



Investment Update October 2021

Investment Headlines & Comment

- Strong gilt returns as projected issuance was unexpectedly reduced by around £60bn.
- The Government has released its [Roadmap to Sustainable Investing](#).
- Over £74bn of offers for the 2nd Green Gilt, maturing in 2053. £6bn was issued, yield 1.41%.

Feature Section

This month, we consider new [requirements](#) coming in for smaller money purchase occupational pension schemes. Many such schemes have already migrated to MasterTrusts or non-occupational arrangements (such as Group Personal Pensions), to avoid the burden of ever-increasing governance, and these requirements seem set to torment schemes which did not follow suit.

Trustees of schemes with under £100 million of *total* assets, which have been operating for three or more years will now have to carry out a detailed assessment of how their scheme delivers value for members. There are a few scheme [exceptions](#), but not many (although at least AVCs and schemes winding up are exempt). The assessment must include a comparison of reported costs and charges and fund net investment returns against three other schemes, and a self-assessment of scheme governance and administration criteria. The outcome of the value for member assessment must be reported in the annual chair's statement, published on a publicly accessible website, and reported to the Pension Regulator (TPR) via the annual scheme return.

For the quantitative side of the assessment for a scheme year, Trustees will have to report on the net investment returns for their default arrangement(s) and for each fund which scheme members are in, *or have been able to be in*. Trustees are also encouraged to report for the latest 5 years as well where possible (and there's a suggestion that going for data over 10, 15 and even 20 years could be included). That has the potential to be pretty onerous for schemes offering a wide range of funds, e.g. via an investment platform. It gets worse (of course). Performance data may vary by different member age cohorts and different charging structures, and schemes are thus encouraged to report a range of outputs, to show those effects as well.

For the value for members assessment, Trustees must consider three factors: costs and charges, net investment returns, and governance and administration. They will be expected to have a clear rationale for the schemes they have chosen as comparators (and heaven help whoever tries to do any of this first). The guidance states that comparators should include a scheme that is different in structure to the Trustees' own scheme, where possible. For example, bundled corporate pension schemes should look at an unbundled example, and pension schemes not used for automatic enrolment should not limit their comparison to other such schemes. Data overload looks absolutely inevitable in many cases, as well as significant adviser fees.

Moreover, Trustees must "have had discussions" with at least one of the comparator schemes about a transfer of the member's rights if their scheme is wound up. This is intended to ensure that schemes are selecting at least one comparator scheme that could reasonably be expected to accept a transfer of the rights of the scheme members in the event that the Trustees decide their scheme does not provide good value. Approaching a MasterTrust seems the simplest option, but just how many schemes are caught by these regulations, how often must the discussions take place, and will MasterTrusts cope with all the enquiries?

When tackling the governance and administration element, Trustees are required to consider the promptness and accuracy of core financial transactions, the quality of record keeping, the appropriateness of the default investment strategy, the quality of investment governance, the level of trustee knowledge, understanding and skills to operate the pension scheme effectively, the quality of communication with scheme members, and the effectiveness of management of conflicts of interest. Within each of these areas, there are lists of points to be considered, and the likely volume of qualitative reporting looks considerable.

After all that, it is left to Trustees to decide how to present their assessment, given the "communication needs and preferences of [their] scheme membership". Whether scheme members will then plough through any of it remains to be seen. We think affected employers who can transfer their schemes will seriously consider it.



Asset Returns and Financial Measures [in Sterling unless marked otherwise]

The cells in bold with light shading show the best and worst performing asset classes from each column. The commodities and \$-based and unhedged-£-conversion hedge fund returns are excluded from that.

[NB: Future returns cannot be inferred from this table alone, but coupled with other items within *Update*, readers can make inferences as to whether they should be higher or lower than the past returns shown below.]

Table 1: Investment Data to 31 October 2021

Asset Class	1 month (%)	3 months (%)	12 months (%)	3 years (% p.a.)	5 years (% p.a.)	10 years (% p.a.)	20 years (% p.a.)
UK Equities	1.8	3.5	35.4	5.6	5.6	7.5	6.4
Overseas Equities	3.4	4.8	29.8	15.7	13.0	14.2	9.5
US Equities	5.3	6.4	35.0	19.3	16.6	18.3	8.4
Europe ex UK Equities	3.0	2.5	34.9	12.8	10.3	10.9	10.3
Japan Equities	-5.0	3.6	13.0	7.1	6.1	10.2	5.9
Pacific ex Japan Equities	0.0	1.6	11.3	12.0	8.4	9.2	11.6
Emerging Markets	-0.6	1.0	10.7	10.1	7.3	7.0	11.4
UK Long-dated Gilts	5.5	-2.8	-5.4	6.2	4.2	6.6	6.4
UK Long-dated Corp. Bonds	3.6	-2.4	1.1	8.3	5.6	7.6	6.6
UK Over 5 Yrs Index-Linked Gilts	5.2	0.5	4.6	7.3	4.5	8.0	7.6
High Yield (Global)	-2.3	0.4	2.6	4.4	3.5	8.1	8.2
Overseas Bonds	-2.2	-1.4	-9.4	1.5	-0.6	2.7	4.5
Property *	1.9	4.6	13.4	4.3	6.6	8.0	7.5
Cash	0.0	0.0	0.1	0.4	0.5	0.5	2.1
Commodities £-converted	4.1	11.2	63.8	0.0	2.7	-3.6	0.1
Hedge Funds original \$ basis *	-0.2	-0.4	21.6	8.4	7.2	5.8	6.1
Illustrative £-converted version *	1.8	2.0	16.6	7.2	6.4	7.4	6.6
Euro relative to Sterling	-1.8	-1.0	-6.3	-1.6	-1.2	-0.2	1.6
US \$ relative to Sterling	-1.6	1.4	-5.7	-2.3	-2.3	1.6	0.3
Japanese Yen relative to Sterling	-3.7	-2.4	-13.5	-2.7	-3.9	-2.1	0.7
Sterling trade weighted	1.7	0.1	5.9	1.9	2.1	0.2	-1.0
Price Inflation (RPI) *	0.4	1.5	4.9	2.8	3.1	2.6	2.9
Price Inflation (CPI) *	0.3	1.0	3.0	1.8	2.1	1.8	2.1
Price Inflation (RPIX) *	0.4	1.5	5.0	2.9	3.2	2.7	3.0
Earnings Inflation **	-0.7	-0.8	5.7	3.6	3.3	2.5	2.8
All Share Capital Growth	1.7	2.5	31.0	1.9	1.8	3.7	2.7
Dividend Growth	0.8	13.4	-9.6	-6.6	-0.6	3.0	3.3
Earnings Growth	2.5	22.6	62.4	-5.1	18.3	0.3	4.0

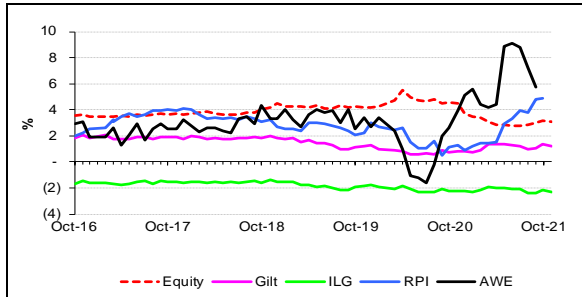
Note: All market returns are total returns for pension funds with income reinvested monthly. Indices used are as follows:

- UK Equities (incl. dividends and earnings) – FT-A All Share.
- Overseas Equities (incl. regions) – blend of FT All-World / World sub-indices
- Emerging Markets from MSCI US \$ based total return index (overall Index to 31 Oct 2001, Free Index from 1 Nov 2001 to take account of foreign investment restrictions), conversion to UK £ by J&A.
- UK Bonds – FT-A indices (Gilts Over 15 Years, ILG Over 5 Years)
- UK Corporate Bonds – iBoxx Non-Gilt **Over 15 Year** index (all credit ratings combined)
- High Yield – ICE Global, £ Unhedged
- Overseas Bonds – JP Morgan Traded Unhedged World ex UK
- Property – MSCI IPD UK Monthly Property Index
- Commodities – GSCI Total Return, converted to UK £ by J&A
- Hedge Funds Composite – HFRI US \$ based total return index plus converted to UK £ by J&A. **NB A smooth “cash + x%” return will only be shown in the base ‘hedged’ currency, here the US \$.**
- Cash – an indicative index based on the three-month London Interbank Sterling mid-rate, calculated internally by J&A
- Price and earnings inflation – RPI, CPI, RPIX, and Average Weekly Earnings (whole economy, not seasonally adjusted, latest provisional data)
- Currency data – London close, from the Financial Times
- * denotes data lagged by 1 month, ** by 2 months – these reflect the later publication dates of these data items.

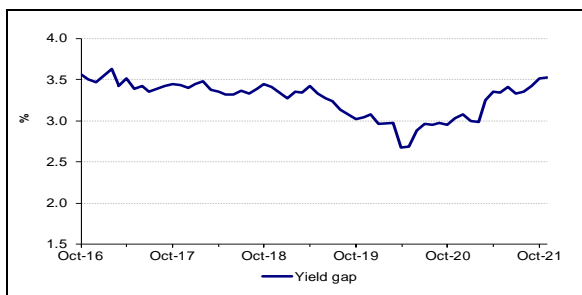


Yields and Yield Gaps

Figure 2: Yields, Inflation and Yield Gaps



The yield gap is a measure of expected average future inflation, derived as long bond yield minus ILG yield.

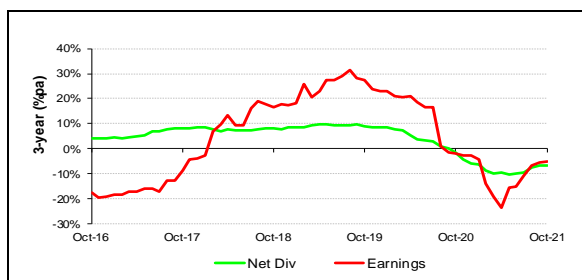
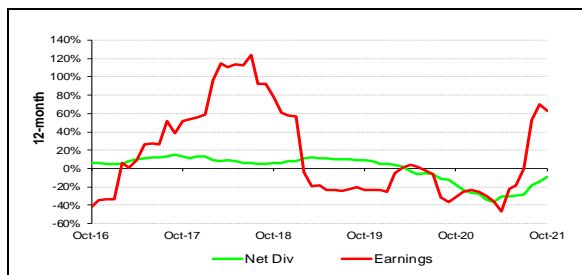


The gap gives a current expectation around 3.5% for longer-term inflation including the risk premium for gilts, relative to index-linked gilts.

Growth in Earnings and Dividends

These charts show movements in rolling 12-month and 3-year dividend and earnings growth for UK Equities over the last 5 years. [NB the charts have different scales]

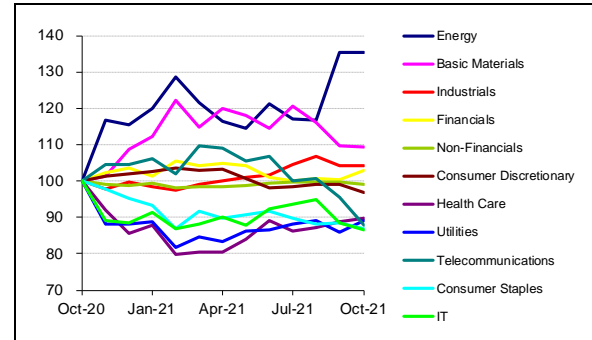
Figure 3: Dividend & Earnings Growth



Note: Earnings data from mid-2015 onwards is no longer reliable as one-off events may be affecting the prospective P/E ratios

UK Equity Sector Returns

Figure 4a: Sectors relative to All Share



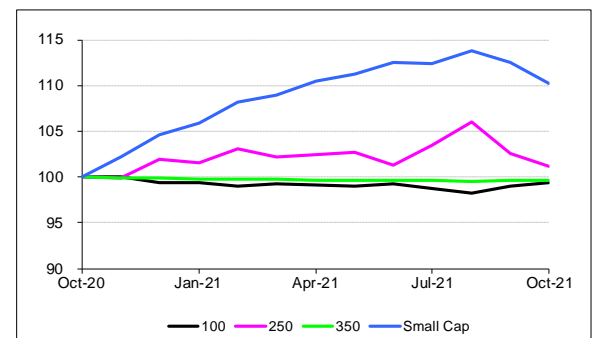
Note: Sector labels for relative lines are in end-value order

There was no change this month in the rolling 12-month sector dispersion (remaining at 49%).

(% absolute return)	1 mth	3 mth	12 mth
Energy	1.9	19.8	83.5
Basic Materials	1.5	-6.2	47.9
Industrials	1.6	3.0	41.0
Consumer Staples	-0.2	0.1	17.5
Health Care	3.2	7.8	21.7
Consumer Discretionary	-0.5	1.8	31.1
Telecommunications	-6.4	-9.2	18.9
Utilities	5.7	4.8	20.6
Non-Finan	1.1	2.8	34.0
Financials	4.2	6.2	39.1
IT	-0.6	-4.4	17.1
All Share	1.8	3.5	35.4

UK Equity Size Returns

Figure 4b: Size groups relative to All Share



This month, Mid Cap and Small Cap both fell relative to the All Share.

Sources for charts on this page:
Financial Times, Office for National Statistics, J&A



Bond market information

Figure 5: £ Non-Gilt Credit Margins

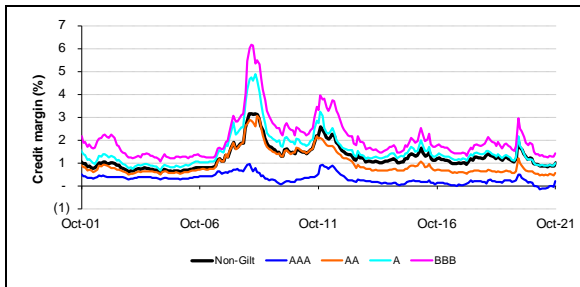


Table 2a: Over 15 Yr Corporate Yields & Margins

Month End	iBoxx Corp AA Y'ld (%)	FT 20 yr Gilt (%)	Margin (%)
May '21	1.93	1.29	0.64
Jun '21	1.86	1.23	0.63
Jul '21	1.62	1.00	0.62
Aug '21	1.65	1.07	0.58
Sep '21	2.01	1.39	0.62
Oct '21	1.78	1.19	0.59

Tables 2b, 2c: £ Market Size (£bn) and Maturity

Category	Mkt Val (£bn @ Oct 21 & 18, 15)			Weight (%)
Gilts (53)	1,786	1,289	1,200	73.1
Non-Gilts (1,170)	657	572	530	26.9
AAA (131)	127	117	97	5.2
AA (142)	77	82	96	3.1
A (379)	188	162	155	7.7
BBB (518)	265	210	182	10.8

Category	Mkt Val (£bn @ Oct 21, 18)		W't (%)	Dur'n (yrs)
Gilts (53)	1,786	1,289	73.1	13.0
< 5 Yrs (12)	415	346	17.0	2.9
5-15 Yrs (16)	548	336	22.5	8.2
> 15 Yrs (25)	822	606	33.7	21.3
Non-Gilts (1,170)	657	572	26.9	7.9
< 5 Yrs (417)	230	190	9.4	2.9
5-15 Yrs (518)	274	241	11.2	7.3
> 15 Yrs (235)	152	140	6.2	16.6

Tables 2d, 2e: € Market Size and Maturity (Oct 21)

Category	Mkt Val (€bn)	Weight (%)
Sovereigns (436)	7,662	58.8
Non-Sovereigns	5,361	41.2
AAA (998)	1,384	10.6
AA (779)	1,300	10.0
A (1,304)	1,151	8.8
BBB (1,903)	1,525	11.7

Category	Mkt Val (€bn)	Weight (%)
1 – 3 Yrs (1,324)	2,725	20.9
3 – 5 Yrs (1,311)	2,576	19.8
5 – 7 Yrs (1,067)	2,094	16.1
7 – 10 Yrs (915)	2,239	17.2
10+ Yrs (803)	3,389	26.0

Table 2f: Breakdown of £ Index-Linked Market

Category (Number of issues)	Mkt Val (£bn @ Oct 21 & 18)		W't (%)	Dur'n (yrs)
Gilts (31)	868	680	100.0	21.4
< 5 Yrs (4)	91	59	10.4	2.5
5 – 15 Yrs (8)	195	158	22.5	9.2
> 15 Yrs (19)	582	463	67.1	28.5

Table 2g: High Yield bond yields (BB-B indices)

Month End	US (%)	Euro (%)	Sterling (%)
May '21	4.35	2.66	4.12
Jun '21	4.21	2.61	4.14
Jul '21	4.23	2.60	4.18
Aug '21	4.18	2.58	4.18
Sep '21	4.25	2.69	4.32
Oct '21	4.40	2.94	4.65

Sources: DMO, FTSE, iBoxx, ICE, J&A

£ Gilt Market “main” Issuance

- o During the expanded gilt issuance programme, there is insufficient space here to list all the auction / tender exercises, so please click [here](#) for the details.

Note: Issuance amounts are nominals. The first % figure in each row is the yield or real yield. The second % figure is the additional amount taken up under the Post Auction Option Facility (PAOF), as a % of the amount of the issue. No PAOF applies for tender or syndication cases.

