100 HYMANS ROBERTSON

Investment Perspectives

Autumn 2021

In this issue:

Welcome 2

Capital markets update 3

The sustained underperformance of value- part 2 9

The journey to net zero starts here 12

Equity manager engagement: a case study 16

Market returns to 30 September 2021 19

Welcome

Welcome to our 2021 Autumn edition of Investment Perspectives

It's hard to believe it has been nearly a year since the announcement of a effective vaccine gave rise to hopes that the end of the COVID-19 pandemic was potentially in sight. We noted last year the growing disconnect between a haggard global economy and exuberant markets, most notably in equity markets.

Global output and corporate earnings have staged a rapid recovery since the depths of the crisis in 2020 as economies have re-opened and some semblance of normality has returned. In turn, market fundamentals are taking on the baton from extraordinary fiscal and monetary policy and have, at least to some extent, closed the gap between macroeconomic data and corporate health figures and demanding asset class valuations. This is a welcome change following a year spent evaluating the initial impact of the virus, infection rates and the longer-term drag this may place on global growth. Even the potential stumbling blocks have become more traditional, with inflation and geopolitical risks rising up the risk leaderboard.

In our latest edition of Investment Perspectives, Chris Arcari explores this and more in his capital markets update, and explains how the recovery has impacted valuations across the different asset classes. In addition:

- Oriana Mezini explores the longer-term headwinds for the value-factor, discussing two considerations: the growing importance of intangibles and sustainable investing;
- On the topic of sustainability, Kameel Kapitan and Asad Rashid discuss the concept of net zero and how and why it matters for your investment strategy; and
- Simon Jones and Peter Challis discuss and analyse the responses of nine global equity managers to a case study on engagement with an investee company around allegations of child labour in the cocoa supply chain.

Finally, I hope your year ends well and 2022 is a good year.

David Walker
Chief Investment Officer
david.walker@hymans.co.uk
0141 566 7733

Capital markets update

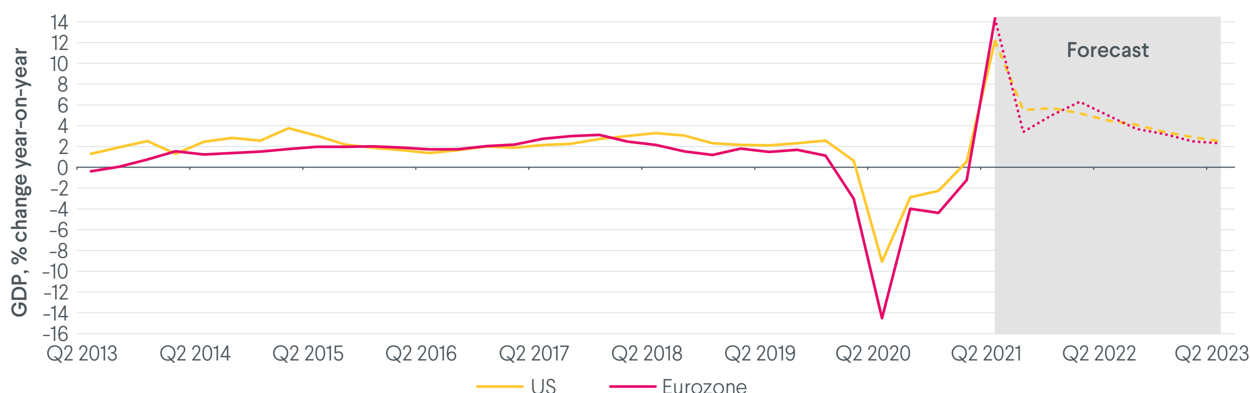
Released: October 2021

- Unexpectedly high inflation in the third quarter meant that investors brought forward their expectations of interest-rate rises. The UK gilt market was as weak as it has been since spring 2019.
- Global equities gave up earlier gains as strong earnings growth was largely offset by easing economic momentum and the prospect of fading monetary support.

Global themes

Growth has been slowing as the positive impact of economies re-opening late last year fades. Global composite purchasing managers' indices (PMI) fell for the fourth consecutive month in September, after a high in May, with a particularly sharp fall in services PMIs. Consumer sentiment surveys have also weakened in recent months. Manufacturing PMIs remain at a level indicative of expansion, with the new orders component still very strong, but global industrial production has been lacklustre in the first half of 2021, highlighting supply chain and transportation issues. Nevertheless, the pace of growth in the major advanced economies is forecast to be strong over the next couple of years (Chart 1), but longer-term forecasts suggest a decline to the pace of growth we saw before the pandemic.

Chart 1: The pace of recovery eases but growth is forecast to remain strong for a while

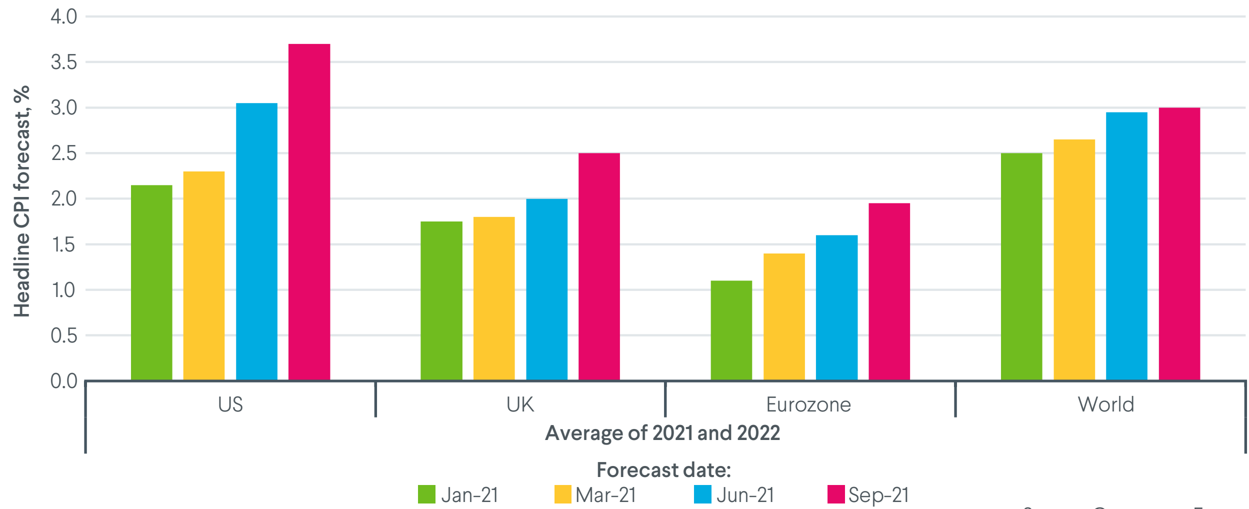


Source: DataStream and Consensus Forecasts

It is perhaps easier to identify downside risks to this view. Most commentators assume the spread of the Delta variant will hinder but not derail recovery in the major advanced economies, as rising vaccination rates reduce the likelihood of stringent restrictions. However, new strains or outbreaks of coronavirus in those countries that have lower vaccination rates or adopt zero-tolerance approaches to the spread of infection, are a risk to both global demand and supply. Supply shortages and transport-related bottlenecks are extreme, and many of these issues appear to be deteriorating, highlighting the risk that disruptions are not as transient as forecasters have assumed. A more specific short-term risk is that significant retrenchment in China's financial system in the wake of disruption in the real estate sector, a key engine of economic growth, further slows the rate of global growth.

Inflation continues to exceed expectations, and this year's upward revision of forecasts has been extended (Chart 2). Most forecasters still think that current inflationary pressures will fade, but some have started to question just how temporary current price pressures are. In the UK, where both headline and core CPI inflation rose above 3% in August, anecdotal evidence of labour shortages abounds, vacancies are at all-time highs, payrolls have returned to pre-pandemic levels and the trend in underlying wage growth is increasingly positive.

Chart 2: Headline CPI inflation

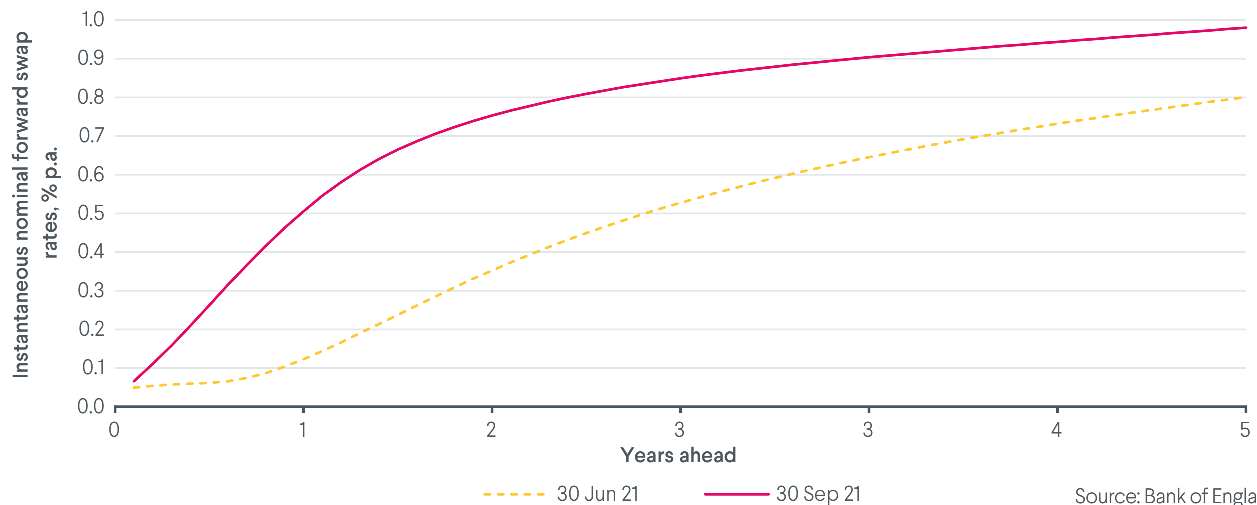


Source: Consensus Forecasts

Government bonds

A combination of strong growth and high inflation, even if it is temporary, has resulted in indications from central banks that rates will rise a little faster than previously thought and markets have adjusted accordingly (Chart 3). The pace at which markets now imply interest rates will rise over the next few years does not feel unreasonable. Although the risks still seem skewed to an even faster pace – which would be bad for bond markets – we do not think the shorter end of the gilt market is particularly expensive. But ongoing hedging demand means that longer-dated gilt yields imply that interest rates will fall from a not-very-high level after 12 years. That does feel expensive for those who do not need to hedge.

Chart 3: Bond markets expect rates to rise more quickly than previously



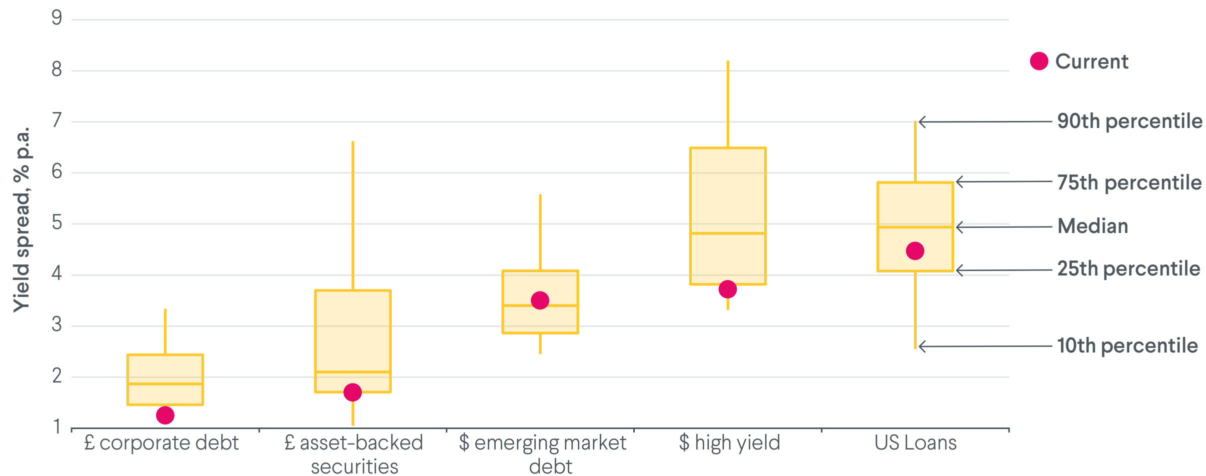
Source: Bank of England

Implied inflation, measured as the difference between conventional and index-linked gilt yields, varies greatly by term but looks high across all terms. Our neutral expectation for annual RPI growth would be 3% p.a. until 2030 (albeit it a little higher in the immediate future) and 2% p.a. thereafter once RPI and CPI have been aligned. Against that background, we see inflation pricing at terms between 10 and 30 years as being the most expensive.

Credit

Strengthening corporate finances provide a strong fundamental backdrop for credit markets: defaults and leverage levels are falling, interest coverage is rising, and liquidity is plentiful. As a result, upgrades to credit ratings increasingly outweigh downgrades. Strong investment demand has absorbed a record pace of issuance in speculative-grade markets, allowing companies to refinance and extend debt maturities.

Chart 4: Credit spreads are generally in the lowest quartile of their long-term history[1]



Source: ICE Index Platform, Bloomberg and JP Morgan

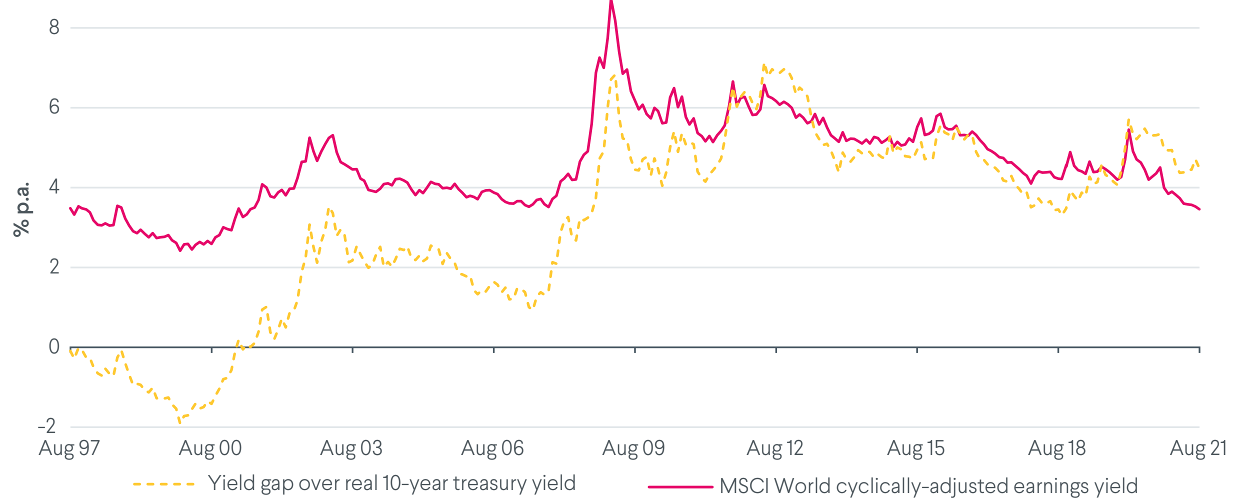
Despite this fundamental and technical support, we think caution is warranted. Credit spreads are generally within the tightest quartile of their longer-term history (Chart 4) and a larger-than-expected slowdown in growth or tightening of financial conditions could see fundamental credit metrics deteriorate. It is becoming increasingly difficult to identify attractive opportunities in credit markets – certainly in absolute terms, but increasingly also relative to risk-free alternatives. Within investment-grade markets, we favour asset-backed securities over corporate bonds, while loans and hard-currency emerging market debt look less stretched than high-yield bonds.

Equities

Global equities gave up earlier gains in September as markets weighed the prospect of easing economic momentum and fading monetary support. The stellar earnings recovery shows little signs of flagging so far, but traditional valuation metrics are stretched versus history, leaving little scope for disappointment.

[1]£ corporate debt = ICE BofA ML BBB Sterling Corporate Index; £ asset-backed securities = JPMorgan UK 5-year BBB RMBS weekly spreads; $EMD JPM EMBI GD yield less 10-year US treasury yield; $ high yield = ICE BofA ML BB US High Yield Index; US Loans = Credit Suisse Leveraged Loan Index

Chart 5: Equities look expensive...except in the context of very low real yields



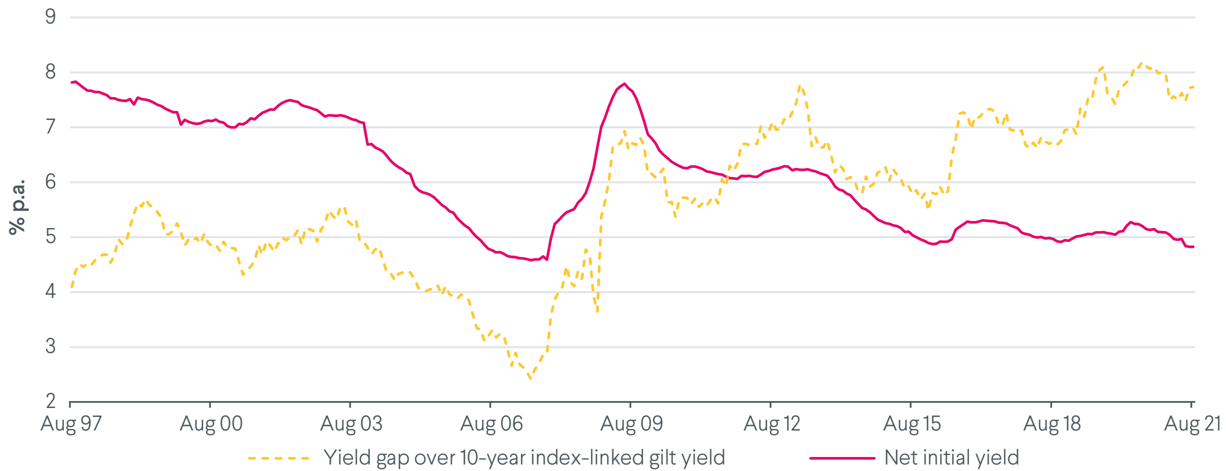
Source: Datastream and Bloomberg

Perhaps the only lens through which global equity valuations do not look bloated is that of real yields. Chart 5 shows the global equity earnings yield, based on the average inflation-adjusted earnings of the previous 10 years, and the gap between this earnings yield and the 10-year real US treasury yield. On this basis, equities look no more or less expensive than post-crisis averages. However, this may simply be comparing one expensive asset class with another. Even a moderate rise in real yields, to levels seen as recently as 2019, would considerably narrow the risk premium on offer. While we acknowledge the relative value argument, it is the absolute level of valuations, and the risks around the assumptions which justify them, which prevents us from forming a more positive view.

Property

Capital values in the UK industrial and retail commercial property sectors have continued to edge higher in recent months; values in the office sector have changed little. Over the last 12-month period, only the buoyant industrial sector has seen a rise in capital values.

Chart 6: Net initial yields look low versus history



Source: MSCI, Datastream

Property fundamentals have continued to improve in recent months, with tenant demand increasing for the first time since 2017 in Q2, according to the RICS quarterly UK commercial property survey. Nominal annual rental growth across property sectors, in aggregate, has been increasing since February, but has still not caught up with the rising pace of inflation.

However, initial (current income) and reversionary (full rental) yields remain very low versus history (Chart 6). As with equities, property yields also look far more reasonable in the context of very low government bond yields, but the high absolute level of valuations set against a tentative fundamental improvement gives us cause for caution.

Conclusion

Economic momentum may have eased, but the global economy is forecast to grow at a healthy pace. Concerns about coronavirus have diminished, but supply-side risks and China's economic slowdown have intensified.

Though central banks are adopting a slightly less accommodative stance, financial conditions are easy and negative real yields are expected to persist for some time. However, even a moderate rise in real yields could pose a challenge, with an obvious potential trigger being interest rate increases in response to persistence in current inflationary pressures.

The risk of a faster pace of rate rises leaves us cautious on bond markets in general. In both investment- and speculative-grade credit markets, we have a fundamental preference for floating versus fixed-rate assets. In addition, investment-grade asset-backed securities continue to offer a reasonable spread pick-up versus similarly rated corporate credit, as do loans and private credit versus fixed-rate speculative-grade bonds. Equity and property valuations reflect a lot of good news and valuations lean heavily on low bond yields. However, positive earnings momentum and relative value still lend short-term support to equities, which we prefer to property – where any improvement in fundamentals is more tentative – and bonds. Given the absolute level of valuations across most asset classes, we still advocate holding elevated levels of cash.

Chris Arcari

Senior Investment Research Consultant

chris.arcari@hymans.co.uk
0141 566 7986

The Sustained Underperformance of Value – Part 2

Released: September 2021

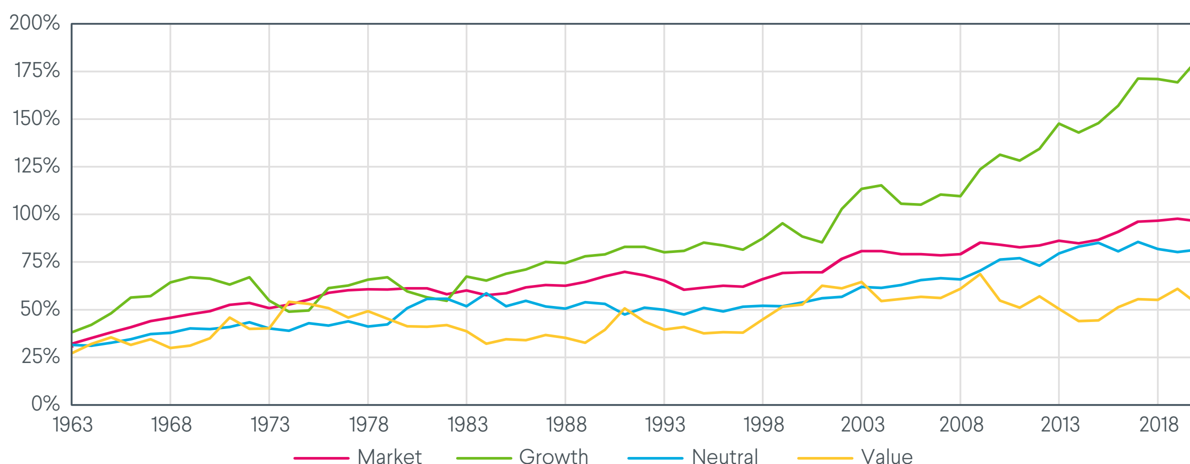
This is the second part of the Investment Perspectives series on the sustained underperformance of value as an investment style since the global financial crisis (please see **Spring IP 2021** for Part 1). This article will focus primarily on two other important aspects when considering the value style. These are the growing importance of intangibles and the increased focus on sustainable investing, which both have long-term implications for value style investing. We will then conclude how the value style fits within an equity portfolio for long-term investors.

The growing importance of intangible assets

From an accounting perspective, intangible assets are defined as those assets that are not physical in nature and are long-term in nature i.e. non-current. This includes goodwill, brand recognition, innovation and capitalized research & development expenditure. Companies invest in technology, innovation, human capital, branding and infrastructure to improve their products and services and hence improve profitability, so by not accounting for these, it does underestimate the value of a company. However, accounting for intangible assets, especially for the internally generated intangible assets, is different and varies depending on which accounting treatment is being used, whether US GAAP or IFRS accounting standards. For example, Research & Development (R&D) expenditures are reported in a firm's financial statements as a cost rather than as an investment i.e. capitalised.

Given that the value placed on intangibles as a proportion of a company's value has increased significantly over the last four decades, it is becoming more important to consider them when valuing companies. For example, R&D of some of the largest corporations now comprise approximately 11% of the firm's valuation (Research Affiliates, April 2021). This has happened at the same time as economies have been moving from manufacturing to more service-based industries. The increased role of intangibles is particularly dominant in technology-led industries, especially in four of the largest stocks (Facebook, Amazon, Netflix, Google), as they are very capital-light businesses with few tangible assets. Below (Chart 7) is the ratio of intangible capital vs. tangible book value of the US equities market, and as can be seen, the trend has been increasing, especially for growth-oriented companies.

Chart 7: Ratio of intangible capital vs. tangible book value for US equities



Source: Research Affiliates as at June 2020.

As discussed in the first article, the original value factor as defined by price to book ("P/B") multiples does not account for intangibles. For traditional value investors, high P/B valuations for technology stocks has led them to avoid such investments in their portfolios, further contributing to the negative value factor performance of these active managers. But is the traditional P/B multiple appropriate across all industries? It is certainly still relevant in more capital-intensive business models in industries such as real estate, financials, energy and materials, but perhaps less so in service and technology-based ones. More importantly, how does the original P/B valuation metric and overall company valuation change when incorporating intangible assets?

Over the past few years many quantitative managers have significantly underperformed, mainly attributed to the underperformance of value tilt within their quantitative models, which often relies on P/B as a key input metric. Would the underperformance have been less pronounced if intangibles were accounted for?

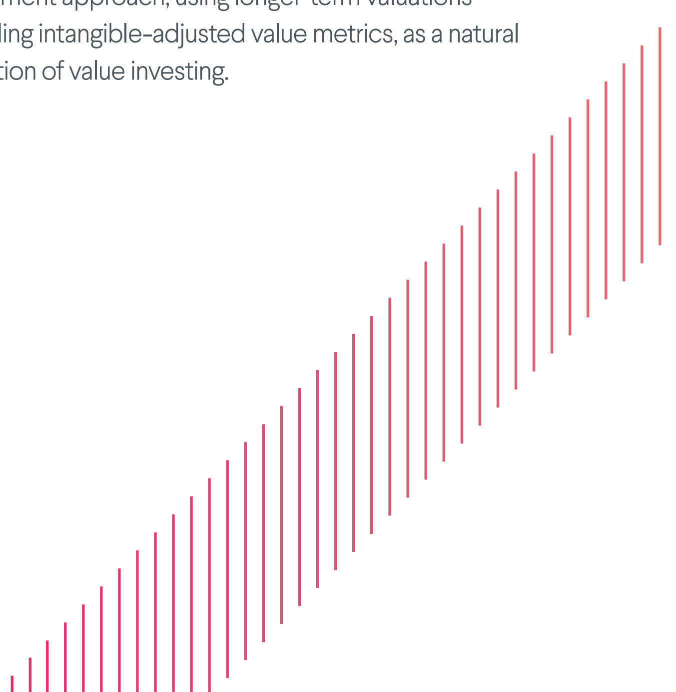
There are many quantitative studies that show that when accounting for intangibles the valuation metrics do improve. More recently, analysis conducted by Research Affiliates[2] , which focused on capitalised R&D costs and capitalised partial Selling, General & Administrative expenditures (SG&A expenditures) found similar results. Their quantitative research concluded that when adding intangibles, the value factor improved for both growth and value stocks and found that the traditional P/B metric can lead to misclassification of value and growth companies. Furthermore, capitalised R&D costs have a more important role in improving the value factor than the capitalised SG&A expenditures. The findings showed that for growth companies, intangible assets represented two thirds of the companies' value, while for value-oriented companies, one third of the value. The results were similar across the market-cap spectrum and by region, although the value premium improvement was more pronounced in stocks that have a smaller market capitalisation.

Sustainable investing

From a valuation perspective, there have been additional headwinds as we have seen an increase in demand for both passive and active investments focusing on sustainable investing. The energy sector has been one of the most affected sectors within the value universe, further impacted by climate change and low carbon initiatives. On the other end of the spectrum, solution-type businesses that fall primarily within information technology, and companies within the industrial sector which provide alternative energy, such as wind or solar, have benefitted from the *greenium*[3] premium, due to the increased focus on sustainable investing further widening the valuations between what are deemed as value and growth stocks.

As part of this discussion, considering how value investing is implemented also matters. There are many different approaches: deep value, rule-based, fundamental and factor-based approaches. In addition, the duration of the value opportunity being targeted can differ as it can be shorter-duration or long-term, which focuses more on the assessment of evolving business models. Also, the set of stocks that represent good value should change over time, as companies adapt to changes that come with disintermediation, evolving business models and ESG considerations.

Therefore, using more flexible approaches in assessing what constitutes value, and what measures to apply to identify value, may be required to keep value investing relevant. For example, those approaches that are longer-term focused, and place greater importance on cash-generative businesses that have more quality style attributes, are better placed in identifying the value opportunities. To that extent, systematic investors are also now wishing to take a longer-term framework in their investment approach, using longer-term valuations including intangible-adjusted value metrics, as a natural evolution of value investing.



[2] Research Affiliates. Intangibles; The missing ingredient in Book Value, April 2021

[3] Risk premium related to the greenness of a firm, based on companies' greenhouse gas emissions and the quality of their environmental disclosures.

Summary

In summary, the traditional value factor has had many headwinds over the past few years. The valuation gap between value and growth is quite stretched by historical standards and there are periods (even if quite short lived) when traditional value stocks can rally. Most recently, markets experienced a comeback after the vaccine announcement late in 2020, and as the cyclical rebound commenced, the value style did well in early 2021.

Whether or not a period of sustained performance by value stocks will continue is difficult to predict. However, the longer-term secular trends towards digitalisation, and a focus on sustainable investing, are driving changes to business models and the increasing importance of intangibles in company valuations.

These trends affect both value and growth companies alike; as a result, how company management are embracing these changes, considering and addressing environmental, corporate and social risks and opportunities should be embedded features of how managers assess all companies. Taking that as a 'new' given, crucially, timing style is hard to do, therefore for long-term investors we conclude that the value style still deserves an allocation alongside other investing styles in an equity portfolio.

Oriana Mezini

Senior Investment Research Consultant

oriana.mezini@hymans.co.uk
0207 082 6039

The journey to net zero starts here

Released: October 2021

Global consensus has rarely been as unified on a single environmental idea like the current push to cut greenhouse gas emissions to net zero in order to limit global temperature rises.

The concept of net zero emissions ("net zero") has become mainstream so quickly that more than 60% of countries now have some sort of net zero goal, as do at least 20% of the 2,000 largest publicly listed companies, and investors managing nearly $43 trillion (almost half of the asset management sector globally)[4].

Yet for many, the sheer complexity of the issues related to net zero presents the greatest hurdle, rather than an inability or lack of motivation to act. Setting a net zero target, or a timeframe for achieving this, can be daunting when the technologies needed to tackle the issue are still on the drawing board, government policy support is limited, and stakeholder pressure to make a commitment rises day-by-day.

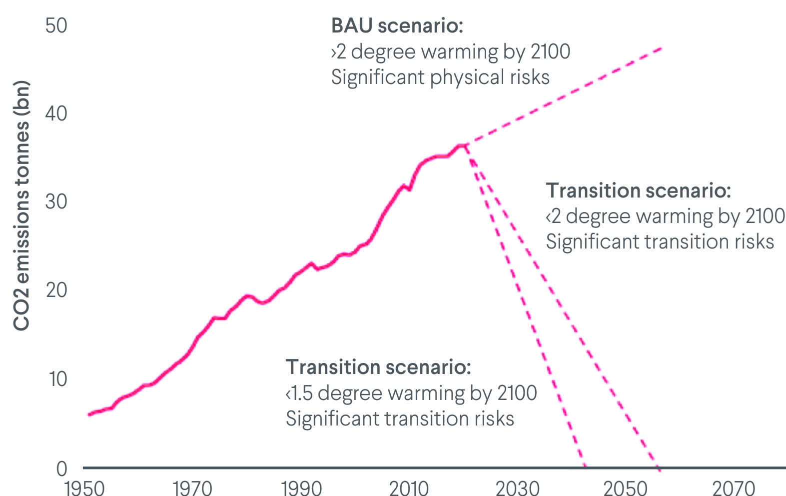
To help reduce that complexity, this article provides an explanation of the key points to consider when beginning to develop a net zero investment strategy.

What does net zero mean?

Simply put, a net zero target means achieving a balance between the amount of greenhouse gases discharged into the atmosphere by human activity and the amount that can be safely removed or absorbed by natural processes . A gross zero target would mean reducing all emissions to zero – this is likely not realistic, so instead a net zero target recognises that there will be some emissions but that these need to be fully offset.

The scale of change needed to find this balance within the mid-century timeframe defined by the 2015 Paris Agreement is illustrated below (Chart 8).

Chart 8: Illustrative emissions pathways to net zero



Source: Global Carbon Project. BAU means business-as-usual. CO2 emissions are highlighted here as they are the bulk of the six major greenhouse gases identified in the Climate Change Act 2008. Transition risks are risks from the realignment of the economic system towards low-carbon, climate-resilient or carbon-positive solutions. Physical risks relate to the impacts of climate change such as rising temperatures, changing rainfall, flooding risk and extreme weather. Transition and physical risks are both short-term and long-term risks, and therefore relevant for most investors' time horizons.

[4] Source: FT.com

Why does net zero matter for my investment strategy?

Climate change will be one of the most significant themes affecting the global economy over the coming decades. This theme can be viewed as both an opportunity to take advantage of and a risk to mitigate.

Businesses and governments that position themselves to benefit from this opportunity or mitigate this risk are likely to fare better than those that don't. As an example, to mitigate the physical risk, governments are likely to introduce additional costs such as carbon taxes for companies that produce high carbon emissions. These additional costs are likely to reduce profits and lead to a negative impact on returns from the equities and bonds of such companies.

Given the expected financial impact on investments, we believe it is important for investors to position their investment strategy accordingly within the context of a broader plan, ensuring that all factors are properly addressed.

Planning for net zero

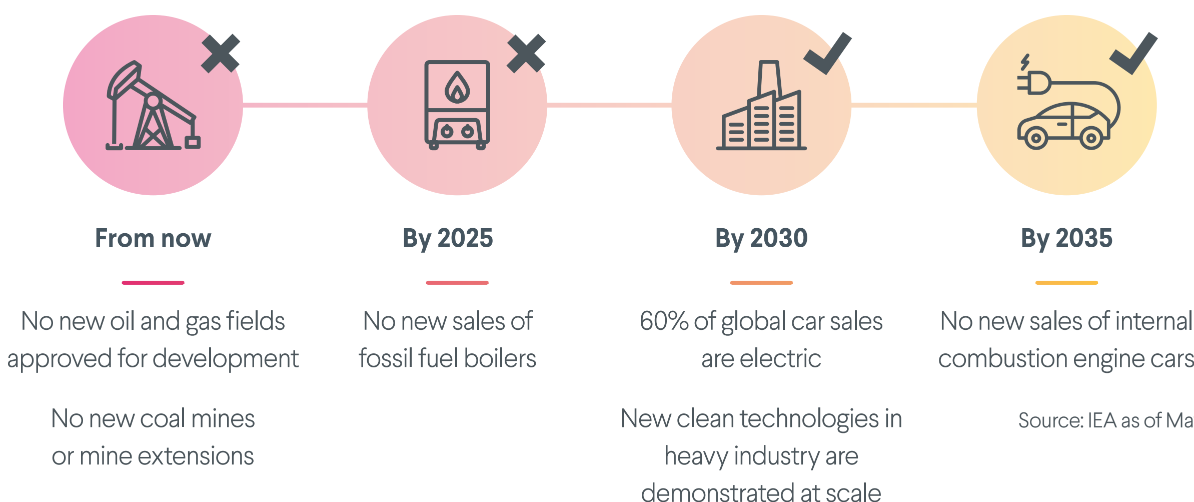
Investment themes are often best addressed by setting a target level of exposure, a timeframe to achieve the target, and monitoring progress towards the target by using interim milestones.

With net zero, the target level of exposure is already set at net zero emissions, so the main points to consider are the timeframe to achieve that target and setting interim milestones. Many governments, institutional investors, and asset managers have adopted a 2050 target date (or sooner) with interim milestones set between 2030 and 2040[5].

Setting a net zero timeframe is important from an aspirational point of view, but it is more important to have a plan for how to get there i.e. set a journey plan to net zero.

Various pathways have been proposed by organisations such as the IPCC[6] and the IEA[7], all of which make different assumptions, including the deployment of technology such as carbon capture. To give a flavour of a pathway, the IEA's recently published net zero roadmap for the global energy sector envisages changes such as those illustrated in Figure 1.

Figure 1: IEA net zero roadmap for the global energy sector as of May 2021



Source: IEA as of May 2021

It would be impossible to predict which pathway is most likely given the theme will take a few decades to play out. As such, an effective net zero journey plan will require adaptability and regular updates of the interim milestones to reflect the different risks and opportunities along the way.

[5] Source: Net Zero Asset Managers Initiative (https://www.netzeroassetmanagers.org) and www.gov.uk for UK government targets

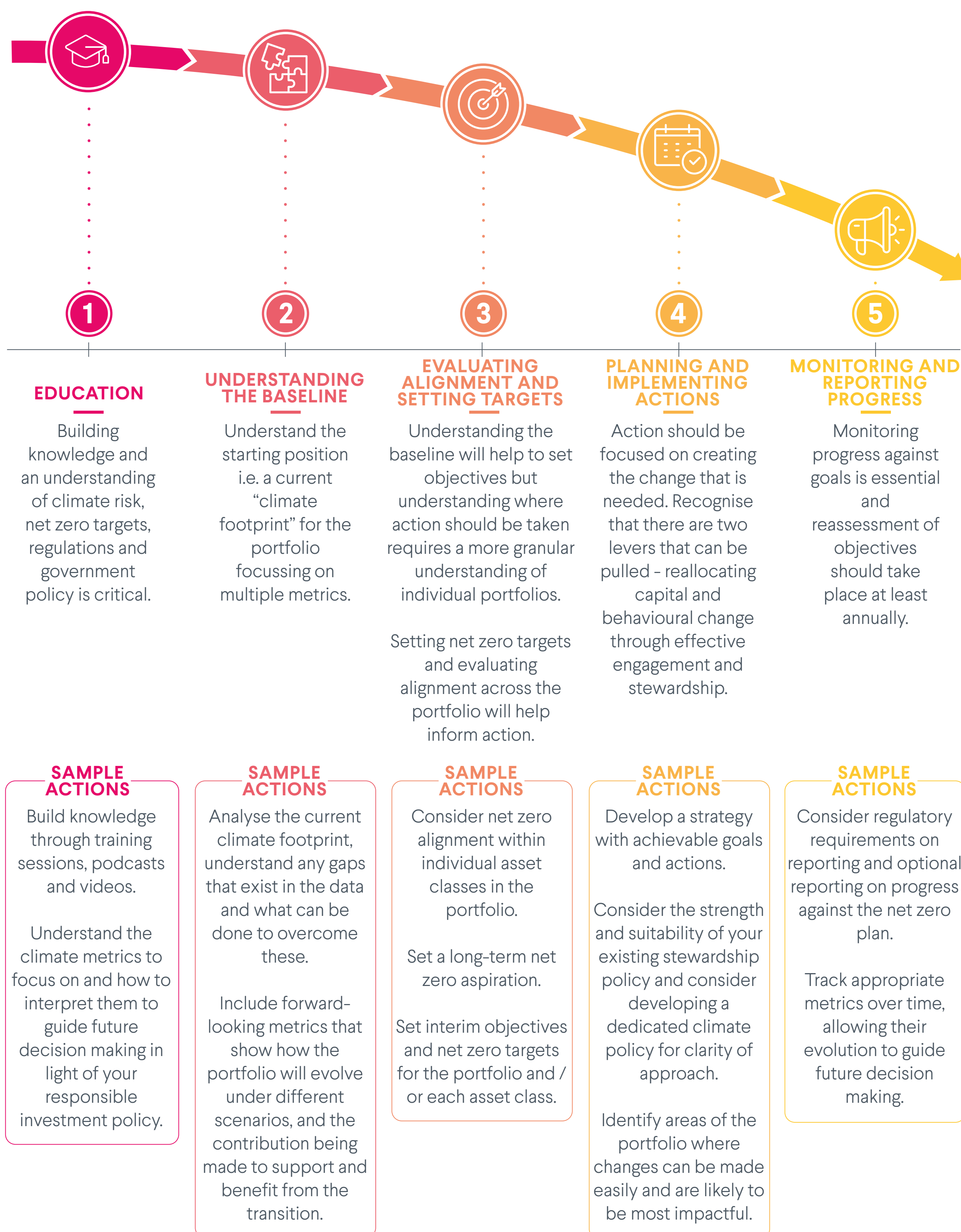
[6] Intergovernmental Panel on Climate Change (https://www.ipcc.ch/) is the United Nations body for assessing the science related to climate change

[7] International Energy Agency (https://www.iea.org/)

The Hymans' Journey Plan

We believe that evolving an investment strategy to meet a net zero aspiration should be done within the context of a broad framework to ensure that all issues are properly addressed. To help you plan your journey, we have set out five key steps in figure 2 below.

F igure 2: Hymans framework for net zero journey planning



Ready, set, go!

As the saying goes, a journey of a thousand miles begins with a single step - take that first step and what seems like a daunting journey could become easier along the way.

Our view is that climate change will be one of the most significant themes affecting the global economy over the coming decades and all investors should have a credible journey plan to navigate through the different risks and opportunities along the way.

The framework provided above can serve as a good map to start the journey. Tailoring it to meet each investor's circumstances, beliefs, and timeframes can turn it into an effective journey plan.

Find out more about our commitment to support you on your net zero journey plan.

Read more on Hymans Robertson's net zero pledge.

Kameel Kapitan
Investment Consultant
kameel.kapitan@hymans.co.uk
0141 566 7880

Asad Rashid
Senior Investment Research Consultant
asad.rashid@hymans.co.uk
0207 082 6030

Equity manager engagement: a case study

Released: November 2021

Engagement is a critical step in the fiduciary value chain for asset owners which can drive real world change. Effective engagement demands accountability from asset managers and in turn company management. In this article, we consider a case study of engagement activity by equity managers on the issue of child labour in the cocoa industry.

Stewardship

Stewardship is a tool that asset owners and asset managers have at their disposal to drive better outcomes. The Principles for Responsible Investment (PRI) identify that relationship-building between companies and investors can have many benefits, with engagement playing a key role in protecting long-term investment value for shareholders. They note that engagement should involve purposeful consideration, monitoring and intervention regarding ESG factors affecting investee companies. Asset owners' engagement with their managers is equally as valuable, its importance being emphasised through the new UK Stewardship Code and recent government-sponsored reports.

Case study

In Q1 2021, seven chocolate manufacturers were named as defendants in a lawsuit filed by eight children (now young adults) who alleged they were used as slave labour on cocoa farms in the Ivory Coast. This case represented the latest in a long history of allegations pertaining to child labour in the cocoa supply chain. This industry, like many others with raw material inputs, is heavily reliant on developing nations. Cocoa is sourced through a complex network of thousands of farms that are often operated by communities or individual families. With many steps in the supply chain, producers can often appear somewhat distant from the consumer, although the importance of supply chains and the actions of their customers has been brought into greater focus in recent years.

Working practices is one of our own engagement themes for 2021, with child labour being one of many aspects that could be explored. In focusing on this particular topic ("the Issue"), we were keen to understand the extent to which global equity managers had engaged with companies on this subject, the actions they had taken and the outcomes that had been achieved. We spoke with nine global equity managers (seven active and two passive managers) primarily focusing our enquiries on one organisation ("the Company") and the extent to which there had been engagement with the Company on child labour issues. Through the exchanges, we broadened our enquiry into engagement on how child labour issues were being addressed more broadly, exploring concerns in other industries.

Our assessment

It would be inappropriate to judge a manager's stewardship capability through an assessment of their engagement on a single subject, rather than assessing their efforts and the outcomes achieved across multiple topics. In particular, many managers will frame their own engagement priorities based on prevailing portfolio holdings and how they can use their resources to have a meaningful outcome. That said, we made some general observations on the managers' activities from the responses received.

- **The lawsuit was not a catalyst for engagement:** None of the managers had engaged recently on this specific lawsuit. Although perhaps disappointing, given the lawsuit relates to historic activities, any engagement would be better focused on understanding and changing current practices. Two managers had historically engaged with the Company on child labour issues, with one active manager having had direct and recent contact with the senior management team, reflective of their high ownership position.
- **Size and resource matter:** Larger active managers, by level of assets, generally provided stronger responses on the Issue, supported by genuine proprietary research that had informed thinking. We should be in no doubt that engagement and the research needed to support an informed dialogue demands resource. Managers providing poorer responses that were heavily reliant on third-party data and/or showed little evidence of engagement were generally smaller in level of assets, which may reflect the lower level of resource and smaller ownership positions.
- **Active managers demonstrated consideration of the issue within fundamental research:** Child labour clearly presents a financial risk for any investor, not least through reputational considerations. It was encouraging that portfolio management teams within managers who we rate positively for their ESG integration demonstrated consideration of the subject, and how it had been factored into decision making. While perhaps not leading to active engagement on the subject, we suspect it likely to feature in ongoing dialogue between managers and the Company, and valuations.
- **Passive managers did not demonstrate stronger responses:** In general, passive manager responses were weaker and did not comment on the Company but rather referenced the broader issue of sustainability in supply chains with limited evidence of engagement. This was disappointing given the higher level of resources and particularly the higher ownership stake (Chart 9).
- **Disclosure is a critical tool that can support engagement:** Several managers pointed to the work being undertaken by NGOs, such as the Fair Labour Association, the World Benchmarking Alliance's Corporate Human Rights Benchmark and ShareAction's Workforce Disclosure Initiative in this space, which have improved transparency. Following the old mantra of "what gets measured gets managed", access to better data can ultimately lead to improvements in practices. A simple engagement goal may therefore be to demand clear reporting and disclosure of data on practices, demanding accountability where such data is not disclosed.

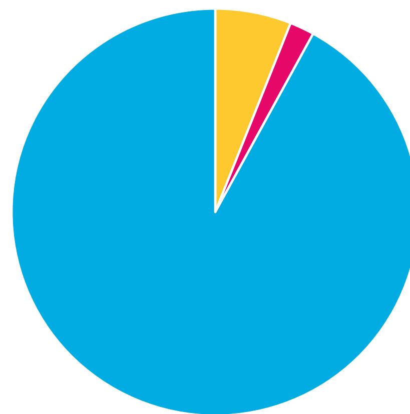
Our goal in this exercise was not to judge the efforts of the Company in tackling child labour issues, but to inform our own understanding of the extent to which asset managers had sought to engage. While this is a small sample of managers, we observed a wide variation in the extent and effectiveness of the engagement undertaken. It was clear from many responses that previous pressures had meant that the Company had made significant advances over recent years to address the issue by supporting policy, providing funding and putting in targeted programmes, collecting and reporting data and providing investors with transparency. While action cannot necessarily be attributed to any single party, we believe it is vital for asset owners to raise issues with managers on potential issues of concern.

In summary, while much recent press attention has focused on divestment, we believe engagement can protect long-term investment value and drive better outcomes. We will continue to question managers on issues of interest. As environmental and social issues continue to gain importance with investors, this enhances the role of governance and stewardship, requiring asset owners and advisers to hold managers to account by engaging, asking questions, and demanding accountability.

Can we have an influence?

One question often posed on stewardship is "how loud is my voice?", the assertion being that a single asset owner asking a question will be dwarfed by all those who haven't spoken. The same may be true of asset managers, although as Chart 9 illustrates, the collective ownership of the Company by the managers in our case study is significant. Acting individually, managers can raise important issues but, acting collectively, it is possible to exert considerable influence on companies. The importance of collaboration should not be underestimated.

Chart 9: Estimated level of ownership in the Company by the case study managers



Selected Passive Managers   Selected Active Managers
Remaining Company ownership

Source: Bloomberg, data as at 30 June 2021

Simon Jones
Partner and Head of Responsible Investment
simon.jones@hymans.co.uk
0131 656 5141

Peter Challis
Investment Research Associate Consultant
peter.challis@hymans.co.uk
0207 082 6381

Market returns to 30 September 2021

	Yield % p.a.		Returns to 30 Sept 2021 (sterling, % p.a.)		
	30 June	30 Sept	1 year	3 years	5 years
EQUITIES					
Global	1.7	1.8	22.7	11.8	12.9
UK	2.8	3.1	27.9	3.1	5.4
Developed markets ex UK	1.6	1.6	23.7	12.8	13.9
Emerging markets	2.0	2.4	14.0	8.5	8.7
BONDS					
Conventional gilts	1.0	1.2	-6.8	3.0	1.2
Index-linked gilts	-2.2	-2.2	0.5	6.1	3.1
Sterling corporate bonds	2.0	2.2	0.3	5.1	3.1
High yield (US) *	4.6	4.7	11.5	6.6	6.4
Emerging market debt*+	5.0	5.3	4.4	5.7	3.9
UK PROPERTY	-	-	13.4	4.3	6.6
GOLD*	-	-	-7.3	13.9	5.9
OIL*	-	-	91.7	-1.7	9.9

* Return in $ + Hard currency

Source Datastream:

FTSE All Share
FTSE World Developed ex UK
FTSE All World

FTA Govt All Stocks
FTA Govt Index Linked All Stocks
iBoxx Corporate All Maturities

BofA ML US High Yield Master II
JPM GBI-EM Diversified Composite
UK IPD Monthly

Credit Suisse Hedge Fund
Gold Bullion LBM

If you would like to find out more about any of the topics discussed in this publication, please contact your usual Hymans Robertson consultant or:

David Walker
david.walker@hymans.co.uk
0141 566 7733

Mark Baker
mark.baker@hymans.co.uk
0207 082 6340

Andy Green
andy.green@hymans.co.uk
0131 656 5151

London | Birmingham | Glasgow | Edinburgh

T 020 7082 6000 | www.hymans.co.uk

This communication has been compiled by Hymans Robertson LLP, and is based upon their understanding of legislation and events as at November 2021. It is designed to be a general information summary and may be subject to change. It is not a definitive analysis of the subject covered or specific to the circumstances of any particular employer, pension scheme or individual. The information contained is not intended to constitute advice, and should not be considered a substitute for specific advice in relation to individual circumstances. Where the subject of this document involves legal issues you may wish to take legal advice. Hymans Robertson LLP accepts no liability for errors or omissions or reliance on any statement or opinion.

This information is not to be interpreted as an offer or solicitation to make any specific investments. All forecasts are based on reasonable belief. Please note the value of investments, and income from them, may fall as well as rise. You should not make any assumptions about the future performance of your investments based on information contained in this document. This includes equities, government or corporate bonds, currency, derivatives, property and other alternative investments, whether held directly or in a pooled or collective investment vehicle. Further, investments 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 full amount originally invested. Past performance is not necessarily a guide to future performance.

Hymans Robertson LLP (registered in England and Wales - One London Wall, London EC2Y 5EA - OC310282) is authorised and regulated by the Financial Conduct Authority and licensed by the Institute and Faculty of Actuaries for a range of investment business activities.. A member of Abelica Global. © Hymans Robertson LLP.

© Hymans Robertson LLP. Hymans Robertson uses FSC approved paper.