Monthly

GATEMORE

Gatemore Pensions Summary (GPS)

January 2018

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MARKET COMMENTARY

Global markets enjoyed a strong start to 2018, continuing the already long-running bull market. The S&P 500 reached new record highs and the Dow Jones broke the 25,000 barrier for the first time. Emerging markets experienced significant asset inflows, partly because of a bout of debt-raising by emerging market sovereigns at the start of the month. Conversely, UK equities declined, in part due to a rebound in the value of sterling. Despite an exceptional start to the year, a change in market sentiment in the latter stages of the month signalled the possibility that a market correction may be on the horizon.

In other news:

- Sterling rose from $1.35 to $1.42.
- The yield on US 10-year treasuries climbed past 2.7% for the first time since 2014.
- The IMF raised its global growth forecasts for 2018 and 2019 to 3.9%, up 0.2 percentage points both years from its projection in October.
- The eurozone grew by 2.5% in 2017, its highest annual growth rate for a decade.

PERIODIC TABLE INDEX KEY

UK	UK Equities
EQ	World Equities
EM	Emerging Equities
>15Y	UK 15+ Gilts
IG	Global IG Credit
HY	Global HY Credit
COM	Commodities
PRO	Global Property
HF	Hedge Funds
PE	Private Equity

PERIODIC TABLE OF ASSET CLASSES

The chart below shows stacked performance figures for selected asset classes from best to worst. From left to right it shows a monthly performance for the last 12 months, then the YTD, 1yr and 3yr numbers. Gilt returns run across the middle, with anything above it outperforming and anything below underperforming.

	FEB 2017	MAR 2017	APR 2017	MAY 2017	JUN 2017	JUL 2017	AUG 2017	SEP 2017	OCT 2017	NOV 2017	DEC 2017	JAN 2018	YTD	1yr	3yr
WINNERS vs. Gilts					PRO 1.1%	EM 6.0%		PE 3.5%				PE 8.5%	PE 8.5%	EM 41.0%	
					EM 1.0%	EQ 2.4%		EQ 2.2%				EM 8.3%	EM 8.3%	PE 38.9%	
			EM 2.2%		EQ 0.6%	COM 2.3%		HY 0.7%				EQ 5.4%	EQ 5.4%	EQ 25.9%	PE 19.6%
			HY 1.7%	UK 4.9%	IG 0.4%	PRO 1.9%		HF 0.6%	PE 4.2%			HF 2.4%	HF 2.4%	UK 10.4%	EQ 12.3%
			PE 1.5%	EM 3.0%	HF 0.2%	PE 1.7%		COM (0.1)%	EM 3.5%			COM 2.0%	COM 2.0%	HY 9.7%	EM 11.8%
			EQ 1.4%	EQ 1.9%	HY 0.2%	IG 1.7%		IG (0.2)%	COM 2.1%		UK 5.0%	HY 1.2%	HY 1.2%	IG 8.8%	HY 7.8%
		EM 2.5%	IG 1.4%	PE 1.7%	COM (0.2)%	HY 1.5%		PRO (0.3)%	EQ 2.0%	PE 5.7%	EM 3.6%	IG 0.6%	IG 0.6%	HF 8.0%	UK 7.8%
		UK 1.1%	PRO 0.7%	IG 1.7%	PE (0.4)%	HF 0.9%		EM (0.4)%	UK 1.8%	PRO 3.1%	COM 3.0%	PRO (1.6)%	PRO (1.6)%	PRO 6.8%	IG 3.2%
		EQ 1.0%	HF 0.4%	HY 1.3%	UK (2.4)%	UK 0.9%		UK (0.7)%	HF 0.7%	EQ 2.3%	PE 2.6%	UK (2.0)%	UK (2.0)%	COM 3.6%	PRO 2.9%
Over 15y Gilts	>15Y 5.1%	>15Y 0.7%	>15Y 0.2%	>15Y 0.8%	>15Y (3.3)%	>15Y 0.2%	>15Y 3.4%	>15Y (4.0)%	>15Y 0.5%	>15Y 0.6%	>15Y 2.5%	>15Y (3.0)%	>15Y (3.0)%	>15Y 3.4%	>15Y 2.9%
LOSERS vs. Gilts	PE 4.4%	PE 0.2%	UK (1.3)%	HF 0.2%			EM 2.2%		HY 0.4%	IG 0.6%	PRO 1.2%				HF 2.4%
	PRO 3.2%	HY 0.1%	COM (1.5)%	PRO 0.2%			UK 1.6%		IG 0.1%	EM 0.2%	EQ 1.1%				COM (3.3)%
	UK 3.1%	HF 0.0%		COM (1.3)%			IG 0.8%		PRO (1.0)%	HF 0.1%	IG 0.8%				
	EM 3.1%	IG (0.0)%					HY 0.6%			HY 0.0%	HF 0.7%				
	EQ 2.8%	PRO (1.6)%					COM 0.4%			COM (0.5)%	HY 0.5%				
	HY 1.2%	COM (2.7)%					HF 0.3%			UK (1.8)%					
	HF 1.1%						PE 0.2%								
	IG 0.7%						EQ 0.2%								
	COM 0.2%						PRO (0.2)%								

Please see disclosures overleaf for indices used.

In case you missed it

Bond markets: is the bull run over?

A sell-off in government bonds has triggered fresh concern that a three-decade boom in the $50tn market could be coming to an end.

Financial Times article *

The case against pension fund consolidation

The drive for consolidation is a worrying development that could ultimately increase pension schemes' risk.

Investment & Pensions Europe article

IMF – world economic outlook

Global growth forecasts for 2018 and 2019 have been revised upward to 3.9%.

International Monetary Fund update

Robin Ellison: TPR 'decided not to exercise powers' despite trustee concern over Carillion schemes

A detailed insight into the efforts made by the trustees in trying to secure higher contributions for the Carillion schemes.

Professional Pensions article *

Alternatives now form core of some investor portfolios

The growing importance of alternative investments.

Investment & Pensions Europe article

Government puts defined ambition pensions on ice

According to government officials, now isn't the time to introduce the concept of collective defined contribution (CDC) schemes in the UK.

FTAdviser article

** Paywall*

STAT OF THE MONTH

403

days

Equities have risen in the US for 403 days without a 5% correction – the longest since 1996.

Source: Bloomberg

Monthly

WINNER
DB Investment Innovation of the year
GATEMORE CAPITAL MANAGEMENT LLP (UK)
2017
PROFESSIONAL PENSIONS
UK Pension Awards

WINNER
Multi–Asset Manager of the year
GATEMORE CAPITAL MANAGEMENT LLP (UK)
2017
PENSIONS AGE
Pensions Age Awards

WINNER
Investment Consultancy of the year
GATEMORE CAPITAL MANAGEMENT LLP (UK)
2016
PENSIONS EXPERT
Pension and Investment Provider Awards

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GPS VIEWPOINT

ETF fees and the equity market

The rapid ascent of passive investment, particularly in exchange-traded funds (ETFs), has prompted a record swell of inflows into low-cost index funds. By the end of September 2017, year-to-date net inflows for ETFs globally had reached $433 billion, increasing 79% from the same period in 2016. The upsurge has been propelled by favourable economic conditions and unprecedented cuts in fees by some of the largest ETF providers. As stock markets rise indiscriminately, it is easy to see why an ETF is a popular choice – they are cheap, transparent and provide liquid access to a rising market.

However, passive investing provides no distinction between good and bad companies. As money flows into ETFs, everything rises together and poorly run businesses increase in price with no regard to their real value. If stock prices rise together, active management struggles, passive investing becomes even more popular and the over-pricing of bad companies is exacerbated. However, once this extended bull run turns bearish, the first thing that will happen is that quick money will be taken off the table via ETFs, effectively compounding the sell-off. The secondary impact will be that poorly run companies will fall faster and harder as active managers come back into favour, increasing the pain of the passive investor. For all the positive attributes of ETFs, they could be an explosive contributor to the next financial crisis.

QUOTE OF THE MONTH

The world has tilted off its axis, and we believe owners of capital should be increasingly worried.

Seth Klarman
FOUNDER OF BAUPOST GROUP