis but underperformed on a relative basis. Performance over the past 12 months and 3 years remains positive, however slightly behind respective benchmarks.

Global equities continued to provide strong positive returns and outperform UK equities mainly due to the UK's underweight to the technology sector which continued to outperform in Q1 2024.

Capital Dynamics' private equity mandate posted negative returns in Q1 and also lagged its benchmark. However, this allocation is in run down and represents a small allocation within the Fund (1.4% of total Fund assets).

Yield volatility remained during Q1; gilt yields rose over the quarter, resulting in a decrease in the value of the portfolio. Credit markets performed well over the quarter resulting in the strong performance of the LCIV MAC fund.

The property market fell over the period as income was offset by capital value declines in the office and retail sectors. The Fidelity real estate and UBS Triton property funds underperformed their respective benchmarks by 1.7% and 2.0%.

Manager performance

	Last 3 Months (%)			Last 12 months (%)			Last 3 years (% p.a.)		
	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative
Growth									
LGIM Global Equity	10.0	10.0	**0.0**	23.2	23.3	**-0.1**	11.9	12.0	**-0.1**
LGIM UK Equity	3.6	3.6	**0.1**	8.5	8.4	**0.1**	8.2	8.0	**0.1**
Capital Dynamics Private Equity	-4.0	10.3	**-13.0**	-9.9	24.1	**-27.4**	5.0	13.4	**-7.4**
LCIV JP Morgan Emerging Markets	1.0	3.3	**-2.2**	-1.3	5.9	**-6.8**	-4.4	-2.2	**-2.2**
Blackrock Acs World Low Crbn	9.4	9.9	**-0.5**	24.4	22.5	**1.6**	-	-	**-**
Income									
LCIV Baillie Gifford Multi Asset	0.8	1.8	**-0.9**	3.2	7.1	**-3.6**	-0.8	4.6	**-5.1**
LCIV Ruffer Multi Asset	-0.8	1.8	**-2.5**	-6.0	7.1	**-12.2**	0.7	4.6	**-3.7**
Alinda Infrastructure	4.3	1.1	**3.2**	14.3	5.2	**8.7**	18.5	8.7	**9.0**
Capital Dynamics Infrastructure	4.7	1.1	**3.6**	-4.4	5.2	**-9.1**	-9.0	8.7	**-16.3**
LCIV Infrastructure	0.5	1.1	**-0.6**	3.6	5.2	**-1.5**	8.4	8.7	**-0.3**
Fidelity UK Real Estate	-1.2	0.5	**-1.7**	-2.8	-0.7	**-2.1**	-	-	**-**
UBS Triton Property Fund	-1.5	0.5	**-2.0**	-4.4	-0.7	**-3.7**	-	-	**-**
LCIV Private Debt Fund	0.0	1.5	**-1.5**	6.1	6.0	**0.1**	-	-	**-**
Protection									
LCIV CQS MAC	2.3	1.8	**0.5**	11.3	7.2	**3.9**	1.7	4.5	**-2.7**
BlackRock UK Gilts Over 15 yrs	-3.6	-3.6	**0.0**	-4.9	-4.6	**-0.3**	-14.7	-14.6	**-0.1**
Total	4.1	5.2	**-1.0**	10.9	12.9	**-1.8**	5.4	5.7	**-0.3**

This table shows the new performance target measures, implemented from 2020. Please note the 3-year return is on the old benchmark basis.

Performance from Alinda, Capital Dynamics and the LCIV Infrastructure funds is based on information provided by Northern Trust. For such investments, we focus on longer term performance. There are also alternative measures to assess performance detailed in the individual manager pages. This is also the case for Private Equity and Private Debt as asset classes.

Source: Fund performance provided by Investment Managers and is net of fees.
Benchmark performance provided by Investment Managers and DataStream

Manager Performance

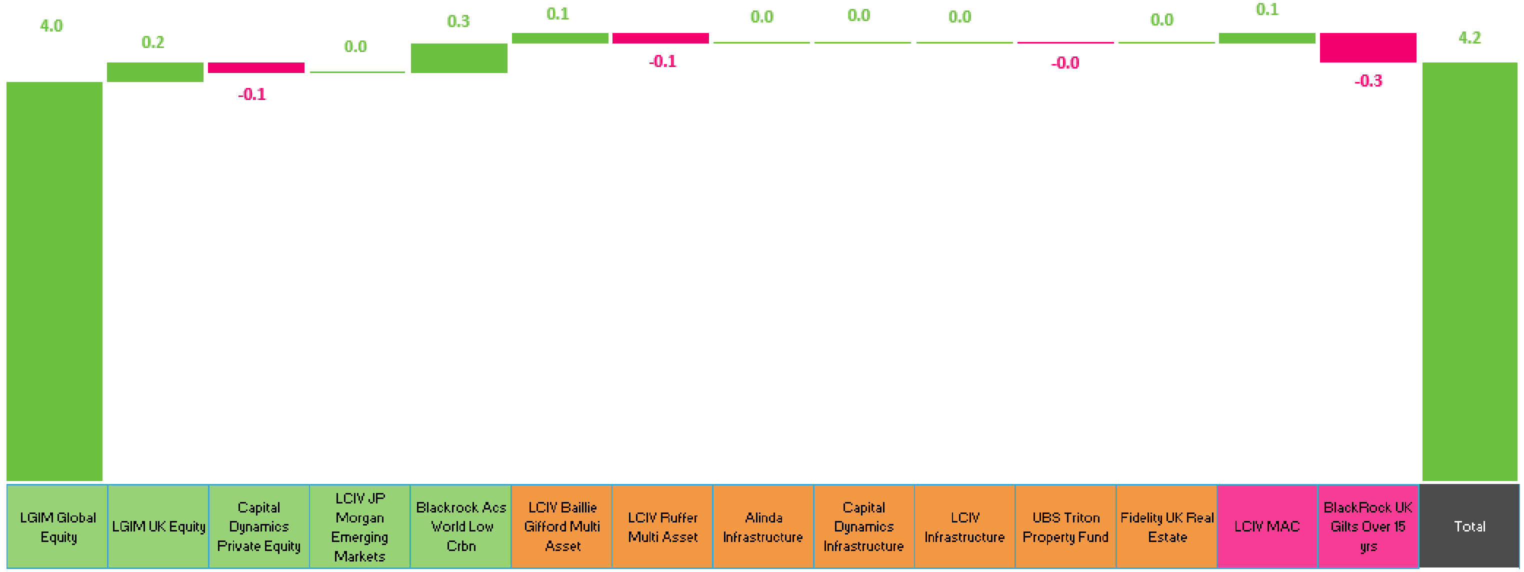
This chart highlights each mandate's contribution to the Fund's absolute performance over the quarter according to their allocation.

The largest contributor to performance over the period was LGIM's Global Equity fund, given its positive performance and its sizeable allocation of c.41%.

The LGIM UK Equity and BlackRock World Low Carbon funds were the other significant contributors to performance over the quarter.

Despite large negative returns posted by the Capital Dynamics Infrastructure fund and underperformance by both property funds (UBS and Fidelity), these mandates have a small allocation of c1% each, of the total Fund, hence did not detract materially from the Fund's overall performance.

Fund performance by manager



Please note that due to rounding, the total performance shown above may not add to the total quarterly performance shown on page 3 of this report.

Source: Fund performance provided by Investment Managers and is net of fees.

Over the period, the only change in manager ratings was Fidelity - downgraded from 'Preferred' to 'Suitable (On Watch)'.

There have been no changes to RI ratings over the period.

Information on the rating categories can be found in the appendix.

RAG status reflects the long term performance of each mandate. Manager developments reflect any key changes over the quarter and how this may affect the mandate.

RAG Status Key (assessment of longer term relative performance):

- Red: Significant underperformance
- Amber: Moderate underperformance
- Green: Performance in line / above benchmark

The pages that follow cover in further detail managers who have an amber/red performance rating.

Manager ratings

Manager/Mandate	Asset Class	Hymans Rating	RI Rating	Performance	Manager Developments
LGIM	Global Equity	Preferred	Strong	Green	Green
LGIM	UK Equity	Preferred	Strong	Green	Green
Capital Dynamics	Private Equity	Suitable	Not Rated	Red	Green
LCIV JP Morgan	Emerging Markets	Suitable	Adequate	Green	Green
BlackRock	Acs World Low Crbn	Preferred	Adequate	-	Green
LCIV Baillie Gifford	Multi Asset	Negative	Good	Red	Red
LCIV Ruffer	Multi Asset	Positive	Adequate	Amber	Green
Alinda	Infrastructure	Not Rated	Not Rated	Green	Green
Capital Dynamics	Infrastructure	Not Rated	Not Rated	Red	Green
LCIV	Infrastructure	Not Rated	Not Rated	Amber	Green
LCIV	Private Debt	Not Rated	Not Rated	-	Green
Fidelity	UK Real Estate	Suitable (On Watch)	Good	-	Green
UBS	UK Property	Preferred	Good	-	Green
LCIV	Multi Credit	Suitable	Not Rated	Green	Green
BlackRock	UK Gilts Over 15Yrs	Preferred	Not Rated	Green	Green

Fidelity update

Rationale for downgrade from preferred:

- Like many core open-ended UK property funds in the peer group, Fidelity has suffered from private sector DB schemes selling illiquid assets and investors seeking an exit because funding levels have improved due to higher interest rates.
- The fund size (AuM) will substantially decrease as a result of redemption pressures, calling into question the longer-term commercial viability of the Fund.
- The Fund still has a substantial proportion of buildings to sell to pay out investors. A further redemption of £50m was received in January, bringing the exit queue to £165m (39% of NAV) and potentially reducing the fund size to £261m, below an ideal minimum size of £300m. Fidelity expect to clear the current queue by Q2 2025.

Source: Investment Managers

LGIM Global Equity

The LGIM global equity mandate returned 10.0% over the quarter. Performance in global equity markets remains strong over longer periods.

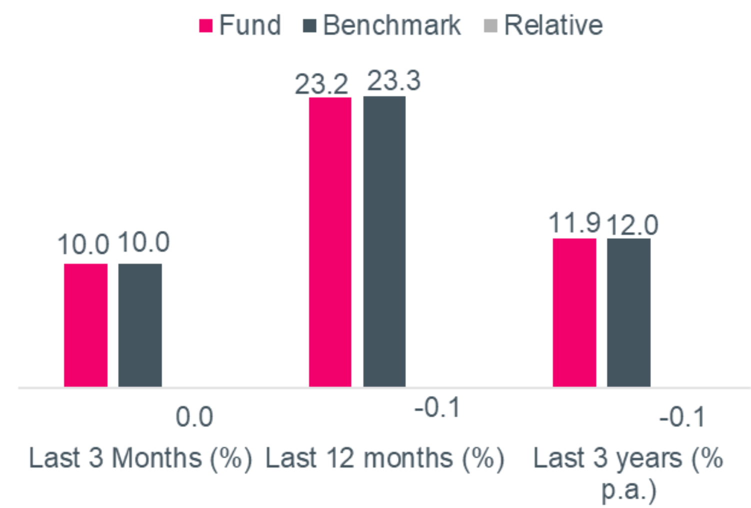
As a passively managed fund, it has matched its benchmark over all periods.

Global equities recorded the best first quarter in five years. The equity market's strong performance can be attributed mainly to further optimism about the US economy and AI enthusiasm, which offset expectations of slower rate cuts.

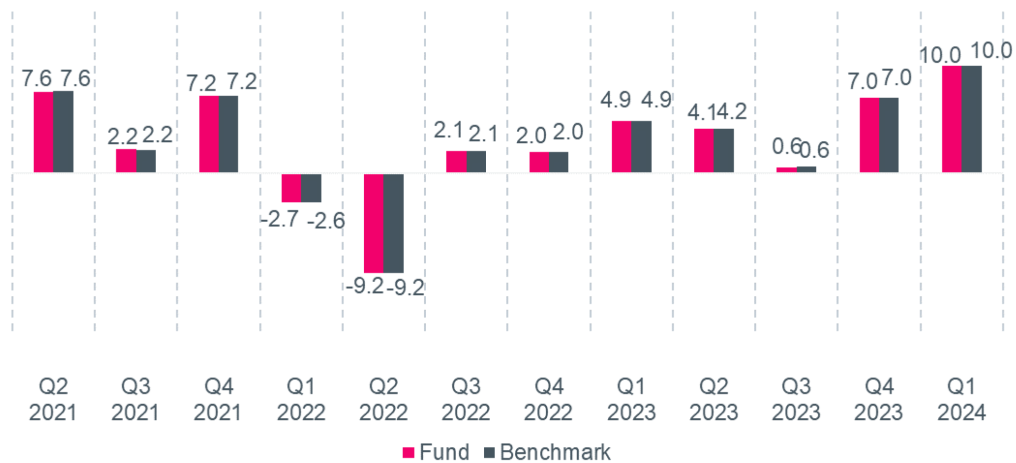
Technology stocks notably outperformed, especially within the US. Also, cyclical sectors, such as financials, energy and industrials contributed to positive performance.

We continue to rate LGIM's passive equity capabilities as 'Preferred'.

Fund performance vs benchmark



Historical performance/benchmark



Source: Investment Manager

LGIM UK Equity

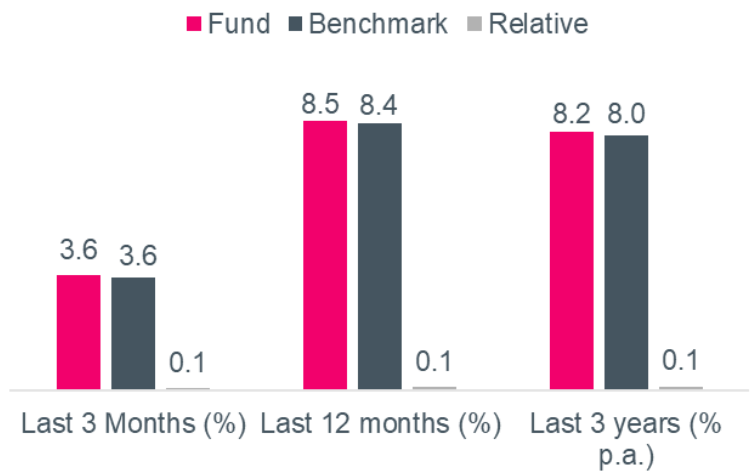
The LGIM UK equity mandate returned 3.6% over the quarter. Performance over 12 months and 3 years is strong, albeit the UK market continues to lag its global counterparts at the longer end.

Over the period the fund has performed in line with its benchmark as we would expect for a passively managed portfolio.

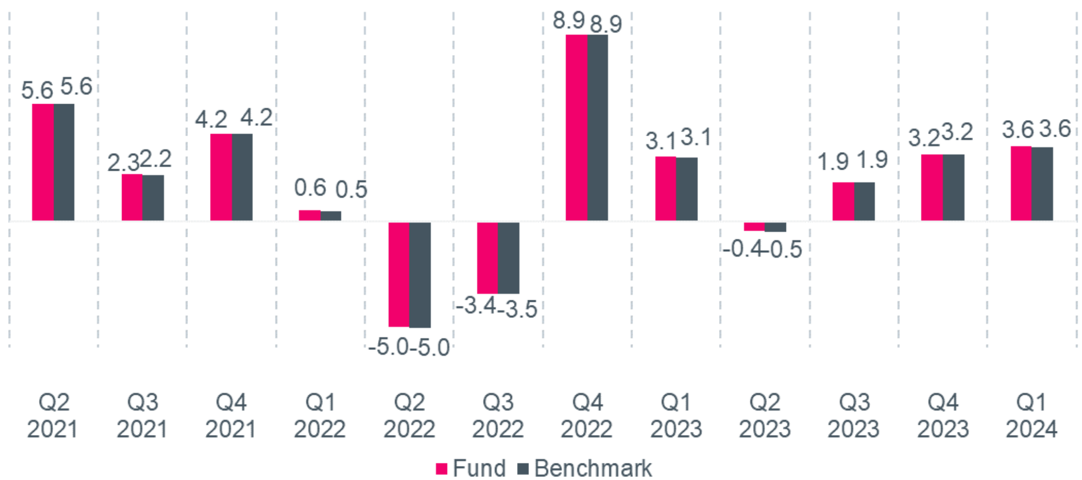
The UK lagged the global market due to having very little exposure to the outperforming technology sector, and above-average exposure to consumer staples and basic materials. Additionally, economic weakness contributed to UK-listed companies underperforming global peers across almost all sectors.

We continue to rate LGIM's passive equity capabilities as 'Preferred'.

Fund performance vs benchmark



Historical performance/benchmark



Source: Investment Manager

LCIV JP Morgan Emerging Markets

The JP Morgan Emerging Markets fund returned 1.0% over Q1, against its benchmark of 3.3%. Recent underperformance against the benchmark has resulted in the fund falling behind its longer-term targets. Over 12 months the fund lagged its benchmark by 6.8%.

Emerging market equities lagged developed markets over the period.

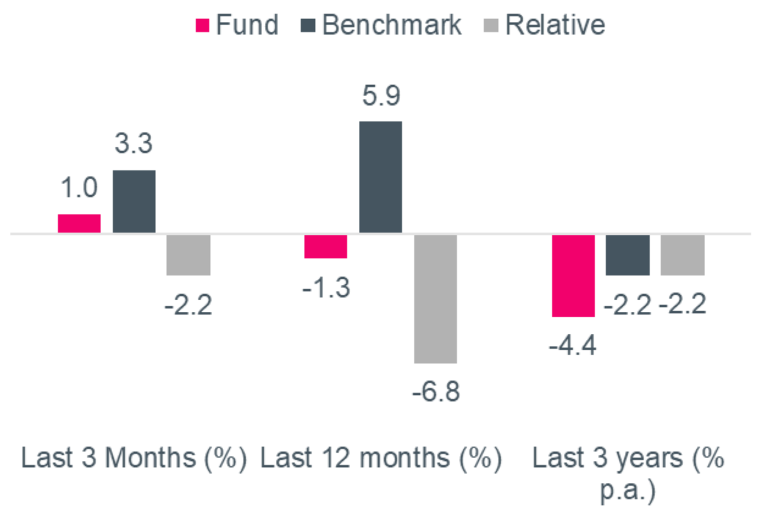
Underperformance was mainly driven by weak stock selection, particularly within financials. This was largely due to two stocks, AIA and HDFC Bank.

Performance contribution through sector allocation was moderately positive, driven by an overweight to information technology and underweight to materials.

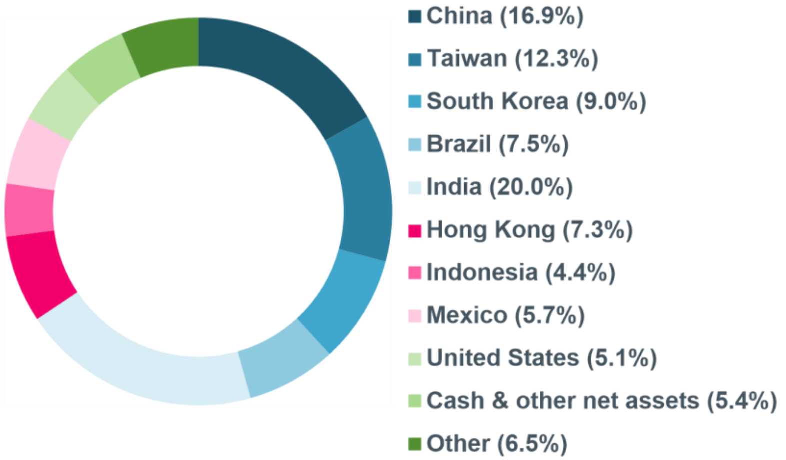
At country level, stock selection within India was the largest detractor, driven by HDFC Bank. Taiwan was the largest contributor, owing to the performance of Taiwan Semiconductor Manufacturing (TSMC).

The manager believes underperformance is largely due to negative derating of stocks held within the portfolio; however, long-term performance is largely driven by earnings, which have held up well compared with the benchmark.

Fund performance vs benchmark



Fund regional allocation



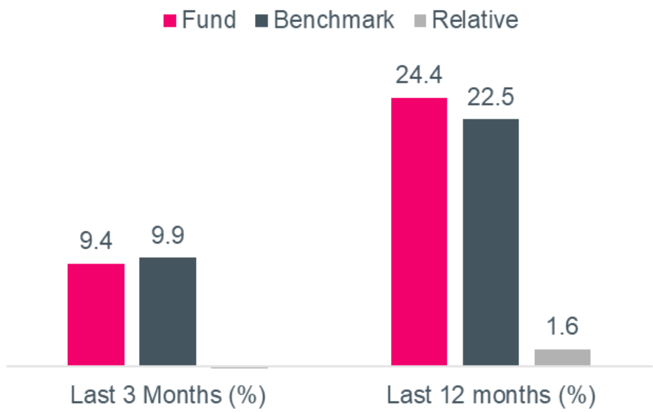
Source: Investment Manager

BlackRock ACS World Low Carbon

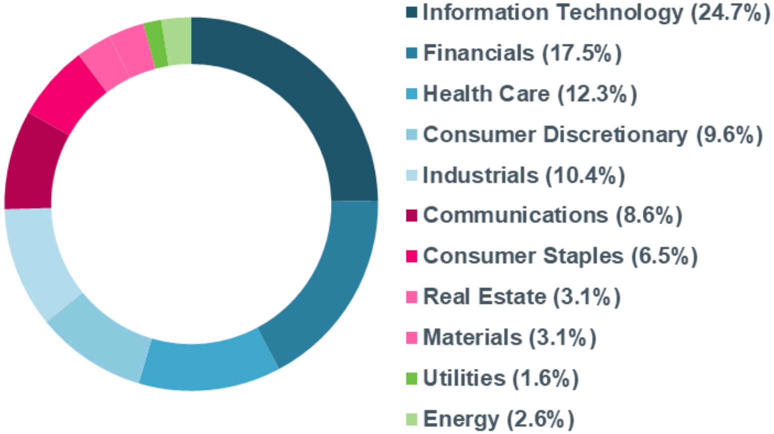
Over the quarter, the BlackRock World Low Carbon fund returned 9.4%, underperforming its global equity market benchmark by 0.5%. Over the past 12 months, the fund's performance is ahead of this benchmark by 1.6%.

The Fund aims to closely track the performance of the MSCI World Low Carbon Target Reduced Fossil Fuel Index.

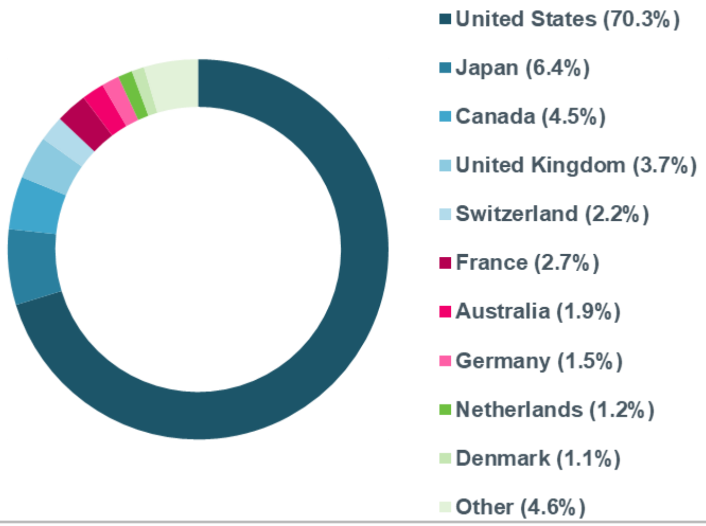
Fund performance vs benchmark



Sector allocation



Geographical breakdown



Source: Investment Manager

Capital Dynamics Private Equity

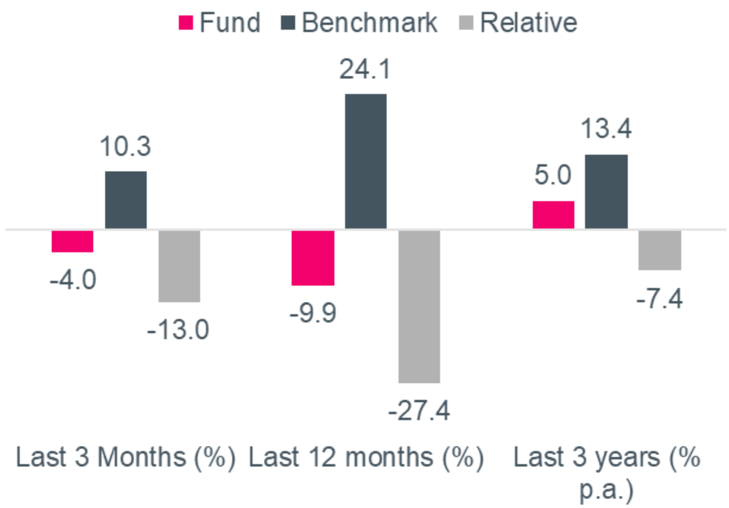
The Capital Dynamics Private Equity fund is invested across a range of sub-funds.

Based on information provided by Northern Trust, the fund returned -4.0% over the period lagging its benchmark of 10.3%.

Over the more meaningful 3 year time period, the fund has returned a positive absolute performance of 5.0% per annum. However, this remains significantly behind the benchmark of MSCI All World +1% p.a.

In practice, there are two key metrics to assess performance for private equity investments; Internal Rate of Return (IRR) and the Total Value to Paid-In (TVPI) ratio. Note that these figures are not yet available as at 31 December 2023.

Fund performance vs benchmark



Source: Investment Manager

LCIV Baillie Gifford Multi-asset

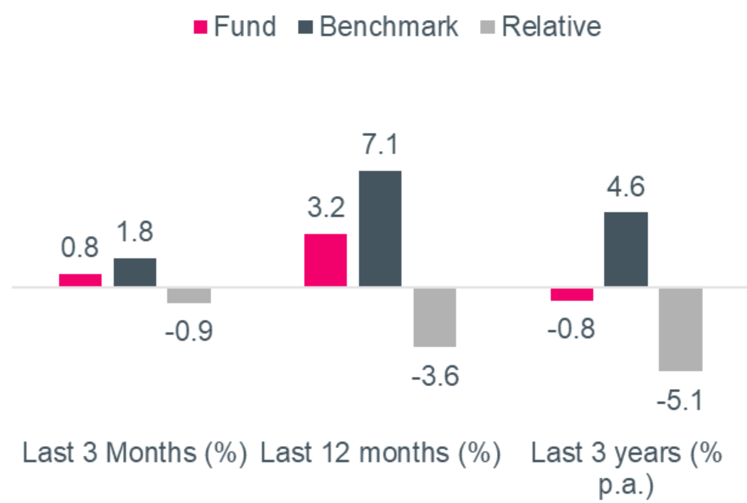
Over the quarter, the fund underperformed against its target of 1.8%. returning 0.8% net of fees. Performance over the past 12 months and 3 years lags their respective benchmarks by 3.6% and 5.1% p.a.

The allocation to equities was cut during 2023 and hence the fund missed out on gains in the equities market in recent months. However, the fund's equity holdings remained the largest contributors to performance in Q1.

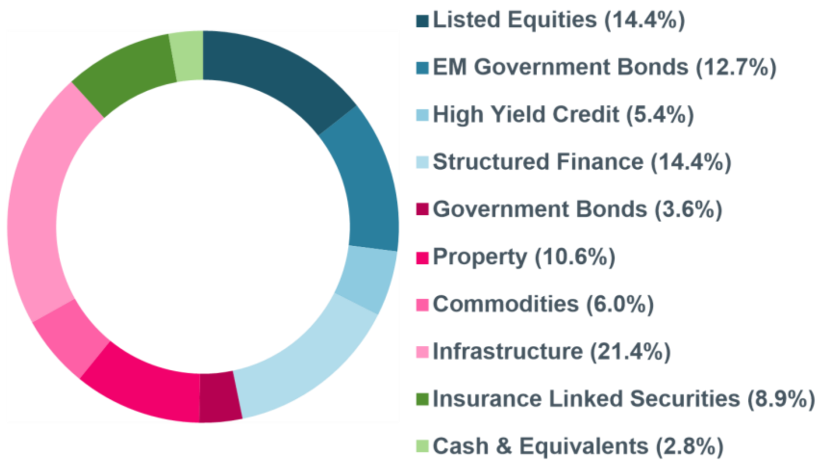
The manager rebuilt the fund's infrastructure assets over 2023 and implemented a further increase in Q1, making it the largest segment of the fund. Infrastructure assets however were the worst performing assets in Q1 and over the past 12 months.

As a result of the fund's downgraded rating, the Committee agreed to reduce the allocation to the LCIV Baillie Gifford Multi-asset fund, consider further recommendations to sell and utilise the proceeds to meet the strategic objectives of the Fund.

Fund performance versus benchmark



Fund asset allocation



Source: *Investment Manager*

LCIV Ruffer Multi-asset

The Ruffer Multi-Asset fund returned -0.8% over the quarter, underperforming the benchmark by 2.5%. Longer term performance remains behind benchmark.

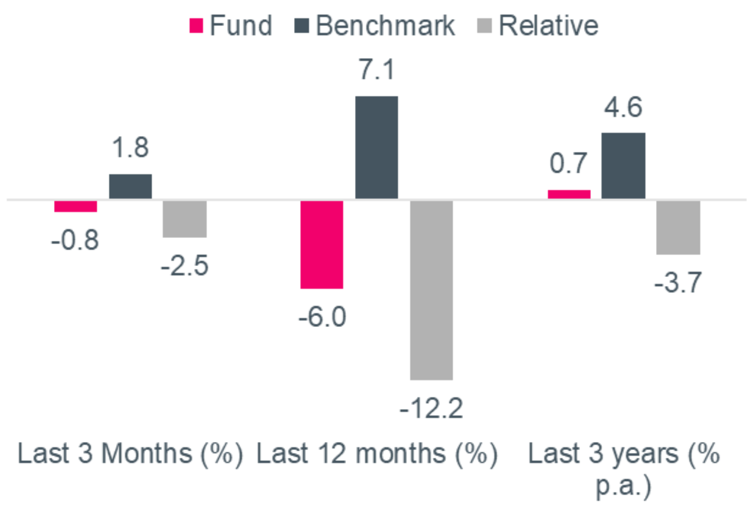
Over the period, equities and commodities were the main contributors to performance. The fund’s short dated bond holdings also contributed positively to performance. However, this was offset by allocations to long-dated index-linked gilts.

Defensive derivative positions detracted from performance as investment-grade credit markets performed well.

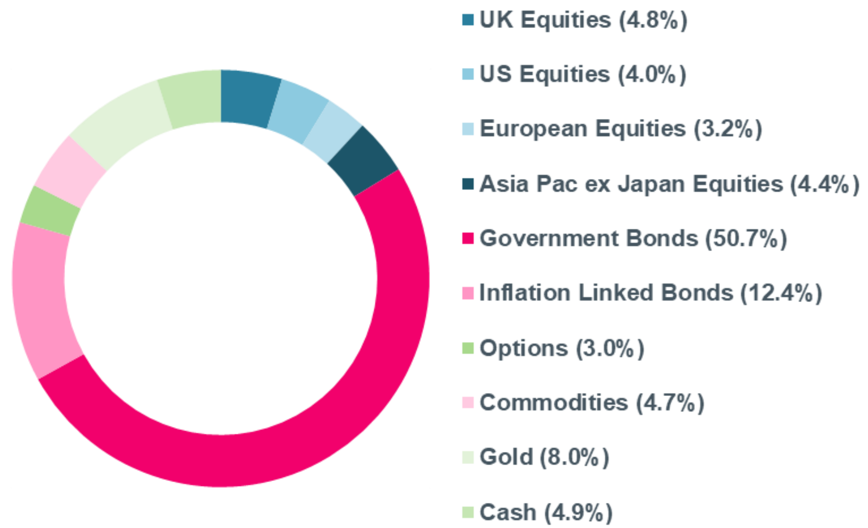
The manager opted to shift its exposure to precious metals to gold mining and physical silver, thus the portfolio did not see gains from the strong performance of gold bullion.

The manager recognises the fund was excessively tilted to manage downside scenarios in 2023. However, the manager is confident that the cost of protecting against risk of capital loss (through futures, swaps, options) is worth it.

Fund performance versus benchmark



Fund asset allocation



Source: Investment Manager

Alinda Infrastructure

Target: Absolute return of 8.0% p.a.

The two key metrics to assess performance for infrastructure investments are the Internal Rate of Return (IRR) and the Total Value to Paid-In (TVPI) ratio.

TVPI is more informative. This essentially seeks to outline what the Fund has achieved (its return) so far as a multiple of the deployed capital to date.

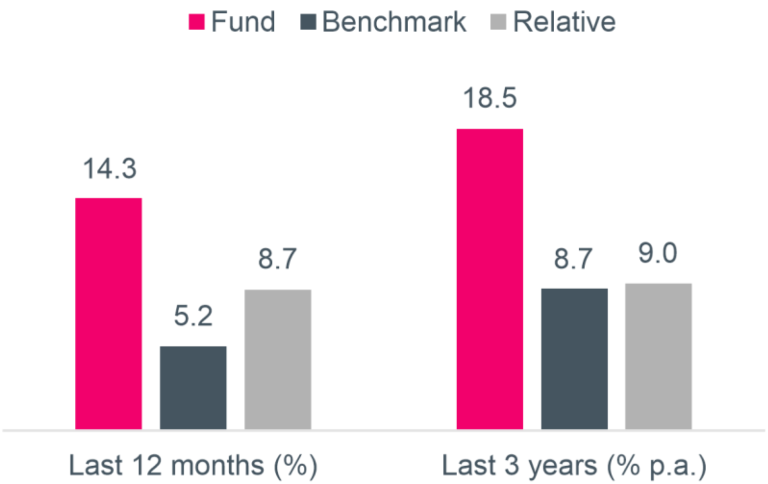
Remaining capital commitments as at 31 December 2023 are as follows:

Alinda II: $2,977,275
Alinda III: $9,644,878

The following net distributions (distributions less contributions) were made over Q4 2023:

Alinda II: -
Alinda III: $1,874,859

Fund performance vs benchmark



Summary as at 31 December 2023 ($)

Alinda Fund II	
IRR (Gross)	5.0%
IRR (Net)	2.4%
Cash yield	6.4%
TVPI (Net)	1.1x

Alinda Fund III	
IRR (Gross)	24.2%
IRR (Net)	18.0%
Cash yield	9.8%
TVPI (Net)	1.7x

Source: Investment Manager

LCIV Infrastructure

Target: Absolute net return of 8.0-10.0% p.a.

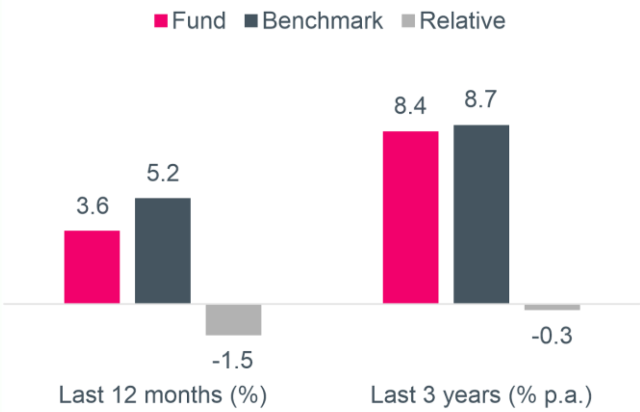
The LCIV Infrastructure fund is managed by Stepstone.

Following quarter end, the Fund held its second close taking total Fund commitments to £475m – an increase of £76m. Hence, StepStone will now be seeking to commit the uncommitted capital into new investments.

Following capital calls received this quarter, the Fund is 79.2% drawn with deployment being in line with StepStone's model.

The fund's first income distribution was paid to investors over the quarter totalling £5.8m, which coincided with the end of the ramp-up period.

Fund performance vs benchmark

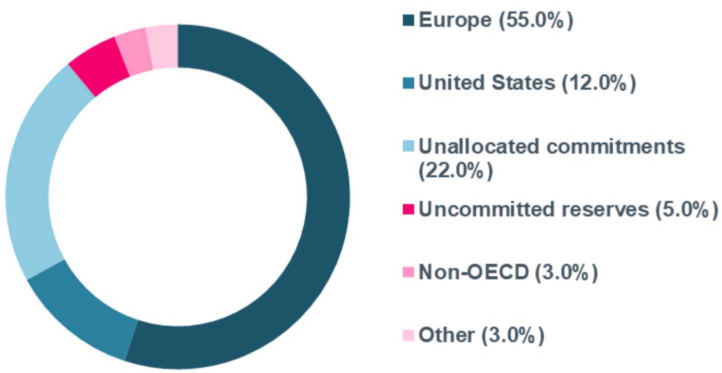


Fund statistics as at 31 December 2023 (£m)

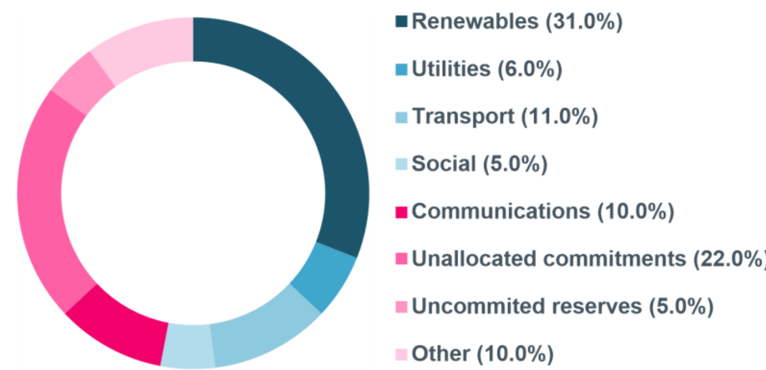
Capital committed	£50.0
Total contributed	£39.6
Distributions	£0.7
Value created	£6.9
Net asset value*	£46.5

*as provided by LCIV

Fund geographical allocation (31 December 2023)



Fund sector allocation (31 December 2023)



Source: Investment Manager

Further detail on specific manager performance is provided for funds that have performed below their relative benchmark over the longer term.

Capital Dynamics Infrastructure

Target: Absolute return of 8.0% p.a.

The Fund's holdings are currently solely held within the Capital Dynamics Clean Energy and Infrastructure fund.

The two key metrics to assess performance for infrastructure investments are the Internal Rate of Return (IRR) and the Total Value to Paid-In (TVPI) ratio. With the fund having deployed most of the capital commitment it is appropriate to assess performance on both measures. As can be seen by both the IRR and TVPI, performance has been lower than expected to date, although running performance continues to marginally improve.

Note, reporting on underlying commitments is as at 31 December 2023 due to the lag in reporting from the manager, which is typical for funds of this nature.

This level of performance is primarily driven by challenges experienced by one project in particular which represents a material proportion of the fund. This is a Texas wind power project, which the manager has previously acknowledged.

Summary as at 31 December 2023 (figures in $m where applicable)

Capital committed	$15.0
Total contributed	$14.7
Distributions	$6.1
Value created	($5.9)
Net asset value	$3.0

Net IRR since inception	(5.3%)
Total value-to-paid-in-ratio (TVPI)	0.65x

Source: *Investment Managers*

LCIV Private Debt Fund

Target: Absolute return of c6.0%

The LCIV Private Debt Fund consists of two underlying managers: Pemberton and Churchill.

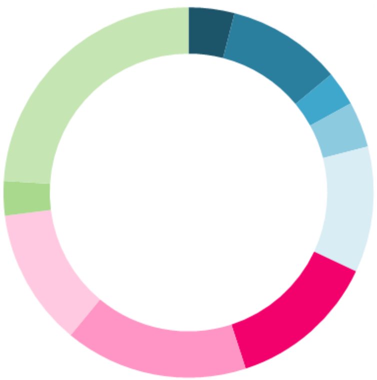
The two key metrics to assess performance for private debt investments are the Internal Rate of Return (IRR) and the Total Value to Paid-In (TVPI) ratio.

At this stage of investment, it is too early to assess performance on a purely percentage basis. TVPI is more informative. This essentially seeks to outline what the Fund has achieved (its return) so far as a multiple of the deployed capital to date. We will be able to provide TVPI figures in future reports.

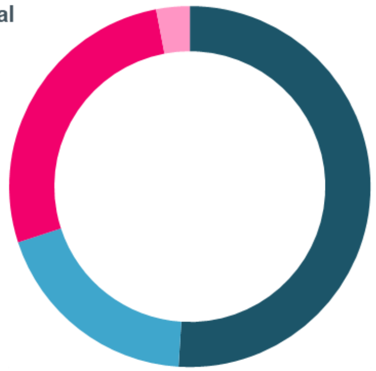
The LCIV private debt fund is in the ramp-up stage. No capital calls to investors were made over the quarter as cash reserves and distributions received were used to pay the capital calls.

This NAV of £39.1m will be different to that provided by Northern Trust (NT) in their 31 December 2023 report due to the need for estimation by NT given the lagged reporting of actual NAV.

Sector allocation



Portfolio investment type



Fund statistics as at 31 December 2023 (£m)

Capital committed	£50.0
Total contributed	£33.6
Distributions	£0.0
Value created	£5.5
Net asset value*	£39.1

*as provided by LCIV

Source: Investment Manager

LCIV Multi-Asset Credit (MAC)

Over the quarter, the fund returned 2.3%, outperforming its benchmark by 0.5%. Over the past 12 months, the fund is ahead of benchmark by 3.9%; however over 3 years the fund is 2.7% p.a. behind of its benchmark return.

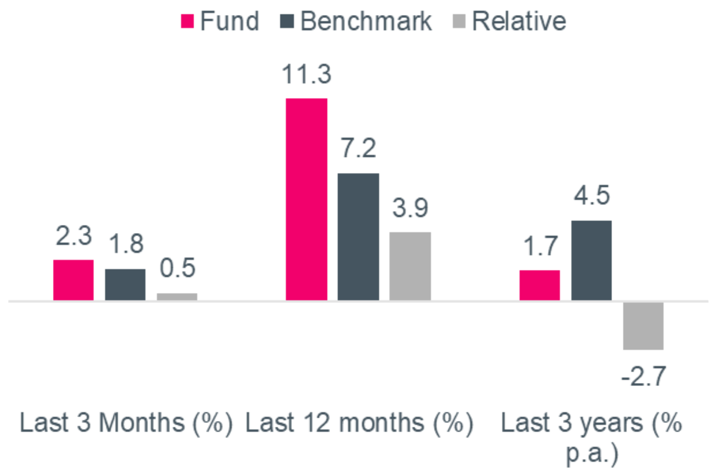
Credit markets performed well in Q1, as spreads declined across all investment and sub-investment grade credit markets. Furthermore, the speculation around 'higher for longer' interest rates has not yet impacted sentiment in credit markets.

In Q1 2024, further tightening of credit spreads provided incremental returns on the interest income for the fund. However, these returns were partially offset by rising yields over the period.

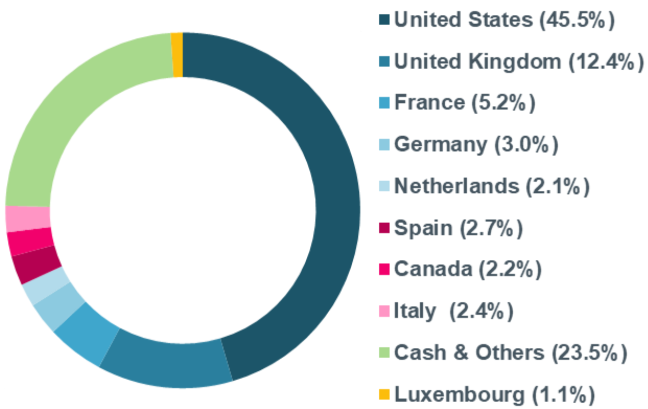
The largest contributor to performance in absolute terms came from asset-backed securities (ABS), as this asset class lagged the broader credit market. Other short duration asset classes, including high yield and senior secured loans also posted strong gains, benefitting from spread tightening as well as low duration.

The weighted average rating of the portfolio has decreased by one notch, from BBB- to BB+, due to changes to the allocation to senior secured loans.

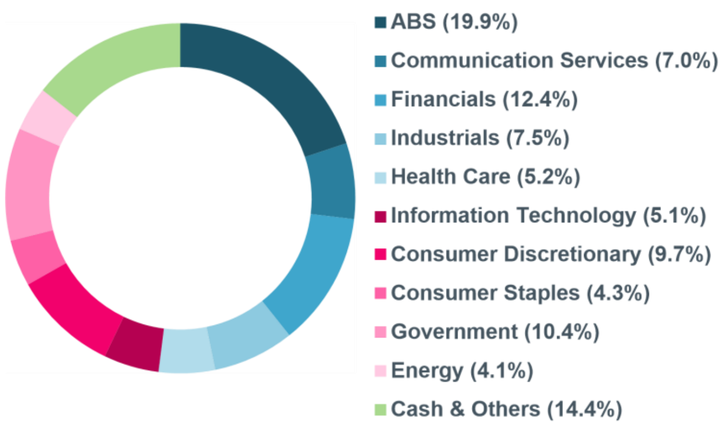
Fund performance vs benchmark



Country weights



Sector weights



Source: Investment Manager

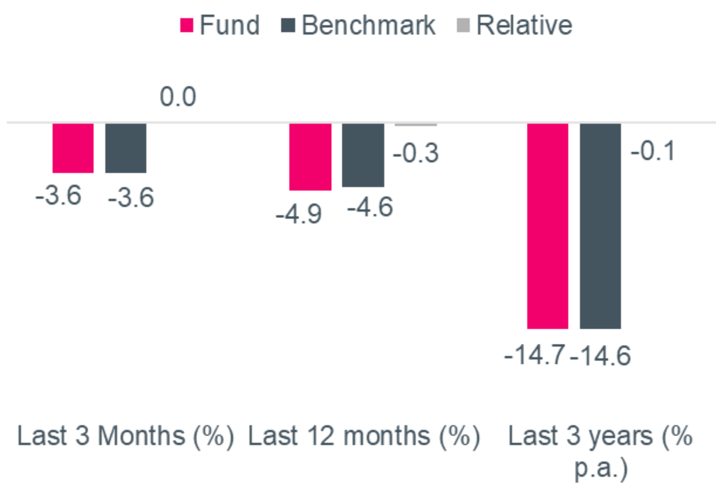
BlackRock UK Gilts

BlackRock were appointed in March 2019 to oversee the Fund's bond allocation.

It is a passively managed mandate aimed at matching the FTSE UK Gilts Over 15 Yrs index. The manager seeks to track market returns from fixed interest gilts and the manager has delivered against this objective. The returns achieved are driven by market movements rather than the manager.

Over the period the fund returned -3.6% as gilt yields rose over the quarter, resulting in a decrease in the value of the portfolio.

Fund performance vs benchmark



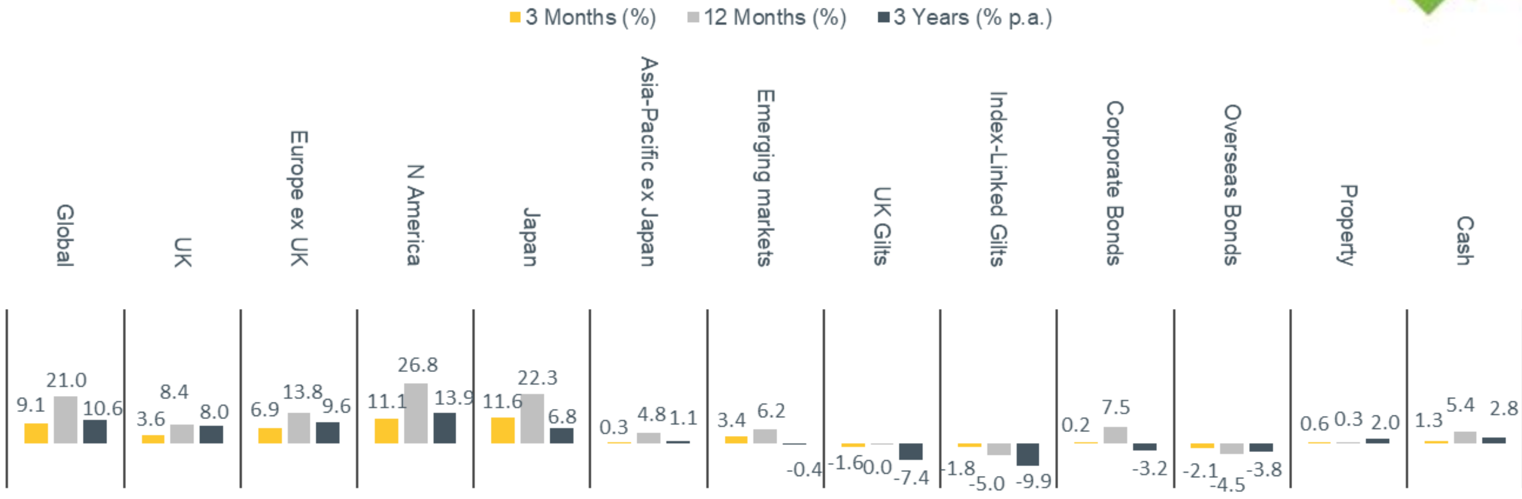
US economy grew more quickly at the end of 2023 than previously anticipated, and composite PMIs indicate global growth gained momentum in Q1. Consensus forecasts for year-on-year US GDP growth in 2024 jumped from 1.4% in January to 2.2% in March. Global growth forecasts have been revised up to 2.4%,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

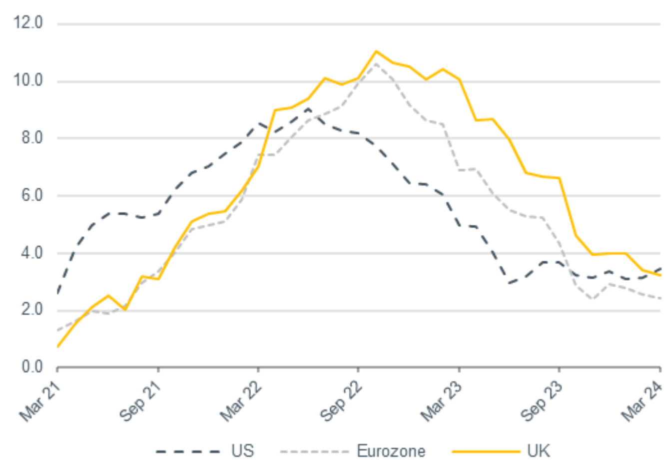
Amid stronger activity data and signs of persistence in underlying inflation, market expectations for rate cuts from the major central banks in 2024 fell from six to seven at the start of the year to two to three at the end of Q1. The US Fed, the BoE, and the ECB all left rates unchanged in Q1, but,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

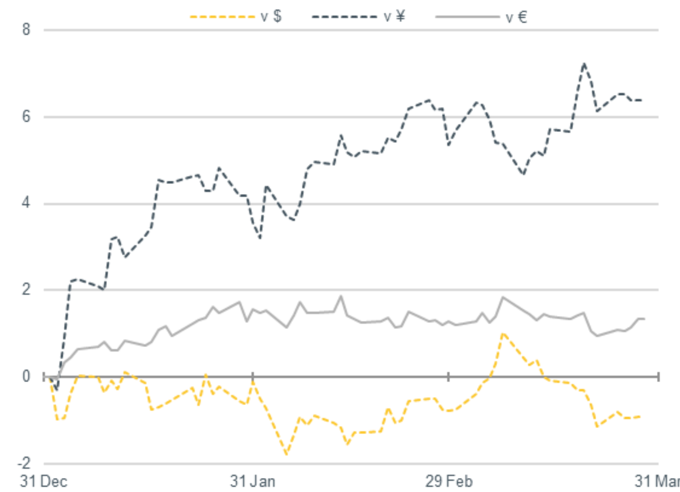
Historic returns for world markets [1]



Annual CPI Inflation (% 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

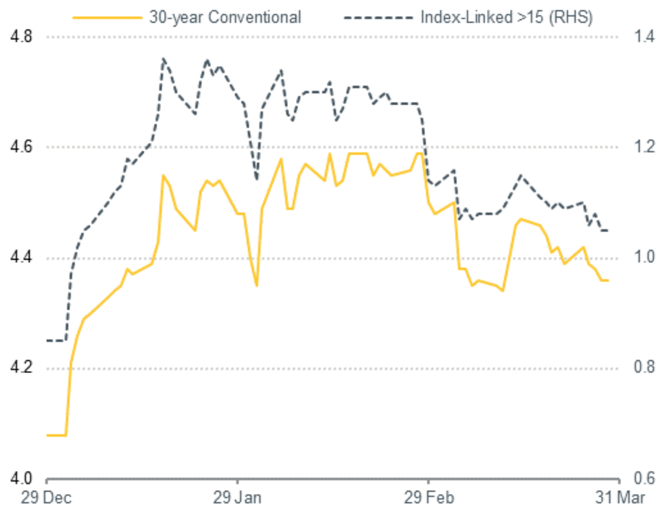
Sovereign bond yields rose sharply over the quarter amid expectations that rates might be cut less than previously anticipated. UK and US 10-year bond yields rose 0.4% pa and 0.3% pa to 3.9% pa and 4.2% pa, respectively, while equivalent German yields rose 0.3% pa, to 2.3% pa. Despite the Bank of Japan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

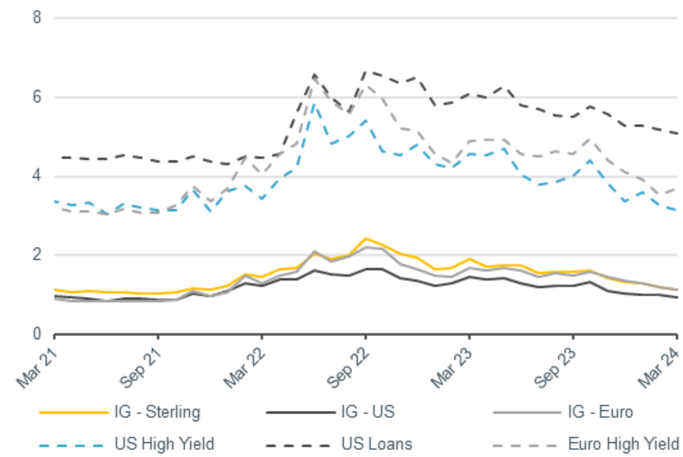
Global equities rose 9.5% in local-currency terms, as economic optimism and AI enthusiasm offset expectations of slower rate cuts. Technology stocks outperformed as massive earnings-beats by some high-profile US tech companies benefitted the sector. Also outperforming, but to a lesser extent, were cyclical 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.

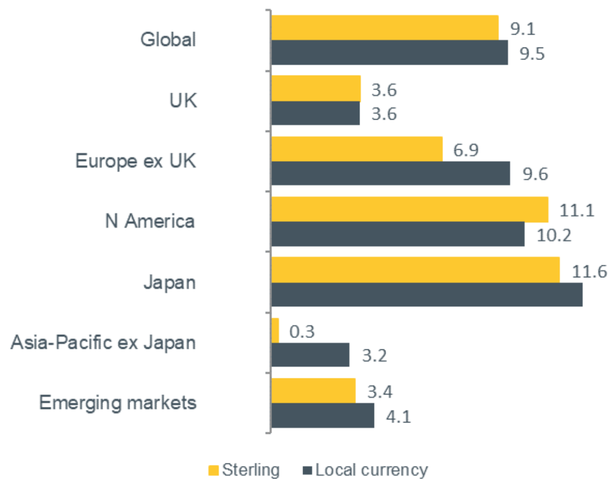
Gilt yields chart (% p.a.)



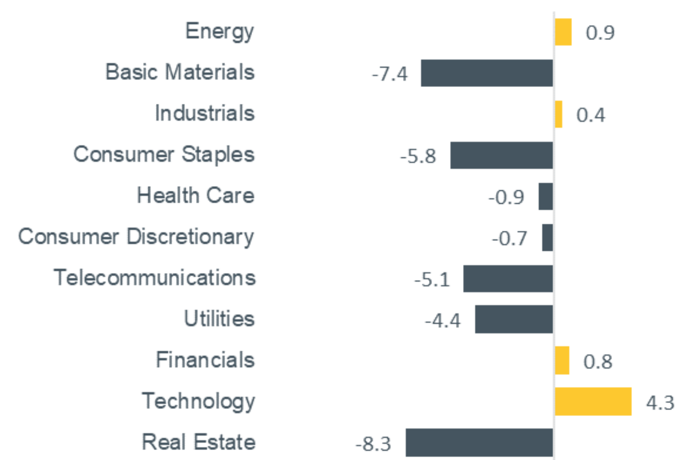
Investment and speculative grade credit spreads (% p.a.)



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.

Hymans Rating

Preferred	Our highest rated managers in each asset class. These should be the strategies we are willing to put forward for new searches.
Positive	We believe there is a strong chance that the strategy will achieve its objectives, but there is some element that holds us back from providing the product with the highest rating.
Suitable	We believe the strategy is suitable for pension scheme investors. We have done sufficient due diligence to assess its compliance with the requirements of pension scheme investors but do not have a strong view on the investment capability. The strategy would not be put forward for new searches based on investment merits alone.
Negative	The strategy is not suitable for continued or future investment and alternatives should be explored.
Not Rated	Insufficient knowledge or due diligence to be able to form an opinion.

Responsible Investment

Strong	Strong evidence of good RI practices across all criteria and practices are consistently applied.
Good	Reasonable evidence of good RI practices across all criteria and practices are consistently applied.
Adequate	Some evidence of good RI practices but practices may not be evident across all criteria or applied inconsistently.
Weak	Little to no evidence of good RI practices.
Not Rated	Insufficient knowledge to be able to form an opinion on.

Risk Warning

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

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

Geometric v 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.