Monthly

GATEMORE

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Gatemore Pensions Summary (GPS)

January 2020

MARKET COMMENTARY

After the US signed a ‘phase-one’ trade agreement with China, political attention switched to the Middle East, where Iran attacked a US air base following the killing of General Suleimani. This initially caused an oil price spike, but that waned through the month. January also saw the coronavirus grip the world, already causing dozens of deaths in China, with reported cases spreading across Asia, to the US and Europe. The result was increasingly negative sentiment spreading through markets, causing equity markets to surrender a strong start to 2020. For the first time since August last year, Gilts were the best performing asset class as yields fell in a risk-off environment.

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 2019	MAR 2019	APR 2019	MAY 2019	JUN 2019	JUL 2019	AUG 2019	SEP 2019	OCT 2019	NOV 2019	DEC 2019	JAN 2020	YTD	1yr	3yr
WINNERS vs. Gilts	PE 4.4%		PE 4.6%		PE 12.8%				EM 4.2%		EM 7.5%				
	EQ 3.0%		EQ 3.6%		EQ 6.7%				EQ 2.5%	PE 5.5%	COM 5.0%				
	UK 2.3%		UK 2.3%		EM 6.2%				PRO 2.3%	EQ 2.8%	PE 4.3%				
	HY 1.4%		EM 2.1%		UK 4.0%			PE 4.0%	COM 2.0%	UK 1.8%	EQ 2.9%				
	COM 1.0%		HY 0.8%		HY 3.2%			UK 3.0%	IG 1.2%	HF 1.0%	UK 2.8%				
	HF 0.6%		HF 0.7%		IG 2.8%			PRO 2.7%	HY 0.8%	HY 0.1%	HY 2.6%				
	EM 0.2%		IG 0.5%		COM 2.7%			EQ 2.0%	HF 0.3%	EM (0.1%)	HF 1.2%				PE 16.6%
	IG 0.2%		PRO (0.4%)		PRO 2.1%			EM 1.9%	PE (0.6%)	IG (0.2%)	IG 0.9%			PE 26.3%	EQ 11.8%
	PRO (0.0%)		COM (0.4%)		HF 1.6%			COM 1.2%	UK (1.9%)	PRO (1.1%)	PRO (0.1%)			EQ 18.3%	PRO 9.1%
Over 15y Gilts	>15Y (1.7%)	>15Y 5.5%	>15Y (2.5%)	>15Y 4.5%	>15Y 0.2%	>15Y 3.2%	>15Y 6.6%	>15Y 0.9%	>15Y (3.1%)	>15Y (1.3%)	>15Y (2.4%)	>15Y 6.3%	>15Y 6.3%	>15Y 16.6%	>15Y 8.4%
LOSERS vs. Gilts		UK 3.3%		IG 0.7%		UK 2.2%	PRO 2.5%	HY 0.5%		COM (2.6%)		PE 2.3%	PE 2.3%	PRO 13.1%	EM 7.9%
		PRO 3.0%		PRO (0.2%)		PE 1.5%	IG 1.9%	HF 0.4%				IG 1.6%	IG 1.6%	IG 10.8%	IG 5.7%
		IG 1.6%		HF (0.7%)		HF 0.8%	HF 0.4%	IG (0.8%)				PRO 0.8%	PRO 0.8%	UK 9.4%	HY 5.4%
		EQ 1.3%		HY (1.0%)		PRO 0.7%	HY (1.6%)					HF 0.5%	HF 0.5%	HY 8.0%	UK 5.2%
		EM 0.8%		UK (2.9%)		EQ 0.6%	EQ (1.9%)					HY 0.1%	HY 0.1%	HF 6.9%	HF 2.4%
		PE 0.5%		COM (3.4%)		HY 0.4%	COM (2.3%)					EQ (0.4%)	EQ (0.4%)	EM 3.8%	COM (3.5%)
		HY 0.5%		EQ (5.8%)		IG 0.1%	PE (2.6%)					UK (3.4%)	UK (3.4%)	COM (5.4%)	
		HF 0.0%		EM (7.3%)		COM (0.7%)	UK (4.1%)					EM (4.7%)	EM (4.7%)		
		COM (0.2%)		PE (11.3%)		EM (1.2%)	EM (4.9%)					COM (7.4%)	COM (7.4%)		

Please see disclosures overleaf for indices used.
** Paywall.*

In case you missed it

TPR concerned about rise of risky DB pension investments

The regulator suggests climate change could introduce risks to some longer term illiquid investments.

Pensions Age article

Less research? No problem, hedge funds say

Reduction in research costs has led to less liquidity and sharper price swings.

Wall Street Journal article *

Pension funds are turning to private equity in search for yield

UK pension funds are following their US counterparts’ lead into the asset class.

Portfolio Institutional article

40% rise in public companies opting to leave stock exchange

Just 34 companies applied to list in UK last year, the lowest since 2009.

The Guardian article

The fallacy behind the rise of passive fund management

Index funds have grown because they are cheap and reduce human error but without active management they would not exist.

Financial Times article *

STAT OF THE MONTH

<0.5%

The area of the Sahara desert that would need to be covered in solar panels to meet Europe’s power needs.

Source: NASA, Gatemore research.

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6x Multi-Asset Award Winner

GPS VIEWPOINT

Are we peak assets?

Shareholders expect dividend growth and they hope for an increasing share price. Boards of directors look to oblige by growing their business year on year. For new firms this is generally done organically by winning new business and selling more stuff. However, if the market is saturated with a product or service, then either new higher margin products and services are developed (to increase profits and/or gain market share), the overall market needs to grow or the industry consolidates.

Within the investment world in the UK we are seeing downward pressure on costs, removing the higher margin option. That leaves the other two.

However, over the last ten years we have seen the post-war baby boomers retire. They are now in asset drawdown mode as they spend their savings. The younger generation therefore needs to fill the void but the young are not saving. They cannot afford to given the cost of living is so high. Add in that companies are not paying into generous pension funds for the younger generation, graduates are paying back expensive student loans, a house purchase is a pipe dream for most, and the UK savings picture is bleak.

We therefore question whether we are at peak UK assets right now. If the market is not growing it would explain the consolidation, and would imply more is to come. What this means is that we are heading towards an industry made up of a few massive investment providers offering standard, cheap product on the one hand and, and on the other — specialist, smaller but service-orientated firms: welcome to the supermarket model. Be careful what you wish for!

QUOTE OF THE MONTH

Well, what are you doing creeping around a cow shed at two o'clock in the morning? That does not sound very wise to me.

Terry Jones
(Feb 1942 — Jan 2020)
Life of Brian

Indices. 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. Credit spreads chart: BC UA Corporate Avg OAS, BC U.S. Corp HY Avg OAS, Barclays EA Corp Avg OAS, EM USD Aggregate Avg OAS. Source: Bloomberg.