

Monthly

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Gatmore Pensions Summary (GPS) January 2018

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)% | | | | | | | | | |

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

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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

How long until the next financial storm?



Important Information

Investors should read and carefully consider the Fund's offering documentation in full prior to making any investment decision in relation to the Fund.

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Indices in the periodic table – (UK) FTSE 100 Total Return Index GBP; (EQ) MSCI Daily TR Net World Ex UK USD; (EM) MSCI Emerging Net Total Return USD Index; (>15Y) FTSE Actuaries Govt Securities UK Gilts TR over 15 Yr; (IG) Bloomberg Barclays Global Agg Corporate Total Return Index Value Unhedged USD; (HY) Bloomberg Barclays Global High Yield Total Return Index Value Unhedged; (HF) Hedge Fund Research HFRX Global Hedge Fund Index; (PRO) S&P Global REIT USD Total Return Index; (COM) Bloomberg Commodity Index Total Return; (PE) Thomson Reuters Private Equity Buyout Index.