100 HYMANS ROBERTSON

Investment Perspectives

Winter 2022

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Welcome

Welcome to our 2022 Winter edition of Investment Perspectives

Economies and markets have never been predictable, but it could be argued that the last two years would be close to the top of the rankings for unpredictability. Economists and investors have seen large surprises to the upside and downside of consensus in both economic data and corporate fundamentals, as we continue to recover from one of the largest peace-time economic shocks.

If global markets had aimed to be more predictable in 2022, the New Year's resolution has already been broken with a bout of volatility and notable change of tone in January. Although one month is too short a time period to draw any meaningful conclusions about what lies ahead, there remains an elevated level of uncertainty as some of the second-order effects of the pandemic become apparent. In this environment we continue to believe in the wisdom and merits of long-term investing across a diversified portfolio and aim to continue to help clients navigate these issues.

Chris Arcari covers some of these themes in more detail, focusing on the last quarter of 2021 in his capital markets update. In addition:

- Asad Rashid discusses diversity of thought in investment teams and how it can lead to improved outcomes, using a series of case studies;
- Elaine Torry discusses liquidity risks in private markets and what that means for pension funds looking to access the illiquidity premium; and
- Penny Cochrane discusses direct lending covering the evolution of the asset class, performance and the potential opportunity it presents to investors.

Finally, I hope you have had a productive start to the year.

David Walker

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Capital markets update

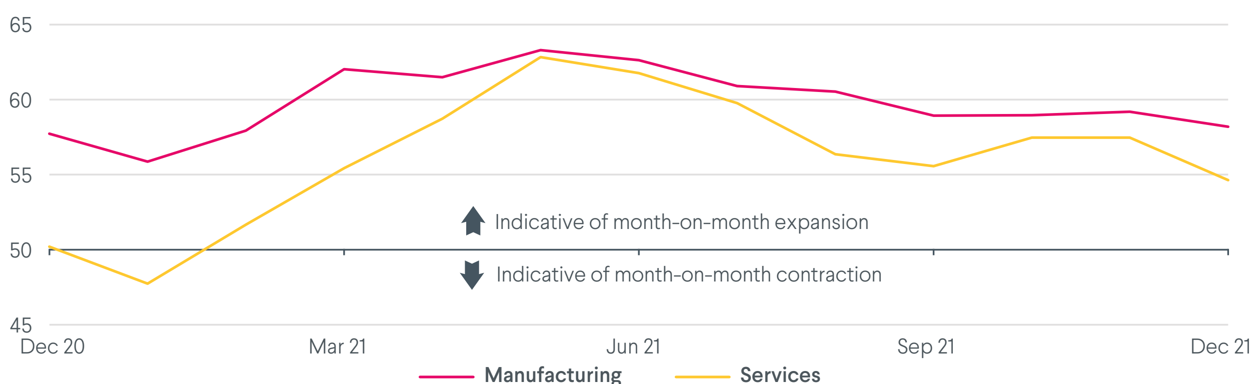
Released: January 2022

- Despite November's sell-off, global equity markets rose in Q4 as evidence suggested that the Omicron variant may not be as virulent as previous strains.
- Short-term yields rose as markets priced in a faster pace of interest-rate increases to combat high inflation.

Global themes

The current wave of COVID-19 infections is eclipsing previous peaks and although hospitalisations and deaths are lower, greater transmissibility could still put pressure on healthcare systems. A return of some restrictions on activity, an increase in voluntary social distancing and resulting supply chain disruption, particularly while China continues to pursue a zero-COVID policy, will weigh on growth in Q4 2021 and Q1 2022. On a longer-term view, Omicron's apparent milder symptoms and increasing dominance may accelerate the transition of COVID-19 from pandemic to endemic status, allowing a more permanent normalisation of activity.

Chart 1: Sentiment resilient, particularly in manufacturing[1]



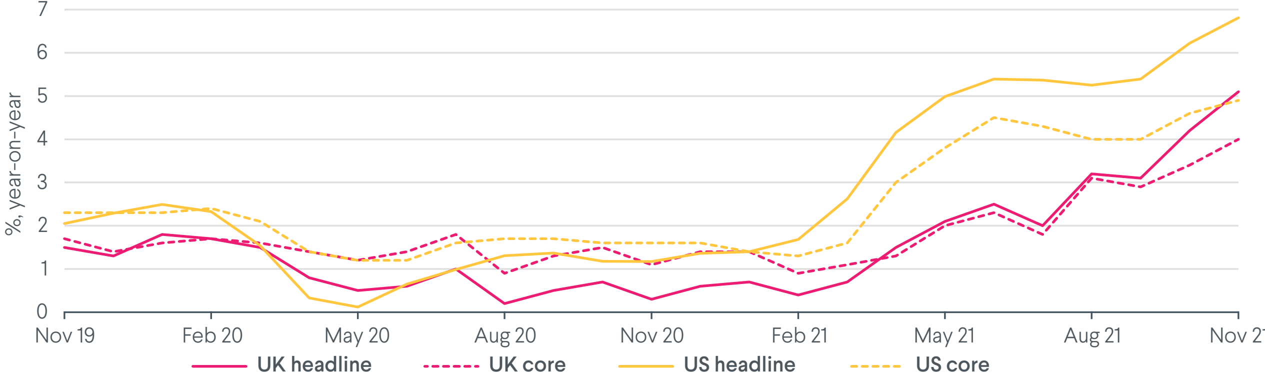
Source: Bloomberg

[1]Average of US, UK and eurozone purchasing managers' indices

Indeed, current pressure on growth is reflected in December's purchasing managers' indices (Chart 1), which were as low as they have been for almost a year. However, global sentiment is positive, particularly in manufacturing, where output is increasing despite ongoing supply constraints. Backlogs from existing order books plus strong future orders should support manufacturing activity in 2022, while a more permanent re-opening would support the service-sector recovery. Against this backdrop, activity is expected to rebound quickly once cases subside; we still expect above-trend growth in 2022.

Meanwhile, inflation has proved more persistent and pervasive than expected (Chart 2). UK headline CPI inflation is as high as it has been in 10 years, while the US measure is close to 40-year highs. Although tight labour markets, particularly in the US and UK, pose an upside risk, inflation is expected to moderate in 2022. There are tentative signs that supply-chain disruptions are easing, and fiscal policy will be less supportive this year. In addition, central bankers have adopted less accommodative stances. The US Federal Reserve expects to raise rates three times this year (interest-rate futures markets expect even more) and is accelerating its reduction of asset purchases. Despite the near-term economic impact of Omicron, the Bank of England made the first of what is expected to be a series of rate hikes in December.

Chart 2: Core inflation is following headline measures higher, indicating broad-based price pressures

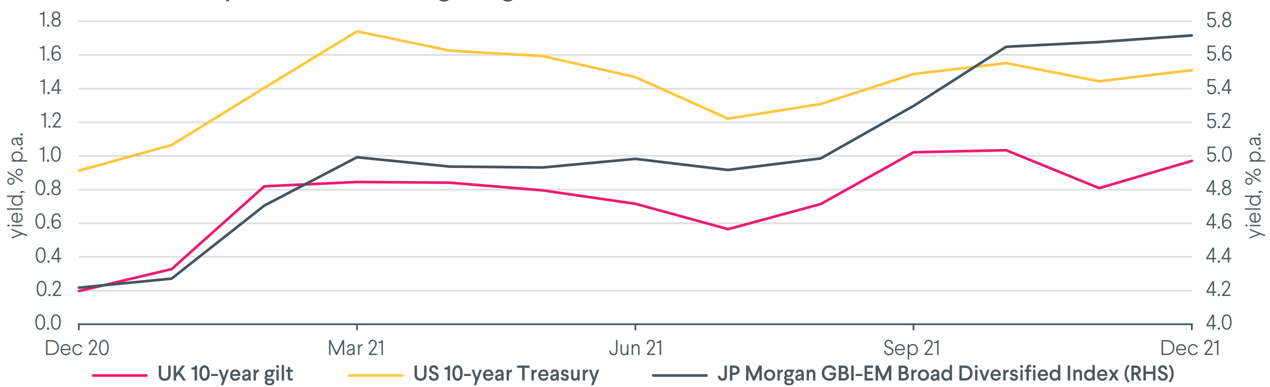


Source: Refinitiv Datastream

Government bonds

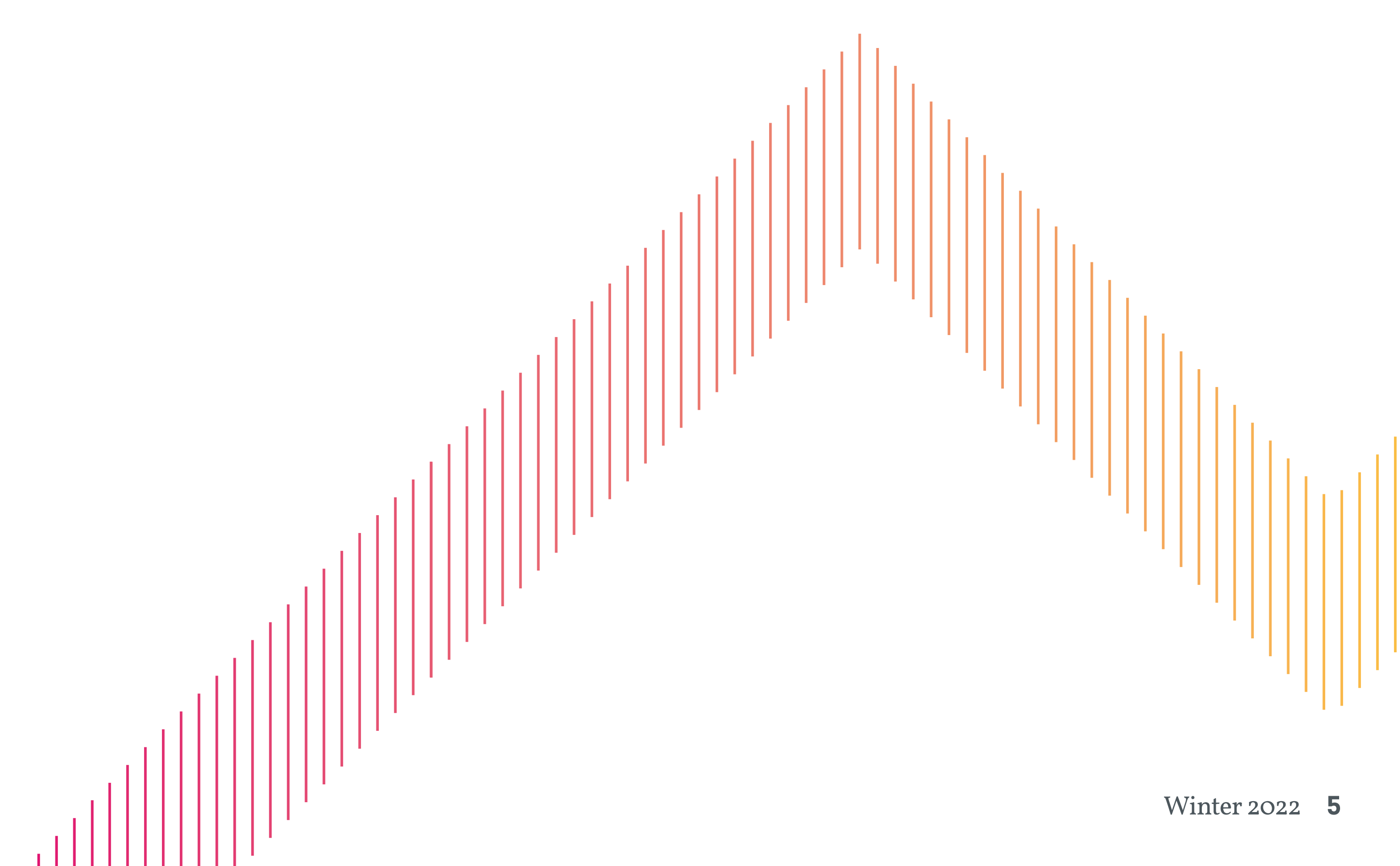
The trend in monetary policy is likely to put upwards pressure on long-term bond yields but, if inflation does fall over the course of the year, limiting the need for aggressive monetary policy tightening, the rise in yields is also likely to be limited and gradual. Core sovereign bond yields, particularly at the front-end of the curve, are pricing in a reasonable path of interest-rate rises, but yields are very low in absolute terms and provide little protection against any persistence in inflationary pressures.

Chart 3: EM yields have risen faster and further than developed market yields, even though EM central banks have been more proactive in tackling rising inflation



Source: Bloomberg & JP Morgan

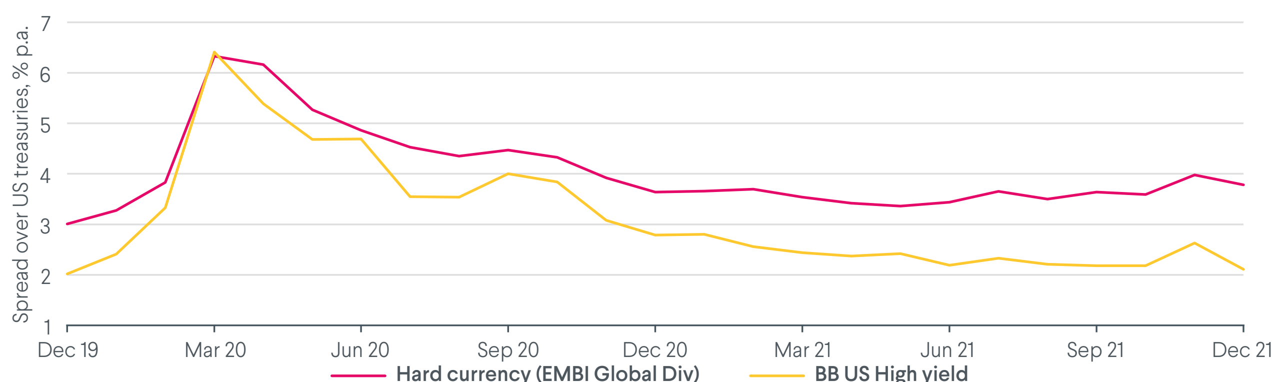
While central banks in the major advanced economies are just starting to reduce monetary accommodation, their emerging-market ('EM') counterparts have been raising rates progressively in 2021. EM local-currency yields rose sharply last year (Chart 3) and yield curves are as steep as they have been in 10 years. While a tightening in global financial conditions tends to pose a challenge for EM assets, a reduction in monetary policy accommodation has been well telegraphed and EM central banks have raised interest rates pre-emptively. Meanwhile, emerging-market current accounts have strengthened considerably during the pandemic, though their currencies, in aggregate, still look cheap relative to the dollar by historical comparison.



Credit

2021 was characterised by a recovery in global macroeconomic and corporate fundamentals. Low nominal and real rates spurred investors to reach for yield lower down the credit spectrum. This demand was met by record issuance volumes in speculative-grade credit markets, which enabled borrowers to lower their cost of capital, helping to push defaults well below average levels. Strong corporate balance sheets and positive earnings growth still lend fundamental support but waning central bank support and rising input costs may make for slightly less benign conditions in 2022.

Chart 4: Hard-currency emerging-market debt offers value relative to developed-market corporates



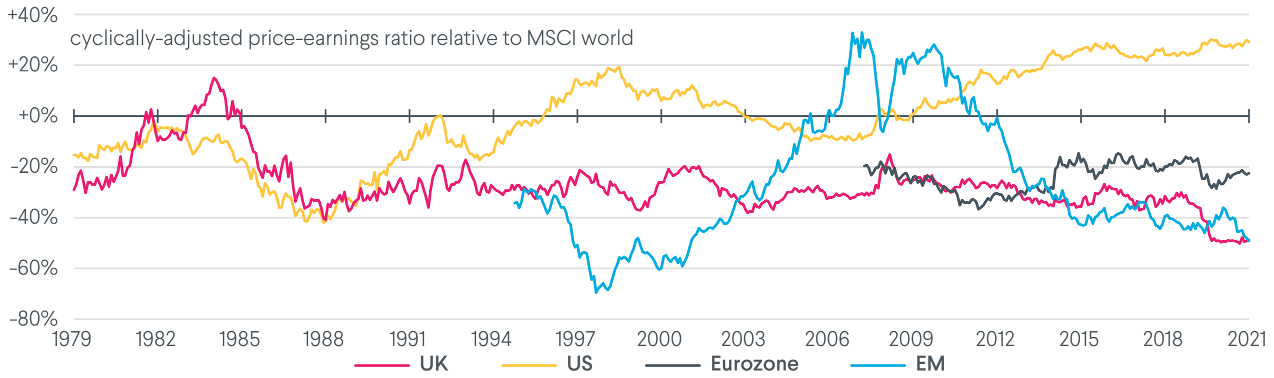
Source: ICE Index platform & JP Morgan

In credit portfolios, we look for some insulation against rising rates. In investment-grade, this may entail a short-duration bias within fixed-interest corporate allocations, investing in floating-rate asset-backed securities, or absolute return bond funds. We prefer speculative-grade credit, given its shorter duration – historically it has performed relatively well in inflationary environments, provided corporate fundamentals remain intact, with interest-rate increases offset by income and low defaults. Though hard-currency emerging-market debt is a slightly longer-duration market, spreads are attractive relative to comparable developed-market corporate credit (Chart 4).

Equities

MSCI World earnings growth is forecast to have risen over 52% in 2021, marking one of the strongest years on record. This would leave earnings approximately 23% above 2019 levels. Although the year-on-year pace will fall dramatically, we still anticipate robust earnings growth in 2022. Even so, high cyclically adjusted equity valuations mean further upside is likely to be more limited. While equity valuations are not particularly challenging relative to very low sovereign bond yields, upwards pressure on longer-term real yields is likely to put the lid on rising valuations. There is notable dispersion in equity valuations by region (Chart 5) and, given its extreme valuation, the US could be most at risk. In addition, as we expect COVID disruption to dissipate as 2022 progresses, more cyclical sectors and markets may benefit as economies fully re-open, particularly those where activity is below pre-pandemic levels. Against this backdrop, non-US equities look poised for a period of catch-up.

Chart 5: There is notable dispersion in equity valuations by region



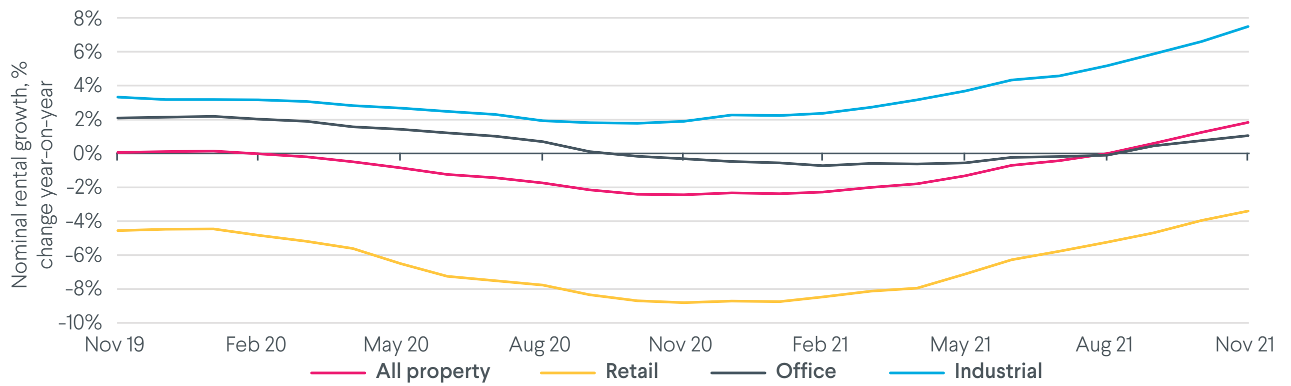
Source: Datastream

However, we would caution against being heavily underweight the US: valuations are high, but we expect a gradual and limited rise in yields and the secular growth characteristics of the US market have perhaps been enhanced by the pandemic.

Property

UK commercial property rents are growing strongly within the industrial sector, continue to fall, albeit at a declining pace, in the retail sector, and are growing slowly in the office sector (Chart 6). In aggregate, tenant demand is rising while the availability of stock falls, helping to underpin improved rental expectations and allowing landlords to offer fewer inducements to secure tenants. However, rent collection remains lower than normal as rent moratoriums delay payments to landlords. Outside of the traditional core market, the leisure and hotel sub-sectors continue to face near-term disruption stemming from the pandemic.

Chart 6: UK commercial property fundamentals are on an improving trend, but with differing fortunes across sectors



Source: MSCI IPD Monthly

Reversionary (full rental) yields have fallen further in recent months as demand, from both domestic and overseas buyers, remains strong. In a time of inflation uncertainty, we prefer long-lease funds with a high degree of inflation-linked rents. Lower exposure to the retail sector is also supporting demand for long-lease funds, which continue to have queues in place.

Conclusion

The ongoing Omicron wave is likely to weigh on near-term activity, but COVID should ultimately move further into the background in 2022. The consequent economic and earnings growth should lend support to risk assets. Inflation should moderate in the second half of 2022, but tight labour markets and supply disruptions pose an upside risk. Monetary policy will be less supportive in 2022 and, though we expect a modest rise in interest rates, further upside inflation surprises may necessitate a more substantial reduction in monetary support.

Short-term nominal sovereign bond yields already reflect likely rate rises, but long-term yields may still see some upwards pressure. Yields, at all terms, provide scant compensation for current levels of inflation. Strong corporate fundamentals and a short-duration preference support an overweight to speculative-grade versus investment-grade credit. Within investment-grade markets, short-duration fixed interest corporates or floating-rate asset-backed securities are preferred to benchmark investment-grade strategies. Within bond and credit markets, we see relative value in emerging-market debt. EM central banks have pre-emptively tightened monetary policy and sovereign yield curves are steep, while hard-currency credit spreads in emerging-market debt are relatively attractive versus developed-market comparators.

Ongoing earnings growth and our expectation that any rise in yields from low levels will be limited and gradual sees us retain a preference for equity over bonds and credit. However, as investors weigh the impact of waning central bank policy on valuations, and inflation puts upwards pressure on input costs, any increase in volatility may enable cash to be deployed at more attractive entry points.

Nevertheless, investors may want to look for ways to increase cash returns without taking duration risk. This may increase the attraction of short-duration credit and absolute return bond funds as near-cash alternatives.

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Diversity of thought can lead to improved outcomes

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One of the core pillars of a well-constructed portfolio is diversification. Whether in terms of the sources of return or the risks of individual assets, diversification aims to mitigate risk and reduce portfolio level volatility, which can improve overall risk-adjusted returns.

One of the lesser known facts is that as researchers, we extend this concept of diversification to investment teams. When we evaluate actively managed funds, one of the metrics we consider is diversity of thought in the investment teams. In particular, we assess whether the team are all from similar firms in the industry or have worked together for so long that they could be susceptible to group think, which can result in unchallenged decision-making. We often look for evidence of external hires or junior professionals who can provide some challenge to the investment ideas under consideration and prompt more rigorous debate.

Diversity of thought is closely linked to diversity and inclusion – as evidenced by the case studies discussed in this paper, the investment teams with a high success rate are typically those that have smart people who think differently, who have been trained differently, went to different schools, have different knowledge bases and have different genders and ethnic backgrounds. Global economies and supply chains are now so inter-linked that challenges or regulations in one country can have significant effects on the economy of another country. A diverse and well-networked group of professionals is likely to have the best chance of responding to such challenges.

We focus on diversity of thought in teams because individuals with a different background to the existing team can often spot risks or understand local trends that might be missed by others. This typically improves the group's collective accuracy, analytical thinking and innovativeness.

Case Study 1

A 2018 study[2] by Harvard Business Review on venture capital firms (an ideal test subject given the investments and the responsible decision makers are easily identifiable) found that diversity can improve financial performance both at the portfolio company level and on overall fund returns. Investment teams with shared school backgrounds or shared ethnicity tended to have a comparative success rate between 11-32% lower than more diverse teams.

The study identified that success was delivered not at the stage of initial investment, but as a result of ongoing involvement of a more diverse team in later strategic decisions and recruitment, and because creative thinking is required to support the growth of young companies.

Case Study 2

In 2016, a Morgan Stanley study[3] on more than 1,600 stocks globally found that gender diversity can lead to a 2% higher return on equity with lower volatility. Digging deeper, Morgan Stanley found that the reasons behind this better risk-adjusted return were that companies with a diverse workforce had increased productivity, better decision-making, greater innovation and higher employee retention and satisfaction. The effects of having a more diverse workforce proved beneficial to these companies.

[2] https://hbr.org/2018/07/the-other-diversity-dividend

[3] https://www.morganstanley.com/ideas/gender-diversity-investment-framework

Case Study 3

McKinsey have conducted a number of studies on the link between diverse leadership teams and company performance (in 2015, 2018 and 2020).

Their 2020 study[4] (conducted on 1,000 large companies in 2019 before the global pandemic) found that the link between the likelihood of financial outperformance and gender diversity / ethnic diversity has strengthened over time. Companies in the top quartile of McKinsey's dataset for gender and ethnic diversity were more likely to have a higher earnings before interest and taxes ('EBIT') margin than companies in the bottom quartile. The percentage of companies that demonstrate this positive relationship has risen from 15% to 25% on gender diversity and from 35% to 36% on ethnic diversity over 2014 to 2019.

Case Study 4

A 2019 study by RockCreek, the International Finance Corporation and Oliver Wyman[5] found that funds with gender balanced senior investment teams (more than 30% of the opposite gender) have historical investment returns that are 10 to 20% higher than those with a majority of male or female leaders. The underlying portfolio companies in these funds with gender diverse leadership teams outperformed their less diverse counterparts by 25%.

Interestingly, the researchers found that investment teams that skewed heavily toward a particular gender underperformed gender-balanced teams. The key takeaway from the study was that the balance between genders can contribute to outperformance due to the increased diversity of thought and background.

The study also included a survey of more than 500 fund managers and institutional investors. This survey revealed that while 65% of institutional investors surveyed said they consider gender diversity to be important when choosing managers, only 25% of them asked fund managers about the gender diversity of their firms when conducting due diligence.

How can you assess diversity of thought in asset managers?

Diversity should not be seen as a 'tick-box' exercise and the results of these case studies show the financial benefits and impact of diversity of thought in both public and private markets. Here are our main take-a-ways you can consider when assessing diversity within your asset managers:

- Ask for indicators of diversity, such as gender and ethnicity splits of key decision-making teams in the asset management firm. How have these indicators changed over time?
- Can the asset manager supply information to support an assessment of the link between diversity and financial performance?
- Recognising that indicators are just that, can the asset manager provide case studies demonstrating how diversity of thought works in practice in their investment teams? E.g. can they provide evidence of how investment ideas are debated with examples of challenge? Such case studies are likely to highlight the better decision-making, greater innovation and higher employee satisfaction that are the leading indicators of diversity of thought.

We believe asking these questions will encourage a greater focus on diversity of thought and help engagement with your managers.

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[4] https://www.mckinsey.com/featured-insights/diversity-and-inclusion/diversity-wins-how-inclusion-matters

[5] https://www.institutionalinvestor.com/article/b1df7fg0bq3jfv/Want-20-Higher-Returns-Do-This

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Private markets – taking stock of liquidity risks

Released: January 2022

The investment time horizons in some private markets are changing. In this article, we profile four key private markets and examine the liquidity considerations for each.

After the hard-fought challenges of 2020, it's encouraging that the overall funding position of defined benefit ('DB') schemes improved over 2021. Market movements played a big part, thanks to another strong year for equity markets. But while this is undoubtedly a cause for cheer, it has caused other issues to emerge – not least, the liquidity and time horizons in investment portfolios. These issues are especially pertinent for schemes targeting buy-out.

Such schemes need to ensure they have the liquidity required to act, and also to carefully consider the time horizons for investments. However, within some private markets, investment terms are getting longer. Illiquidity is a common feature of private markets, and the reason why they usually offer a return premium. But now, given some investors' shorter time horizons, a liquidity mismatch is emerging, limiting opportunities in private markets.

Even investors that are less time constrained still want to access the best opportunities – which means keeping up with evolving markets. That involves considering if a market is best accessed through debt or equities or through closed or open-ended funds, given considerations such as extension risks.

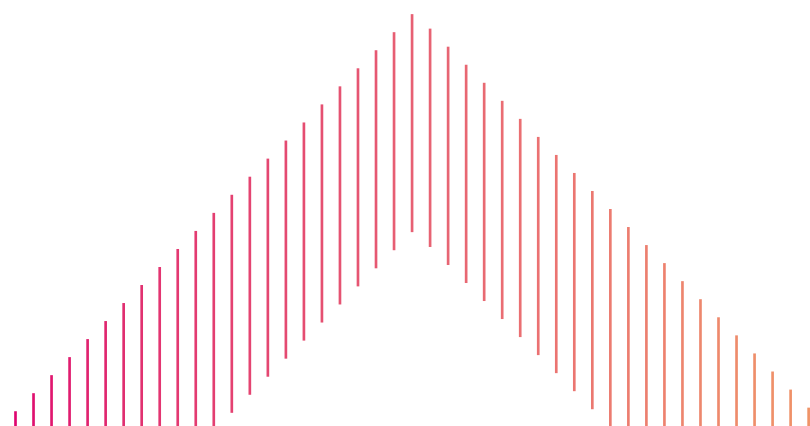
To help understand these considerations, this article revisits key private markets and weighs up the liquidity considerations for investors. Please note, these are brief market profiles – in future editions of Investment Perspectives, we will explore each market in more depth.

Private equity

An investment in private equity can represent a commitment of 12 to 16 years. During the initial investment period, the investment team will typically spend three years looking for suitable companies to invest in. The next five to six years are used to make the companies more profitable and sustainable by improving their operations, making management changes or financial improvements. At this point, we're nine years into the investment period. The final three years of the fund's life are spent selling the companies, which can be a lengthy process.

It's worth noting that the investment period can extend beyond the typical 12 years. This might be due to the sale of some companies taking longer than expected or, in some cases, the fund may hold some cash beyond the fund life to meet any tax or legal obligations due after the sales have completed. A two-year extension is typically built into the legal documentation, and more often than not, it is required.

The timescales outlined above would apply to a primary market fund, but another option is to invest in a fund of funds. Fund of funds offer diversification benefits by investing in several private equity funds. Given the differing fund lives of the underlying funds, the investment period can extend to 15 or 16 years.



Client context

Given the lock-in period and the higher risk involved with private equity investments, we tend to see a higher allocation to private equity in client portfolios that have a long investment time horizon or a large funding gap. For closed DB pension schemes, as the funding position improves, we suggest reducing the allocation to private equity and looking to other asset classes with a shorter time horizon.

Property

Direct property, by its nature, is a longer-term investment. Core property is very income driven, with total returns dominated by the income component and only some capital growth. Most investors have invested in core UK property funds focused on the main UK commercial sectors (offices, retail and industrials). These are usually open-ended funds, with dealing terms varying from daily to quarterly subscriptions and redemptions typically being monthly to quarterly.

However, the UK core property fund market is suffering net outflows as more pension schemes de-risk. Consequently, there's no guarantee that redemption requests can be met, leading to liquidity issues. It's also worth remembering that some funds were 'gated' (closed to redemptions) during the early months of the pandemic. Higher-risk funds (i.e. value-add or opportunistic) tend to be closed-ended, with fund terms of 5–10 years plus the option for extensions.

Finally, many investors use the secondary market to trade in and out of property funds. This can be cheaper as it avoids stamp duty, but sellers may have to accept sizeable discounts to sell holdings, especially in closed-ended funds.

Client context

Investors should not be considering investing in property on a short- or medium-term basis. This is a long-term investment; although some fund structures offer the option for liquidity, it is not guaranteed. Investors should be prepared to invest for at least a full market cycle.

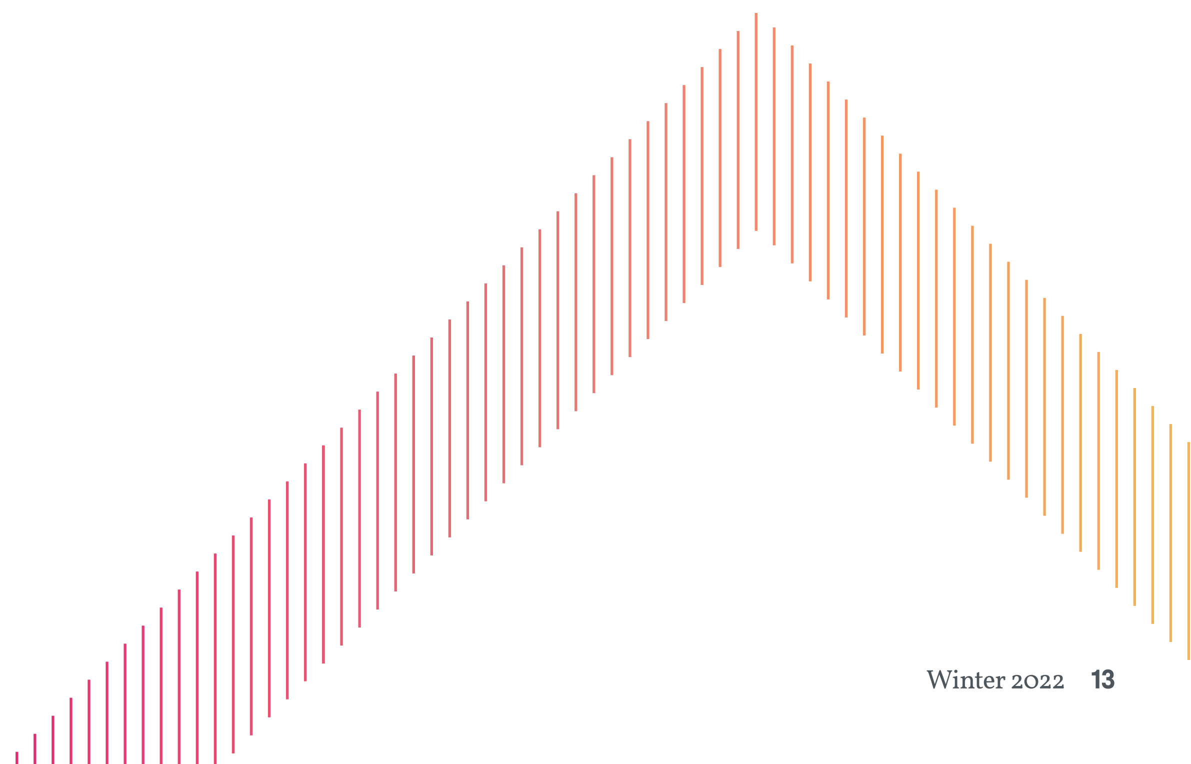
Private debt

Private debt (or direct lending) funds are typically closed-ended structures with a term typically of 6–8 years. Like private equity, there is an initial investment period, usually 3–4 years, when committed capital is drawn down and invested. Loans are privately negotiated, issued with a floating-rate basis, and provide funding to medium-sized companies in the US and Europe. Such companies tend to be rated below investment grade, although these assets are rarely rated by a credit agency.

Private debt is usually secured (backed by assets) and sits high in the ranking order in the issuing companies' balance sheets (meaning lenders would be repaid before shareholders). Given the private nature of this asset class, there is no established secondary market. Consequently, investment is done on a buy-and-hold basis.

Client context

We typically recommend private debt to clients who are willing to commit for 6–8 years. It can form part of a useful income solution, with negligible interest-rate risk given its floating-rate nature. However, early vintages of some direct lending funds are activating their extension rights and extending the fund term, leading to higher levels of illiquidity than initially planned. This should be taken into account when clients consider investment.



Infrastructure

Generalist infrastructure funds (i.e. those investing in assets beyond renewables) tend to be closed-ended, meaning there is no liquidity until the end of fund's term. Such funds will often take time to draw investors' capital down, with the investment periods for many closed-ended funds being 3–4 years. Accessing the fund before its term would mean accepting a discount on the secondary market.

We are seeing an increase in the number of open-ended generalist infrastructure funds. Such funds may take 2–3 years to draw capital from investors. Some of these open-ended funds have 3–5-year lockups, so no redemptions can be made until that lock-up period is over.

Individual infrastructure funds (primary funds) are usually structured like private equity funds, and invest in a diversified portfolio of assets/projects. UK investors typically invest in UK, European or global funds.

For those interested in renewable infrastructure, exposure can be gained via a generalist fund, but the extent of the exposure can vary greatly. There's a growing number of dedicated renewables funds – these tend to be closed-ended with fund terms in excess of 10 years (often longer).

Client context

To benefit from the longevity of infrastructure assets and potential inflation protection, investments should ideally be held for the medium-to-long term. Listed infrastructure is an option for those wishing a more liquid choice, but it is not one we typically recommend as an alternative to private infrastructure.

Key takeaways

In summary, private markets continue to offer attractive risk-adjusted returns for investors. However, liquidity constraints may preclude some DB schemes from investing, due to the length of the fund terms versus their endgame. Closed-ended funds require a lock-up of capital from investors and, while fund terms have lengthened over time, many schemes are better funded and targeting buy-out sooner than the fund terms allow.

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Direct lending: a decade on

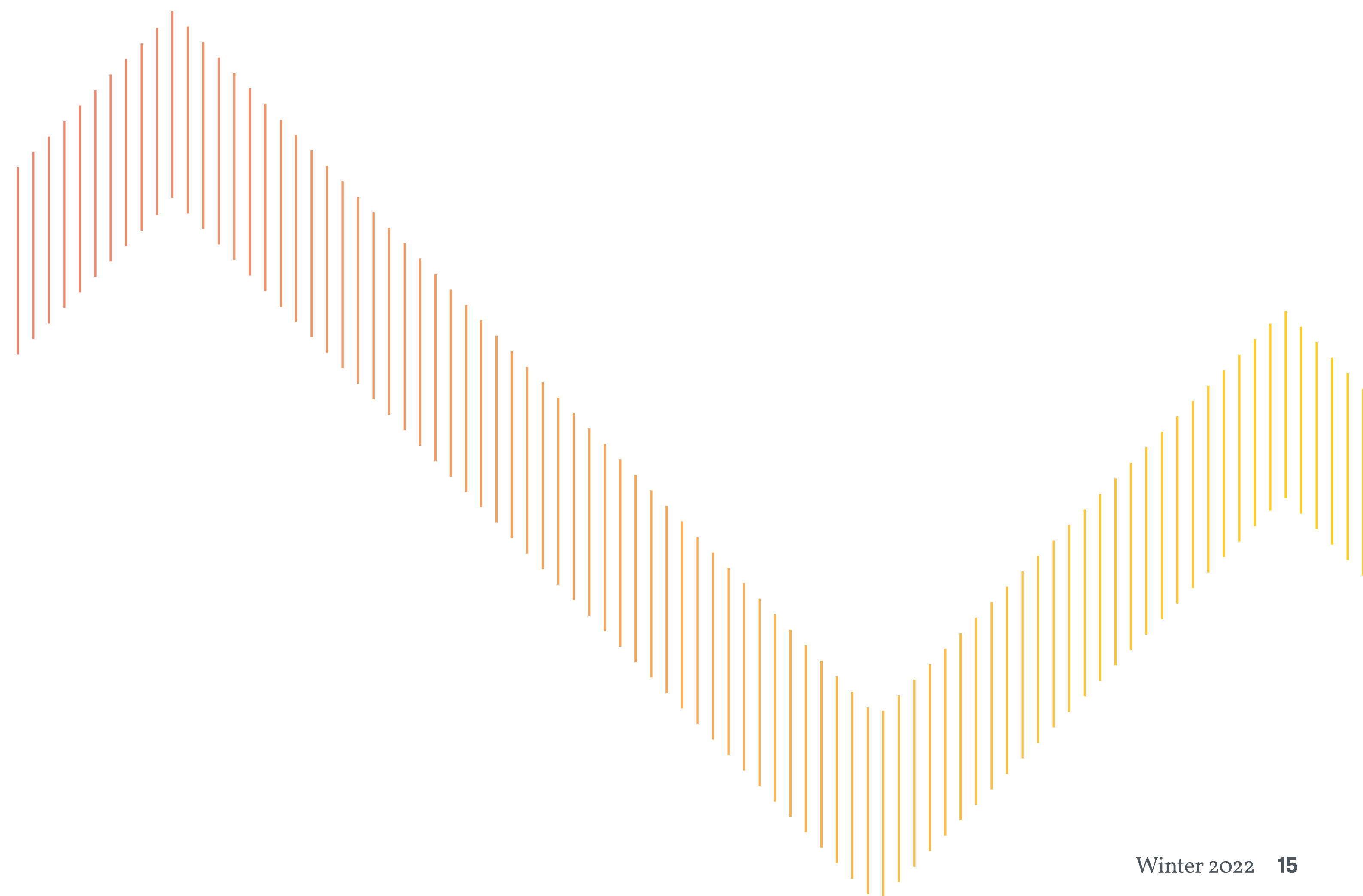
Released: January 2022

Hymans Robertson was one of the first consultants in the UK to recognise the attractiveness of the direct lending market, where alternative lenders lend to mid-market corporates. Now over a decade on, most of our DB clients have exposure to the market. This article looks at how the market has evolved over the period and revisits the argument for investing in this asset class, discussing the main considerations for our clients now.

Direct lending has exploded with many investors allocating to the asset class. And it's still growing, with more investors expecting to further increase their allocations over the coming years. While the asset class evolved in the US before the Global Financial Crisis ('GFC'), in Europe it was mainly borne out of the GFC. However, the European market is quickly catching up to the US in terms of alternative lender market share.

The evolution of direct lending

Historically, banks were the main lenders in the middle market as borrowers were unable to access the public capital markets due to their size. Now, bank retrenchment from the market is a commonality on both sides of the Atlantic, historically in the US and persisting today in Europe where some banks are still active. Pre-GFC in the US there was a lot of banking consolidation, leading to the now-large banks focusing more on their larger relationships and pulling back from the middle market; whereas in Europe at the time, the middle market remained dominated by commercial bank lending. Then, following the GFC in both markets, banks further retrenched from active lending due to balance sheet issues and a desire to focus on lower risk lending, but also increasing regulatory capital requirements such as the Basel III Accords, soon to be Basel IV.



A mainstream asset class

Direct lending as an asset class started as a niche market with the small number of alternative lenders typically issuing mezzanine debt behind traditional bank loans; however, the market has evolved to focus on senior or unitranche debt (also known as whole loan debt which combines both senior and junior debt), now replacing the banks. Ten years ago, direct lending AUM was estimated to be c.$370bn but is now reaching $1tn (although various sources do differ in their estimates), quickly closing in on the leveraged loan and high yield market sizes. What isn't debated, however, is that direct lending is no longer an 'alternative' credit product with many institutional investors having exposure. An active secondary market for fund interests is developing on both continents but remains relatively nascent compared to the private equity secondary market.

Mergers and acquisitions activity continues to drive most direct lending deal flow in both the US and Europe. In both markets, private equity sponsors are the largest borrower segment. In the US, because banks have all but withdrawn completely, there are more non-sponsored opportunities versus Europe where there is still some bank activity targeting these companies.

In Europe, there were a handful of alternative lenders who were active during the GFC, but there have been many new entrants in the years following. The last large entrant to the market was in 2014 although smaller lenders continue to launch funds.

What about performance?

As the asset class has grown and direct lenders have shifted focus to replacing the senior bank debt rather than providing the mezzanine financing, returns have trended downwards overall. But, returns still offer a premium through a material and persistent illiquidity premium compared to publicly traded debt. The target returns being offered by typical direct lenders in the market today are in the 6-8% p.a. range net.

Continued opportunity

In both the US and European markets, there is demand for loans from middle market borrowers. In Europe, direct lending volumes have rapidly increased over the years (Chart 7) and they are expected to continue this growth trajectory.

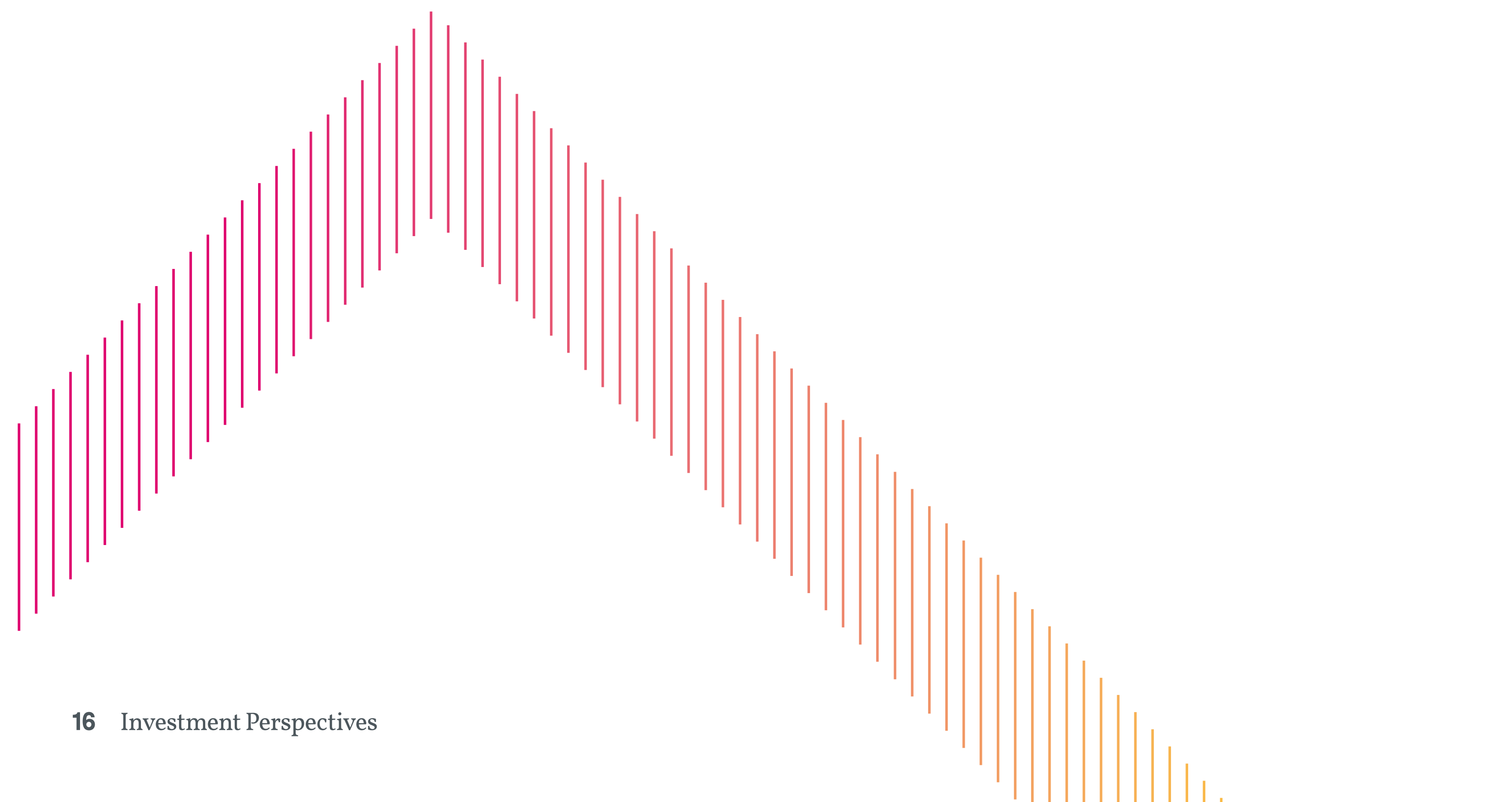
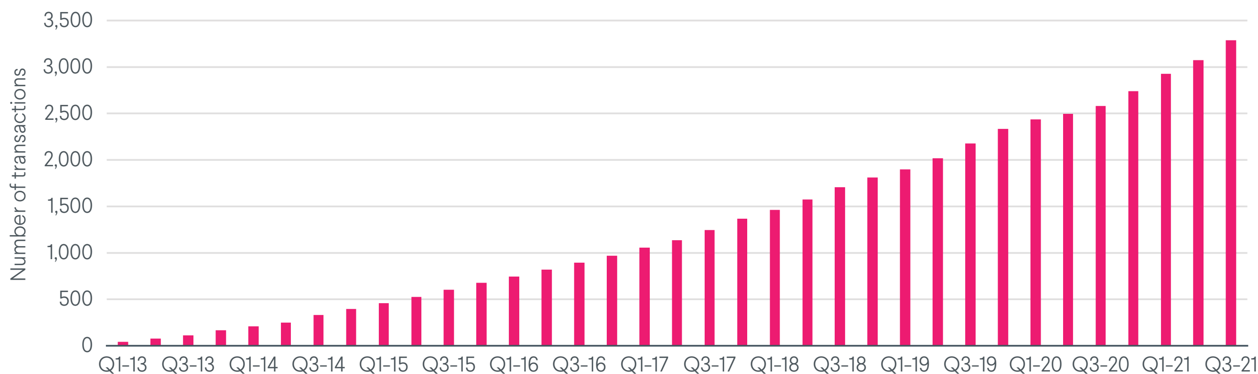


Chart 7: Cumulative alternative lending transactions in Europe since Q4 2012



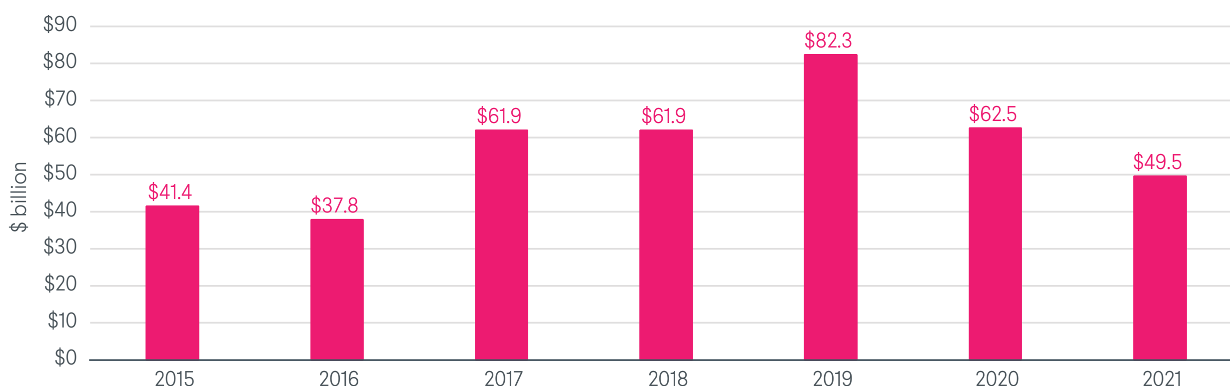
Source: Ares, Deloitte Alternative Lender Deal Tracker as of September 2021

However, dry powder[6] in private equity has been increasing. With more private equity players looking to deploy capital across the middle market, they will typically turn to direct lenders to provide their financing. There is also a growing trend of public companies going private and, again, they will typically look to direct lenders over the public loan market for the ability to meet complex debt requirements and surety of execution. As such, direct lending volumes remain supported by demand.

Direct lending fundraising activity also remains strong (Chart 8) with the first half of 2021 showing above average fundraising. In Europe, the market is dominated by the more established players and, although there has been some consolidation, the larger funds have the lion's share of deal flow creating barriers to entry to the market, particularly in the mid to upper-mid market space.

[6] Dry powder is the amount of committed but undrawn capital waiting to be deployed.

Chart 8: Global direct lending fundraising as at June 2021



Source: Preqin, Deloitte Alternative Lender Deal Tracker

Conclusion

Over the years, direct lending has evolved into a well-established credit asset class that is now mainstream for many institutional investors, with capital continuing to be allocated. The illiquidity premium over public markets remains and the asset class offers a superior risk-adjusted return compared to publicly traded debt, due to better downside protection and diversification benefits. This premium should continue as demand from predominately private equity sponsors increases.

Relative value between the US and Europe does change. Currently Europe represents better relative value, with better terms and less aggressive leverage in general. There is also the impact of hedging to GBP from USD which does vary over time.

Direct lending is an illiquid asset class and we are seeing fund terms getting extended beyond the initial fund maturity (typically 6-8 years). This has a potentially negative knock-on impact for pension schemes targeting their end game in the near future, and it should be a consideration for those considering investment. There are, however, open-ended solutions in the market which may be suitable for some schemes, and it is an area we see growing. Some managers have even made direct lending accessible to DC investors by allocating alongside a more liquid asset class, another trend that is sure to persist.

We continue to have a positive view on the long-term outlook for direct lending.

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Market returns to 31 December 2021

	Yield % p.a.		Returns to 31 Dec 2021 (sterling, % p.a.)		
	30-Sept	31 Dec	1 year	3 years	5 years
EQUITIES					
Global	1.8	1.8	20.0	18.4	12.8
UK	3.1	3.1	18.3	8.3	5.4
Developed markets ex UK	1.6	1.6	22.7	20.2	13.9
Emerging markets	2.4	2.6	1.0	9.4	7.9
BONDS					
Conventional gilts	1.2	1.0	-5.2	3.2	2.4
Index-linked gilts	-2.2	-2.4	4.2	7.2	4.7
Sterling corporate bonds	2.2	2.2	-3.2	5.3	3.7
High yield (US) *	4.7	4.9	5.4	8.6	6.1
Emerging market debt*+	5.3	5.7	4.4	5.7	3.9
UK PROPERTY	-	-	13.4	4.3	6.6
GOLD*	-	-	-4.0	12.5	9.5
OIL*	-	-	51.1	13.8	6.7

* 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

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