Confidential

PMC Fund Commentaries

Q1 2022

This document is intended for Investors and Investment Professionals

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Performance and Attribution:
In one of the most challenging starts for fixed income markets in years, we saw a rapid rise in government bond yields led by an increase in inflation across developed markets. This was followed by an unexpected invasion of Ukraine, which led to a repricing of all asset classes, including government bonds.
Amidst this environment, the fund underperformed the benchmark and recorded a negative total return during the quarter.

Key positive contributors:

- Portfolio protection, held in Credit-Default Swap indices, contributed to performance as credit spreads sold off through the quarter.
- Our active rates strategies contributed to performance, predominantly driven by our medium-term view that rates were on an upward trajectory, which led us to sell duration on various markets during the month. Those positions performed well amidst the aggressive repricing of monetary policy in the US, Europe and in the UK.

Key negative contributors:

- We had very low exposure to Russian and Ukrainian bonds (under 0.2% of the portfolio, combined) so the adverse price impact of those exposures was limited, however exposure to Emerging Market Debt detracted from performance as Russia's invasion of Ukraine shook market confidence. The sell-off rapidly spread beyond the affected region, which adversely affected our diversified exposure
- Beyond Emerging Market Debt, all Developed Market Investment Garde Corporate markets, which forms the bulk of our exposure, recorded negative excess and total returns, which affected the fund despite our moderate credit exposure.
- Exposure to European subordinated debt, particularly to Cocos, detracted from performance amidst the sell-off as markets became worried about the exposure of European banks to Russia. Cocos retraced some of their underperformance in the second half of March but nonetheless underperformed the broader market.

Positioning:
The fund started the year with a credit positioning between defensive and neutral as a reflection of how expensive valuations in Investment Grade and High yield corporate bonds were on a long-term basis. During the quarter, the activity in the portfolio was dominated by the management of the direct and indirect downside risk around the Russia-Ukraine conflict. We reduced our diversified exposure to Emerging Market debt soon after the conflict escalated. We also added some protection to the portfolio early March via Credit-Default Swap indices focussing on European markets as the risk of contagion was more prominent. We removed some of that protection late March but kept some to hedge out further tail risks. Once markets stabilised, we used primary issuance to add some select credit exposure in attracted areas such as some subordinated European Financials and Corporates which had underperformed amidst the conflict.

Main portfolio themes:

- Valuations have cheapened up materially over the last quarters, with Emerging Market, Euro Investment grade and High Yield debt now at much more attractive levels on a historical basis, with other areas of value seen in subordinated financials.
- We are maintaining low levels of credit protection, having taken some profit on those positions during the sell-off in March
- We still balance our risk exposures with a large liquidity buffer as we remain neutral on overall market risk appetite, given the imperative of central banks to tighten financial conditions through rises in interest rates and the end of their quantitative easing programs.

Absolute Return Bond Plus Fund

Performance and Attribution:

In one of the most challenging starts for fixed income markets in years, we saw a rapid rise in government bond yields led by an increase in inflation across developed markets. This was followed by an unexpected invasion of Ukraine, which led to a repricing of all asset classes, including government bonds.

Amidst this environment, the fund underperformed the benchmark and recorded a negative total return during the quarter.

Key positive contributors:

- Portfolio protection, held in Credit-Default Swap indices, contributed to performance as credit spreads sold off through the quarter.
- Our active rates strategies contributed to performance, predominantly driven by our medium-term view that rates were on an upward trajectory, which led us to sell duration on various markets during the month. Those positions performed well amidst the aggressive repricing of monetary policy in the US, Europe and in the UK.

Key negative contributors:

- We had moderate exposure to Russian and Ukrainian bonds which detracted from performance, however exposure to Emerging Market Debt detracted from performance as Russia's invasion of Ukraine shook market confidence. The sell-off rapidly spread beyond the affected region, which adversely affected our diversified exposure.
- Beyond Emerging Market Debt, all Developed Market Investment Garde Corporate markets, which forms the bulk of our exposure, recorded negative excess and total returns, which affected the fund despite our moderate credit exposure.
- Exposure to European subordinated debt, particularly to Cocos, detracted from performance amidst the sell-off as markets became worried about the exposure of European banks to Russia. Cocos retraced some of their underperformance in the second half of March but nonetheless underperformed the broader market.
- We had low exposures to Emerging Market currencies which provide higher carry than Developed Market currencies, but detracted from performance amidst the turmoil in markets during the quarter

Positioning:

The fund started the year with a credit positioning near neutral as a reflection of how expensive valuations in Investment Grade and High yield corporate bonds were on a long-term basis. During the quarter, the activity in the portfolio was dominated by the management of the direct and indirect downside risk around the Russia-Ukraine conflict. We reduced our diversified exposure to Emerging Market debt soon after the conflict escalated. We also added some protection to the portfolio early March via Credit-Default Swap indices focussing on European markets as the risk of contagion was more prominent. We removed some of that protection late March but kept some to hedge out further tail risks. Once markets stabilised, we used primary issuance to add some select credit exposure in attracted areas such as some subordinated European Financials and Corporates which had underperformed amidst the conflict.

Main portfolio themes:

- Valuations have cheapened up materially over the last quarters, with Emerging Market, Euro Investment grade and High Yield debt now at much more attractive levels on a historical basis, with other areas of value seen in subordinated financials.
- We are maintaining low levels of credit protection, having taken some profit on those positions during the sell-off in March
- We still balance our risk exposures with a large liquidity buffer as we remain neutral on overall market risk appetite, given the imperative of central banks to tighten financial conditions through rises in interest rates and the end of their quantitative easing programs.

Active Corporate Bond All Stocks

Performance and Attribution:

During the quarter, the fund delivered strong positive outperformance versus the benchmark, gross of fees. This is following a strong 2021 where the fund also outperformed the benchmark and delivered in excess of its stated outperformance target for the second year in a row.

Key positive contributors:

- Credit allocation and credit selection were the main drivers of performance
- At the sector level, positive contributions came from the underweight to sub-sovereigns as swap spreads widened, overweight to financial services and industrials also contributed
- Our exposure to US Dollar and Euro credit also contributed to performance as the region was less affected by the Russia-Ukraine conflict compared to Sterling credit.
- At the single name level, the top performers were led by the overweight positions in EDF, Mexico and Lloyds

Key negative contributors:

- The underweight to utilities and telecommunications detracted marginally over the period
- The single name detractors were led by the small overweight exposure to Gazprom. We had held the position due to its short-dated carry and attractive coupon that the issuer was paying. The bond repriced severely amidst the turmoil falling as low as 15; however Gazprom paid the coupon that was due on the 6th April 2022, alleviating some of the market's concerns around the issuer's willingness to pay. We are looking to exit the position in its entirety should market conditions allow. It is worth noting that the underperformance suffered by having held this small position was around half the performance gain from the now defaulted Russian Railways in which the fund had a zero position.

Positioning:

Main portfolio themes:

- Over the quarter, we have tended to reduce our exposure to reopening sectors (for example, in airports names) given the premium has declined
- We remain wary of the inflation exposure in portfolios and we have focused our attention on sectors benefitting from the inflation driven yield rises – hence our overweight in banks as well as adding senior bank debt structures over sub-financials as an up in quality trade.
- We continued to be underweight Bank of England CBPS (Corporate Bond Purchase Scheme) names ahead of £20bn programme unwind
- We continued to favour a barbell strategy being overweight short dated credit versus underweight long end credit, overweight carry (HY, hybrids, & short dated BBBs) and holding healthy gilts and cash balances (~10-15%) as firepower
- We also added Euro & USD credits on attractive valuations given the re-pricing in Q1 pre and post Ukraine – Russia conflict
- In terms of realised fund duration, we are still holding a small underweight to duration vs the benchmark increased via the overweight to subordinated financials & corporate hybrids positioning (less duration sensitive).

Outlook:

Recession risks are on the rise. In Europe, consensus growth estimates are dropping as the cost of energy rises. Should Russian gas get turned off as a response to the war in Ukraine, the likelihood of a near-term recession would increase substantially. Meanwhile, the US economy appears to be overheating and looks like it will prompt one of the fastest Fed hiking cycles on record. Inflation and geopolitical tensions remain a considerable headwind for credit markets at present, risks appear to be skewed to the downside.

That said, a large proportion of those risks are priced in, with both yields and spreads both markedly higher compared to the end of 2022. With equities still expensive on a historical basis whilst fixed income markets now much more attractive and corporate fundamentals remain healthy, we believe that there is a case for credit markets to stabilise and higher yields and wider spreads to prove attractive, provided that the Russia-Ukraine conflict does not escalate further.

Active Corporate Bond Over 10 Year

Performance and Attribution:

During the quarter, the fund delivered strong positive outperformance versus the benchmark, gross of fees. This is following a strong 2021 where the fund also outperformed the benchmark and delivered in excess of its stated outperformance target for the second year in a row.

Key positive contributors:

- Credit selection and rates were the main drivers of performance
- At the sector level, positive contributions came from the underweight to securitised while overweight to financial services and industrials also contributed

- Our exposure to US Dollar and Euro credit also contributed to performance as the region was less affected by the Russia-Ukraine conflict compared to Sterling credit.
- At the single name level, the top performers were led by the overweight positions in M&G, Mexico and EDF

Key negative contributors:

- The overweight to household goods and real estate detracted marginally over the period
- In terms of single name detractors, this was led by Yorkshire Water, CK Hutchison and Orsted.

Positioning:

Main portfolio themes:

- Over the quarter, we have tended to reduce our exposure to reopening sectors (for example, in airports names) given the premium has declined
- We remain wary of the inflation exposure in portfolios and we have focused our attention on sectors benefitting from the inflation driven yield rises – hence our overweight in banks as well as adding senior bank debt structures over sub-financials as an up in quality trade.
- We continued to be underweight Bank of England CBPS (Corporate Bond Purchase Scheme) names ahead of £20bn programme unwind
- We continued to favour a barbell strategy being overweight short dated credit versus underweight long end credit, overweight carry (HY, hybrids, & short dated BBBs) and holding healthy gilts and cash balances as firepower
- We also added Euro & USD credits on attractive valuations given the re-pricing in Q1 pre and post Ukraine – Russia conflict
- In terms of realised fund duration, we are still holding a small underweight to duration vs the benchmark increased via the overweight to subordinated financials & corporate hybrids positioning (less duration sensitive).

Outlook:

Recession risks are on the rise. In Europe, consensus growth estimates are dropping as the cost of energy rises. Should Russian gas get turned off as a response to the war in Ukraine, the likelihood of a near-term recession would increase substantially. Meanwhile, the US economy appears to be overheating and looks like it will prompt one of the fastest Fed hiking cycles on record. Inflation and geopolitical tensions remain a considerable headwind for credit markets at present, risks appear to be skewed to the downside.

That said, a large proportion of those risks are priced in, with both yields and spreads both markedly higher compared to the end of 2022. With equities still expensive on a historical basis whilst fixed income markets now much more attractive and corporate fundamentals remain healthy, we believe that there is a case for credit markets to stabilise and higher yields and wider spreads to prove attractive, provided that the Russia-Ukraine conflict does not escalate further.

Active GBP Collateralised and Corporates Fund

Performance and Attribution:
During the quarter, the fund delivered strong positive relative outperformance versus the benchmark, gross of fees.
Key positive contributors:

- Credit selection was the main driver of performance
- At the sector level, positive contributions came from the underweight to food & beverage and the overweight to financial services
- Our exposure to US Dollar (and Euro credit) also contributed to performance as the region was less affected by the Russia-Ukraine conflict compared to Sterling credit.
- At the single name level, the top performers were led by the overweight positions in Associated British Food, Lloyds and EDF

Key negative contributors:

- The underweight to utilities detracted over the period
- The single name detractor was led by the small exposure to Gazprom (although this was below index weight). We had held the position due to its short-dated carry and attractive coupon that the issuer was paying. The bond repriced severely amidst the turmoil falling as low as 15; however, Gazprom paid the coupon that was due on the 6th of April 2022, alleviating some of the market's concerns around the issuer's willingness to pay. We are looking to exit the position in its entirety should market conditions allow.

Positioning:

- Over the quarter, we have tended to reduce our exposure to reopening sectors (for example, in airports names) given the premium has declined
- We remain wary of the inflation exposure in portfolios, and we have focused our attention on sectors benefitting from the inflation driven yield rises – hence our overweight in banks as well as adding senior bank debt structures over sub-financials as an up in quality trade.
- We continued to be underweight Bank of England CBPS (Corporate Bond Purchase Scheme) names ahead of £20bn programme unwind
- We continued to favour a barbell strategy being overweight short-dated credit versus underweight long end credit, overweight carry (HY, hybrids, & short-dated BBBs) and holding healthy gilts and cash balances as firepower
- We also added Euro & USD credits on attractive valuations given the re-pricing in Q1 pre and post Ukraine – Russia conflict
- In terms of realised fund duration, we are still holding a small underweight to duration vs the benchmark due to the overweight to subordinated financials & corporate hybrids positioning (which are less duration sensitive).

Outlook:

Recession risks are on the rise. In Europe, consensus growth estimates are dropping as the cost of energy rises. Should Russian gas get turned off as a response to the war in Ukraine, the likelihood of a near-term recession would increase substantially. Meanwhile, the US economy appears to be overheating and looks like it will prompt one of the fastest Fed hiking cycles on record. Inflation and geopolitical tensions remain a considerable headwind for credit markets at present, risks appear to be skewed to the downside.
That said, a large proportion of those risks are priced in, with both yields and spreads both markedly higher compared to the end of 2021. With equities still expensive on a historical basis whilst fixed income markets now much more attractive and corporate fundamentals remain healthy, we believe that there is a case for credit markets to stabilise and attract further investor interest, provided that the Russia-Ukraine conflict does not escalate further.

Buy and Maintain

The portfolio return was negative for the first quarter as gilt yields rose and credit spreads widened. Investment risks multiplied during the quarter as Russia launched a full-scale invasion of Ukraine, inflation continued to move higher exacerbated by energy price shocks, monetary policy tightened, and Chinese COVID containment policies threaten global supply chains.

Headline (CPI) annual inflation hit 6.2% in the UK, 8.5% in the US and 7.5% in Europe during the quarter, the highest levels since the early 1980s. The US Federal Reserve raised rates by 25bps, and the Bank of England by 50bps over the quarter. Yields moved significantly higher over the quarter in anticipation of the monetary tightening. The 2-year US Treasury yield increased from 0.75% to 2.5% and the 2-year Gilt yield increased from 70bps to 1.35% detracting from returns. Curves also flatten and some briefly inverted. Given the very high inflation prints it is widely anticipated that central banks will aggressively raise rates to re-anchor inflation expectations.

Credit spreads in all sectors moved wider over the quarter detracting from returns as investors weighted the multitude of increased risks. For the time being corporate margins appear strong, debt servicing costs are low, and companies have reduced debt ratios after the initial pandemic spike. However, higher labour costs and cost-of-living crisis squeezing real incomes are likely to test the pricing power of corporates if they can maintain their profit margins, or if there will be some margin compression in defence of market share.

Core Plus Fund

Performance and Attribution:

The fund has underperformed the benchmark during the quarter, primarily due to asset allocation and credit selection.

Key positive contributors:

- Our active rates strategies contributed to performance, predominantly driven by our medium-term view that rates were on an upward trajectory, which led us to sell duration on various markets during the month. Those positions performed well amidst the aggressive repricing of monetary policy in the US, Europe and in the UK.

- Our exposure to US Dollar credit contributed to performance as the region was less affected by the Russia-Ukraine conflict compared to Sterling credit.

Key negative contributors:

- Exposure to Emerging Market Debt detracted from performance as Russia's invasion of Ukraine shook market confidence. The sell-off rapidly spread beyond the affected region, which adversely affected our diversified exposure. We held a combination of diversified exposure and a concentrated exposure in Gazprom, which significantly detracted from performance. We had held the position due to the attractive coupon that the issuer was paying. The bond repriced severely amidst the turmoil; however, Gazprom paid the coupon that was due on the 6th April 2022, alleviating some of the market's concerns around the issuer's willingness to pay. We have reduced some of that exposure when the liquidity returned and continue to monitor the situation closely
- Exposure to European subordinated debt, particularly to Cocos, detracted from performance amidst the sell-off as markets became worried about the exposure of European banks to Russia. Cocos retraced some of their underperformance in the second half of March but nonetheless underperformed the broader market.

Positioning:

The activity in the portfolio was dominated by the management of the direct and indirect downside risk around the Russia-Ukraine conflict. We added some protection to the portfolio early March via Credit-Default Swap indices focussing on European markets as the risk of contagion was more prominent. We removed some of that protection late March but kept some to hedge out further tail risks. Once markets stabilised, we used primary issuance to add some subordinated European Financials which had underperformed amidst the conflict.

Main portfolio themes:

- We have not materially altered our positioning during the quarter, instead we focussed on tactical risk management and looked for areas where we were comfortable enough to add credit exposure. We continue to maintain conservative cash buffers which we haven't deployed yet given the level of uncertainty of the outcome of the Russia-Ukraine conflict and extent of the monetary tightening to come from central banks
- Despite being a source of underperformance during the quarter, we continue to hold diversified Emerging Market Debt exposure which we believe provides an attractive long-term source of additional returns
- In terms of rates exposure, we have brought positioning closer to neutral throughout the quarter, as it was unclear whether the flight to quality or the concerns around inflation would supersede. We instead have been looking for opportunities for relative value trades less directly dependent on the aftermath of the Russia-Ukraine conflict.

Outlook:

Recession risks are on the rise. In Europe, consensus growth estimates are dropping as the cost of energy rises. Should Russian gas get turned off as a response to the war in Ukraine, the likelihood of a near-term recession would increase substantially. Meanwhile, the US economy appears to be overheating and looks like it will prompt one of the fastest Fed hiking cycles on record. Inflation and geopolitical tensions remain a considerable headwind for credit markets at present, risks appear to be skewed to the downside.

That said, a large proportion of those risks are priced in, with both yields and spreads both markedly higher compared to the end of 2022. With equities still expensive on a historical basis whilst fixed income markets now much more attractive and corporate fundamentals remain healthy, we believe that there is a case for credit markets to stabilise, provided that the Russia-Ukraine conflict does not escalate further.

Global Corporate Bond Fund

Performance and Attribution:
The fund has underperformed the benchmark during the quarter, primarily due to asset allocation and credit selection.

Key positive contributors:

- Our active rates strategies contributed to performance, predominantly driven by our medium-term view that rates were on an upward trajectory, which led us to sell duration on various markets during the month. Those positions performed well amidst the aggressive repricing of monetary policy in the US, Europe and in the UK.

Key negative contributors:

- Exposure to Emerging Market Debt detracted from performance as Russia's invasion of Ukraine shook market confidence. The sell-off rapidly spread beyond the affected region, which adversely affected our diversified exposure. Our exposure to Russia and Ukraine was flat compared to the benchmark, with a small underweight to Russia and a small overweight to Ukraine, so there was no adverse impact on performance from exposure to those two countries.
- Exposure to European subordinated debt, particularly to Cocos, detracted from performance amidst the sell-off as markets became worried about the exposure of European banks to Russia. Cocos retraced some of their underperformance in the second half of March but nonetheless underperformed the broader market.

Positioning:
The activity in the portfolio was dominated by the management of the direct and indirect downside risk around the Russia-Ukraine conflict. We added some protection to the portfolio early March via Credit-Default Swap indices focussing on European markets as the risk of contagion was more prominent. We removed some of that protection late March but kept some to hedge out further tail risks. Once markets stabilised, we used primary issuance to cover some of our US Dollar credit exposure and we added some subordinated European Financials which had underperformed amidst the conflict.

Main portfolio themes:

- We have not materially altered our positioning during the quarter, instead we focussed on tactical risk management and looked for areas where we were comfortable enough to add credit exposure. We continue to maintain conservative cash buffers which we haven't deployed yet given the level of uncertainty of the outcome of the Russia-Ukraine conflict and extent of the monetary tightening to come from central banks
- Despite being a source of underperformance during the quarter, we continue to hold diversified Emerging Market Debt exposure which we believe provides an attractive long-term source of additional returns

- In terms of rates exposure, we have brought positioning closer to neutral throughout the quarter, as it was unclear whether the flight to quality or the concerns around inflation would supersede. We instead have been looking for opportunities for relative value trades or trades on markets less directly dependent on the aftermath of the Russia-Ukraine conflict, such as Australian rates.

Index-Linked Bond Fund

Performance and Attribution:
The fund outperformed the benchmark during the quarter as rates and inflation markets continued to be volatile. Central Banks in the developed world firmed up their hawkish stance, faced with the prospects tighter labour markets and longer-lasting inflationary pressure than anticipated. Supply bottlenecks eased modestly, and towards the end of the quarter, the emergence of the Omicron variant led to a retracement of the government bond yields rise as investors rushed toward safer assets.
During this volatile quarter we have continued to look for opportunities which were not directly linked to Central Banks' reactions, which we believe are in the process of adapting to a higher inflation environment.
The primary contributors to performance were as follows:

- We had a long-standing position in an Australian rates curve flattener, which contributed to performance as market participants stopped believing that the RBA was committed to yield curve control, resulting in a sharp sell-off in front end rates.
- During the quarter we also added a short Italian rates position as we believed that improving economic growth prospects in Europe would lead the market to question whether the ECB maintain the high level of QE which has supported the periphery. This view materialised and contributed to performance.
- Mid-December, we sold gilts against US Treasuries as we believed that the UK would exhibit resilience against the rise of the Omicron variant and avoid further restrictive measures, whereas the US appeared more vulnerable given the lower number of vaccinations per capita. The rationale played out, and gilt yields increased in December in anticipation of more hawkish BoE policy. We took profit late December.
- Lastly, with supply chain problems extending and hitting inflation expectations, we became concerned about the speed and the scale of the re-pricing of developed market rates We therefore upsized a duration underweight, which contributed to performance

Many of our positions have been tactical in the quarter, driven by very sharp and unexpected moves which have presented opportunities to generate outperformance. We have closed a number of these positions as the rationales played out, but we maintained a short duration bias into year-end as we believe this narrative will drive Rates & Inflation markets in 2022.

Outlook:
As the year has unfolded, we have had to become increasingly humble about our ability to forecast inflation and Central Bank reaction to this new environment, with the added complication of an ever-evolving pandemic. We started the year thinking inflation would be transitory, but our view changed as it became clear that wage pressure, fiscal stimulus and tight labour markets were going to be longer-lasting than we had thought. We believe that in 2022 market participants will move away from the transitory versus non-transitory inflation debate and focus on predicting how high rates will have to go to curb inflation. With that in mind, we will look to maintain a

short bias on the fund overall and may own long duration exposure to markets which are more interested-rate sensitive such as Australia and Canada given their higher levels of household debt.

Secure Income Assets Fund

The Fund continues to grow, and over the quarter drew down further capital to invest in an infrastructure company that delivers metering and data services to UK consumers. We have also approved three further investments, notably in the real estate debt space. We hope to execute these financings during Q2 2022.

Financial markets in Q1 were highly volatile, reflecting a number of issues, including: the horrific events in Ukraine, continuing high inflation, and central bank policy activities and messages. A recent inversion of the treasury yield curve has been taken by markets which could imply recessionary pressures. Although some recent Q2 moves have seen some re-steepening, we believe recessionary risks persist, which supports our investment philosophy and risk focus.

Publicly traded bond credit spreads have pushed wider, particularly in high yield markets. As expected, private markets slightly lagged these movements given their nature. We currently see greatest private market value at shorter and medium durations, as spreads at the longer end respond to the public market widening and greater macro uncertainty. Against this backdrop we remain highly selective, and our focus as ever is on sourcing investments with appropriate credit quality, robust structural protections, and good value.

UK Fixed Interest All Stocks

Performance and Attribution:
The fund outperformed the benchmark during the quarter as rates and inflation markets continued to be volatile. Central Banks in the developed world firmed up their hawkish stance, faced with the prospects tighter labour markets and longer-lasting inflationary pressure than anticipated. Supply bottlenecks eased modestly, and towards the end of the quarter, the emergence of the Omicron variant led to a retracement of the government bond yields rise as investors rushed toward safer assets.

During this volatile quarter we have continued to look for opportunities which were not directly linked to Central Banks' reactions, which we believe are in the process of adapting to a higher inflation environment.

The primary contributors to performance were as follows:

- We had a long-standing position in an Australian rates curve flattener, which contributed to performance as market participants stopped believing that the RBA was committed to yield curve control, resulting in a sharp sell-off in front end rates.
- During the quarter we also added a short Italian rates position as we believed that improving economic growth prospects in Europe would lead the market to question whether the ECB maintain the high level of QE which has supported the periphery. This view materialised and contributed to performance.
- Mid-December, we sold gilts against US Treasuries as we believed that the UK would exhibit resilience against the rise of the Omicron variant and avoid further restrictive measures, whereas the US appeared more vulnerable given the lower number of vaccinations per capita. The rationale played out, and gilt yields increased in December in anticipation of more hawkish BoE policy. We took profit late December.

- Lastly, with supply chain problems extending and hitting inflation expectations, we became concerned about the speed and the scale of the re-pricing of developed market rates We therefore upsized a duration underweight, which contributed to performance

Many of our positions have been tactical in the quarter, driven by very sharp and unexpected moves which have presented opportunities to generate outperformance. We have closed a number of these positions as the rationales played out, but we maintained a short duration bias into year-end as we believe this narrative will drive Rates & Inflation markets in 2022.

UK Fixed Interest Over 15 Years

Performance and Attribution:

The fund outperformed the benchmark during the quarter as rates and inflation markets continued to be volatile. Central Banks in the developed world firmed up their hawkish stance, faced with the prospects tighter labour markets and longer-lasting inflationary pressure than anticipated. Supply bottlenecks eased modestly, and towards the end of the quarter, the emergence of the Omicron variant led to a retracement of the government bond yields rise as investors rushed toward safer assets.

During this volatile quarter we have continued to look for opportunities which were not directly linked to Central Banks' reactions, which we believe are in the process of adapting to a higher inflation environment.

The primary contributors to performance were as follows:

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Many of our positions have been tactical in the quarter, driven by very sharp and unexpected moves which have presented opportunities to generate outperformance. We have closed a number of these positions as the rationales played out, but we maintained a short duration bias into year-end as we believe this narrative will drive Rates & Inflation markets in 2022.

Multi Asset

Diversified Fund

The DF returned -2.3% over the quarter. Its long-term comparator of developed global equities (as measured by the FTSE Developed World Index, 50% hedged to GBP) returned -3.4%. Since inception the DF has returned + 8.1% p.a. Realised returns for the long-term comparator (FTSE Developed World Index, 50% hedged to GBP) were +13.2% p.a. Our long-term return expectation (for both developed equities as well as for the Diversified Fund) is around risk-free rates +3.5-4% or c. 4.2% since inception. We don't expect the DF to match equity returns in an extended market rally given the DF's diversified composition and in general expect the DF to outperform equities in a downmarket given its diversified asset allocation.
The fund's realised volatility since inception reflects 64% of the volatility of its long-term comparator, developed global equities (as measured by the FTSE Developed World Index, 50% hedged to GBP). This is in line with the fund's volatility target.

Contributions to Fund Return:

Commodities, listed infrastructure, and UK property were the main positive contributors to performance over the quarter. Investment grade credit, Europe (es UK) equities and high yield bonds detracted from performance.

Fund Positioning:

There were no changes to the strategic asset allocation over the quarter.

Dynamic Diversified Fund

The DDF returned -2.32% over the quarter. This takes since inception performance to 6.7% p.a. versus the objective of 4.9%.

Contributions to Fund Return:

- The main asset contributions to performance came from overseas currency as the pound declined versus the US dollar, Gold Miners (gaining c. 20% over the quarter) and Global Infrastructure. The latter provides a good example of how listed "real" alternative asset classes can do well in a stronger inflation environment.
- Emerging Markets were the most impacted over the quarter particularly debt due to the exposure to Russia and the Ukraine, but emerging equities also underperformed. Developed market bonds lost ground over the period due to worsening inflation concerns over the quarter. Developed market equities also detracted from performance with European (ex UK equities) the most affected partly due to Europe's proximity to the conflict in Ukraine and reliance on Russian gas.

Fund Positioning:

Within the DDF we made the following changes over the quarter:

- **Equities**. We reduced Emerging market equity exposure and increased Developed, as there are signs that the Covid outbreak will adversely impact Chinese growth. We also slightly reduced our exposure to gold miners, as inflationary and geopolitical concerns have seen a sharp increase in the price of gold alongside greater than commensurate performance of gold miners. Given the level of current geopolitical risks we retain a reasonably high exposure to the asset class. Following the sharp weakness of European equities and spike in implied volatility after the Russian invasion of Ukraine we removed the put options on European equities and lowered the exposure to UK equities, which had performed relatively well. Further reductions in option protection occurred in early March as equities moved sharply weaker, though we began to re-establish after a recovery in equity markets. We also added an option strategy to benefit from further strength in the energy sector, as significantly higher gas and oil prices from here could increase recession risks.
- **Government bonds**. We increased our exposure to Gilt futures whilst reducing exposure to Canadian government bond futures and latterly US treasury futures. We believe the UK faces significant headwinds, though very few economists have UK recession as a base case. We do not think it will be long before expectations start to turn more dovish which would be positive for gilts.
- Additionally, we increased our exposure to Australian government bond futures, whilst closing our holding in Korean government bond futures as the Korean market had out-performed, and as Australia is one of our preferred government bond markets.
- **Emerging Market debt.** We added exposure to Indian sovereign (local currency) bonds over the quarter to enhance diversification within the Fund. India is currently not part of Emerging Market Debt local indices and the allocation complements our existing EMD local exposure. The Indian bonds offer attractive nominal and rates (similar to other EM bond markets) as well as low currency volatility given the managed currency. The bonds are also relatively uncorrelated with other EM bond markets and equities given low foreign ownership. We also closed our South African bonds after yields fell sharply then re-added the position later in the quarter after yields rose again.
- **Currency** We added a position in the Swedish krone on valuation grounds and took profits on our Polish zloty position as negative sentiment in the Polish zloty was pared. Fortunately this was prior to the Russian invasion which resulted in contagion risk with Central and Eastern European markets. During this dislocation we added a position to the high-yielding Czech currency, whilst reducing euros. We also reduced the fund's yen exposure versus the US dollar on expectations that a faster pace of Fed rate hikes would support the latter.

Diversified Multi-Factor Equity Fund

Market review:
The first quarter of the year was a weak one for risk assets with markets impacted by both news of Russia's invasion of Ukraine and continued rising inflation. The quarter saw the biggest sell-off in risk assets since March 2020, a result of concerns over the policy response to inflation and the developments in Ukraine, which led to unprecedented sanctions on Russia and investors grew concerned about the potential for an escalation in the violence. The conflict also led to heightened concern over global energy supply, and other commodities, which served to increase already bubbling inflationary pressures. This led to an assertive pivot towards tightening monetary policy from global central banks.

Despite recovering towards the end of the quarter, equities were generally negative, with UK large-cap equities' relatively flat returns a notable exception given their bias towards commodity companies. The biggest negative impact of the Russian invasion was felt mainly by Russian and Ukrainian assets which had a knock-on impact emerging market equities. It was also a very weak quarter for developed market sovereign bonds, given the rising yields caused by the change in tone from central banks. Commodities were the big outperformer during the quarter.

Fund review:
The diversified multi-factor equity fund was down -1.5% in the first quarter of 2022, whilst its comparator was down -3.2%.

This brings the fund return since inception to 7.3% p.a. which is behind the comparator, which has returned 9.0% p.a.

Performance drivers:
Factors were a key driver of the relative outperformance. Whilst low volatility was slightly ahead of the market, value performed very strongly across multiple regions. This was driven by higher government bond yields globally, causing value stocks to outperform growth.

UK equities outperformed other regions over the period, with this being driven by the largest stocks in the UK index; large banks and energy companies which outperformed the rest of the market due to higher energy prices and bond yields. As a result of this, the fund's diversified stock weighting scheme detracted over the month.

As equity markets were sharply lower over the period, the fund's lower market exposure (as measured by beta) added significantly to the overall fund performance.

Euro Diversified Fund

The EDF returned -3.7% over the quarter. Its long-term comparator of developed global equities (as measured by the FTSE Developed Index, 50% hedged to EUR) returned -3.9%.

Since inception the EDF has returned + 6.0% p.a. Realised returns for the long-term comparator (FTSE Developed Index, 50% hedged to EUR) were +11.2% p.a. Our long-term return expectation (for both developed equities as well as for the EDF) is around risk-free rates +3.5-4% or c. 3.25% since inception. We don't expect the EDF to match equity returns in an extended market rally given the EDF's diversified composition and in general expect the EDF to outperform equities in a downmarket given its diversified asset allocation.

The fund's realised volatility since inception reflects 61% of the volatility of its long-term comparator, developed global equities (as measured by the FTSE Developed Index, 50% hedged to EUR). This is in line with the fund's volatility target.

Contributions to Fund Return:

Commodities, listed infrastructure and Asia Pacific equities were the main contributors to performance over the quarter. Investment grade credit, Europe (ex UK) equities and global high yield were the biggest detractors over the quarter.

Fund Positioning:

There were no changes to the strategic asset allocation over the quarter.

Euro Dynamic Diversified Fund

The EDDF returned -2.70% over the period. This takes since inception performance to 6.4% p.a. versus the objective of 3.7% p.a.

Emerging market local currency debt detracted from performance as did the fund's exposure to emerging market equities and investment grade credit. Emerging market assets were dragged lower by exposure within the index to Russia, while fixed income holdings suffered from rising bond yields across the asset class. Partially offsetting these losses, better performance came from listed infrastructure, global real estate and minimum volatility equities. Overseas currency exposure provided a positive impact on fund performance, primarily from a stronger US dollar against the euro

Overseas currency exposure provided a positive impact on fund performance, primarily from a stronger US dollar against the euro.

Within the EDDF we made the following changes over the quarter:

- **Equities.** We reduced Emerging market equity exposure and increased Developed, as there are signs that the Covid outbreak will adversely impact Chinese growth. We also slightly reduced our exposure to gold miners, as inflationary and geopolitical concerns have seen a sharp increase in the price of gold alongside greater than commensurate performance of gold miners. Given the level of current geopolitical risks we retain a reasonably high exposure to the asset class.
- **Government bonds.** We increased our exposure to Australian government bond futures, whilst closing our holding in Korean government bond futures as the Korean market had out-performed, and as Australia is one of our preferred government bond markets.
- **Emerging Market debt.** We removed our exposure to South African government bonds. We had re-entered the position in November, following a surge in the yields of these bonds which we believed to be excessive, however, following a sharp reduction over the turn of the year, we decided to exit the position and take profits.
- **Currency.** We reduced the fund's yen exposure versus the US dollar on expectations that a faster pace of Fed rate hikes would support the latter.

Future World Multi-Asset Fund

The Future World Multi-Asset Fund returned 2.5% over the quarter versus its formal comparator (ABI 40-85% sector) which returned 2.7% over the quarter. The fund has returned 7.7% p.a. since inception (June 2018) versus the sector which has returned 7.2% p.a..The fund's realised volatility since inception is 8.6% and reflects 58% of the volatility of its long-term comparator, developed global equities (as measured by the FTSE Developed World Index, 50% hedged to GBP). This is slightly below the fund's volatility target.

Contributions to Fund Return:
North American equities and listed Real Estate and listed infrastructure were the main contributors to performance over the quarter. Japanese equities and Emerging Market debt local currency detracted from performance.

Fund Positioning:
Within the Future World index strategies the fund uses there were changes to the LGIM ESG score (and therefore weighting to some constituents) to incorporate an additional metric of Temperate Alignment during the quarter. This metric reflects the temperature value associated with the climate scenario the company's activities are

currently aligned with. We began the establishment of a social-purpose REITs basket, focused on UK Homes & Health themes, as well as adding to our holding in green gilts..

Multi-Asset Fund

The Multi-Asset Fund returned -3.3% over the quarter versus its formal comparator (ABI 40-85% sector) which returned -3.5%. It has returned +7.9% p.a. since inception compared to its formal comparator ABI which has returned 7.1% p.a..
The fund's realised volatility since inception is 7.4% and reflects 66% of the volatility of its long-term comparator, developed global equities (as measured by the FTSE Developed World Index, 50% hedged to GBP). This is in line with the fund's volatility target.

Contributions to Fund Return:

Listed infrastructure, Asia Pacific equities and UK equities were the main contributors to performance over the quarter. Investment grade credit, European equities and Emerging Market equities detracted from performance.

Fund Positioning:

There were no changes to the strategic asset allocation of the fund during the quarter.

Retirement Income Multi-Asset Fund

RIMA's return was -2.3% over the period. This takes since inception performance to 5.9% p.a. versus the objective of 3.9% p.a.

Contributions to Fund Return

- The main asset contributions to performance came from overseas currency (+0.6%), Gold Miners (+0.2%) and UK property (0.18%)
- Other sovereign bonds (-0.5%) and Emerging market hard currency debt (-0.5%) detracted from performance.

Fund Positioning

Within RIMA, the following changes occurred over the period:

- **Equities and Alternatives.** In-line with our slightly reduced risk view, we lowered our exposure to listed infrastructure (-1.5%) and UK equities (-0.5%) after strong relative performance. Additionally, we reduced Gold Miners exposure due to their potential interest rate sensitivity (-0.75%) and also US small caps (-0.5%). Increasingly we're using equity options to reduce downside risk in extreme scenarios.

- **Government bonds.** We increased our exposure to Australian government bond futures (+0.5%) as one of our preferred markets, whilst closing our holding in Korean government bond futures (-1%) given outperformance.

  Given concerns over rising interest rate volatility, we reduced total government bond risk by about a third by end January, mainly through US treasuries, before adding that back towards the end of the period. We also reduced our holding of US inflation-linked bonds (-2%) before adding back the position later in the quarter.

- **Credit.** We added a position in a L&G short-term alternative finance fund (+0.5%). This consists of high-quality short-dated credit and is expected to deliver a premium over similarly-rated credit.

- **Emerging Market debt.** We added exposure to Indian sovereign (local currency) bonds (+0.5%). Indian bonds offer attractive nominal and real rates (similar to other EM bond markets) as well as low currency volatility given the INR is a managed currency. We also closed our South African bonds after yields fell sharply then re-added the position later in the quarter after yields rose again (0.5%)
- **Currency.** We increased exposure to a selection of emerging market currencies; driven by quantitative signals from one of our alternative risk premia strategies which focuses on strong real carry and momentum. This quarter we added Colombian peso, Mexican peso, Chinese yuan and Brazilian real (+0.25% each).

Real Assets

LPI Income Property Fund

The Fund returned 3.14% in Q1 2022, with performance underpinned by secure income and the capitalisation of RPI linked rental growth.

Seven rent reviews were completed in the quarter on an upward only basis. Six of these were reviewed in line with RPI; two were uncapped, one had a cap at 5% and three had a cap at 4%. One review received a fixed uplift of 2.6%.

Although no disposals were completed in Q1, the Fund continues to access opportunities to recycle capital from assets with more inherent risk and generate capital to facilitate further investments.

In 2021 the Fund conditionally exchanged contracts to acquire a new headquarters office building in Cardiff. The deal is structured as a forward commitment, conditional on practical completion of the asset. From completion, the property will be let to an investment grade corporate for 25 years with annual rent increases in line with RPI, capped at 5%.

The Fund is actively pursuing additional pipeline assets to facilitate Fund growth and deployment of capital.

All assets that we consider for the Fund's pipeline offer investment grade covenants and are aligned to the Fund's strategy of securing suitable stock, both on and off market, which will deliver appropriate returns while meeting the investment criteria.

The Managed Property Fund

It has been a strong start to the year with real estate investment volumes 9% higher than Q1 2021 with the Office sector driving activity and accounting for 41% of total volume. Following a strong 2021, Industrial's share of activity dipped slightly to 19%, albeit still at highly competitive prices. Total Returns across All Property for the quarter were 5.5%, with the strongest growth coming from Retail Parks (which delivered 7% capital growth) and London's Industrials.

The Fund completed on £350m of transactions in the quarter, including two sales – a six asset Care Home portfolio, taking advantage of demand for long income opportunities to exit a sector with ongoing structural risks; and Central St Giles, an office in Central London to an owner-occupier at a significant premium to valuation. The Fund is in the process of investing the proceeds, and has acquired a multi-let Industrial portfolio of six assets – all situated in prime locations with excellent rental growth and Asset Management prospects. Additionally, the Fund is under offer on a further £215m of opportunities, predominantly in the Alternatives and Leisure sectors, where we forecast strong returns.

The Fund completed 6 Asset Management deals during Q1, contributing £12.4m of added value and encompassing all sectors, including Foodstores, Retail Warehouses, Regional Offices and South East Industrial. The Funds' commitment to Capital Expenditure on existing assets continues, with £11.8m having been invested on projects during Q1 to maintain relevance of product and deliver market-leading ESG credentials across the portfolio.

Contact us

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