

# Clwyd Pension Fund

## Economic and Market Update – Q2 2023

# Monthly capital market monitor

## Hawkish Fed guidance, escalating Ukraine conflict dampen optimism, but month still ends on upbeat note

In June, global equities and commodities rose by mid single digits while performance was flat to marginally positive for bonds and REITs.

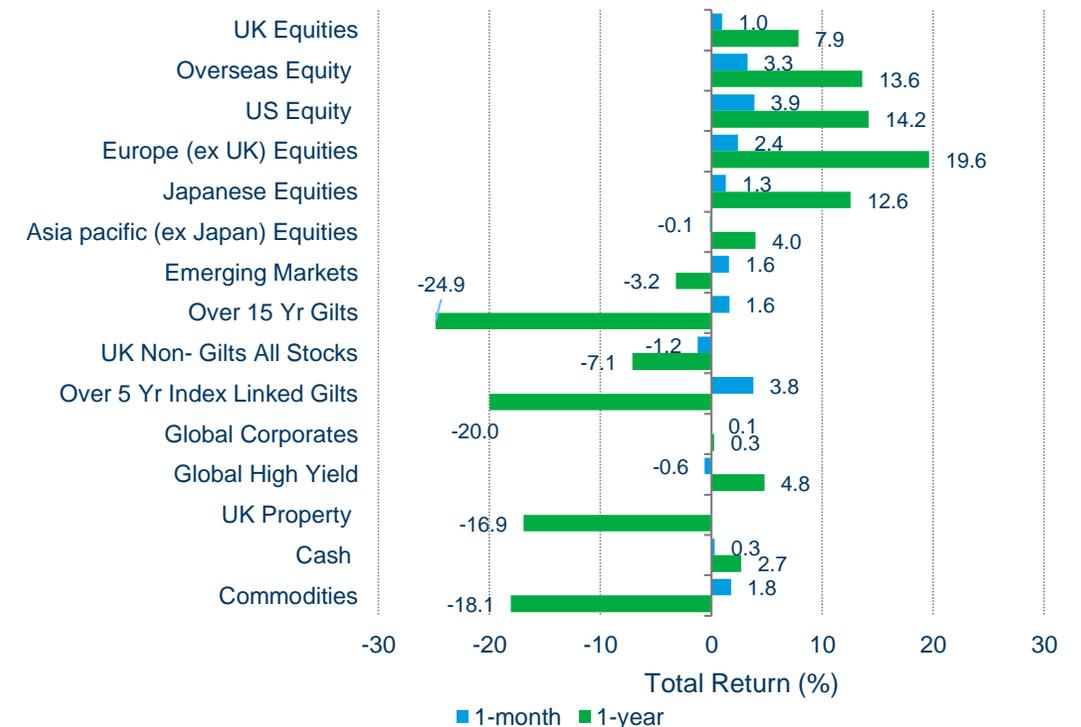
Markets remain positioned for a soft landing as news flow continues to focus on falling headline inflation, an end to the hiking cycle amid broad economic resilience even if individual sectors such as regional banks remain challenged.

Forward-looking purchasing manager indices fell in the US, UK, Eurozone and Japan but remained in expansion territory while retail sales in the US and UK rose above expectations. This paints a picture of economies remaining strong considering the interest rate backdrop. Inflation continues to edge down in all major economies, except the UK where inflation remains firm, which raised hopes that the hiking cycle is indeed coming to an end in most regions. However, even though the Federal Reserve kept rates on hold for the first time in over a year, forward guidance was more hawkish than expected which stalled the positive momentum markets had enjoyed during the first half of the month. Furthermore, the European Central Bank and Reserve Bank of Australia hiked by 25 basis points each and the Bank of England was compelled to hike by 50 basis points, given stubbornly elevated inflation in the UK. Only China continued to ease as its hoped-for economic recovery has been underwhelming. Labor markets remain resilient, unemployment has been rising marginally in some regions but remains at multi-decade lows, all consistent with the soft-landing narrative.

Attention shifted back to the Ukraine conflict later in the month which further drained positive market momentum. From an investment perspective, this increased concerns that an escalating conflict could once again impact commodity markets just as inflation comes down, as attested by double digit increases in wheat prices in June.

Equity returns were all in positive mid-single digits. UK equities underperformed global and emerging markets. US equities were once again very strong thanks to positive tailwinds including resilient economic data and the ongoing AI & tech trade. Bond returns were mostly flat to slightly positive as global yields rose marginally for most countries, but credit spreads contracted.

Sterling strengthened against most major currencies over the month except the Norwegian krone and Canadian dollar. Gold fell in a generally risk-on market and as real yields rose.



Source: Refinitiv. Data as of 30/06/23. 1-year UK property returns are shown as 11-month return to 31/05/2023.

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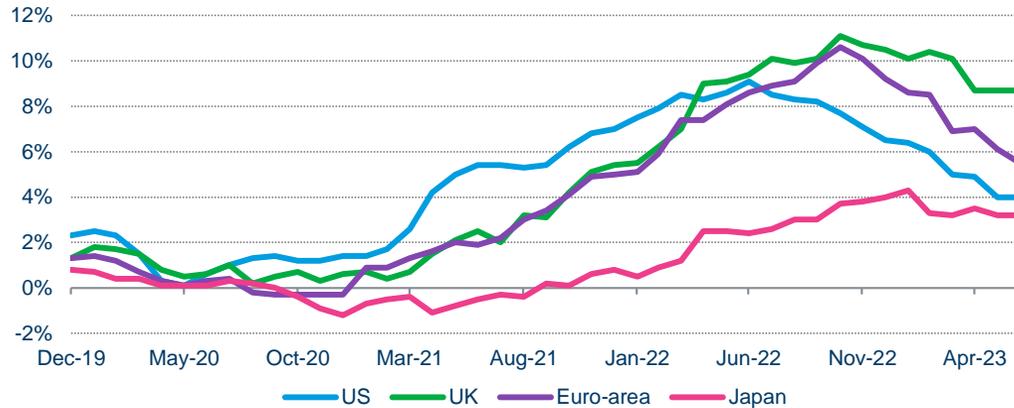
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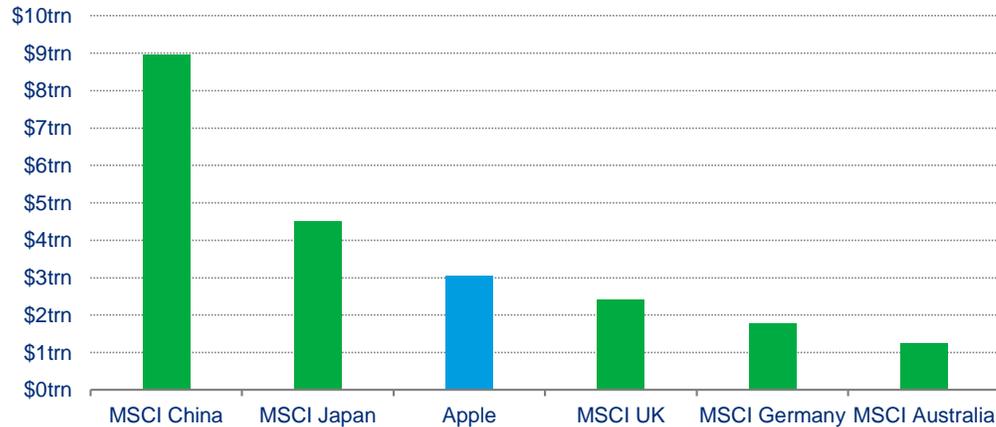
# Key drivers

## Global year-on-year consumer price inflation



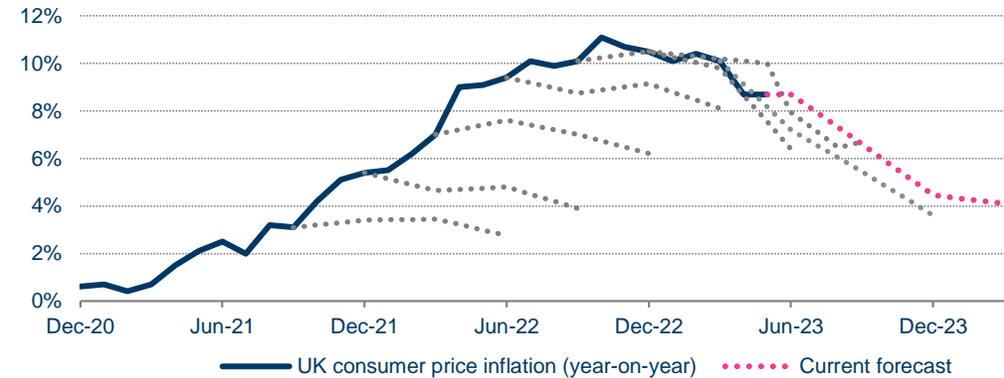
Source: Bloomberg. Data as of 30/06/2023

## Apple market capitalization



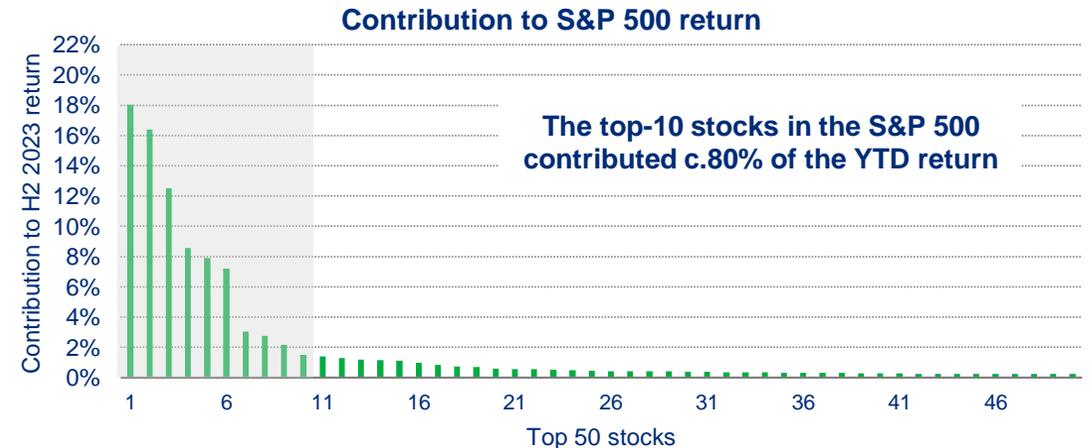
Source: Bloomberg. Data as of 30/06/2023

## UK year-on-year inflation – current and forecast



Source: Bloomberg. Data as of June 30, 2023. The consensus forecast lines are four quarter forecasts as at each quarter end from September 2021.

## Concentration of S&P 500

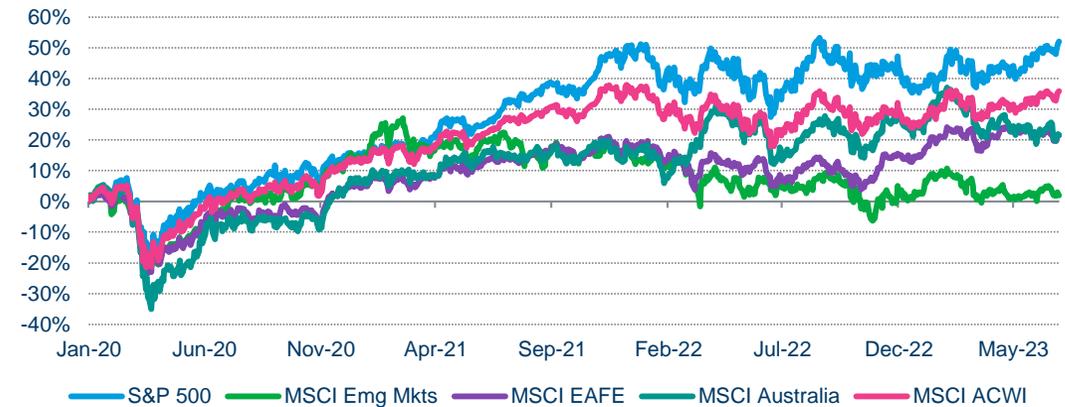


Source: Bloomberg, Acadian, Mercer. Data as of June 30,

# Equities

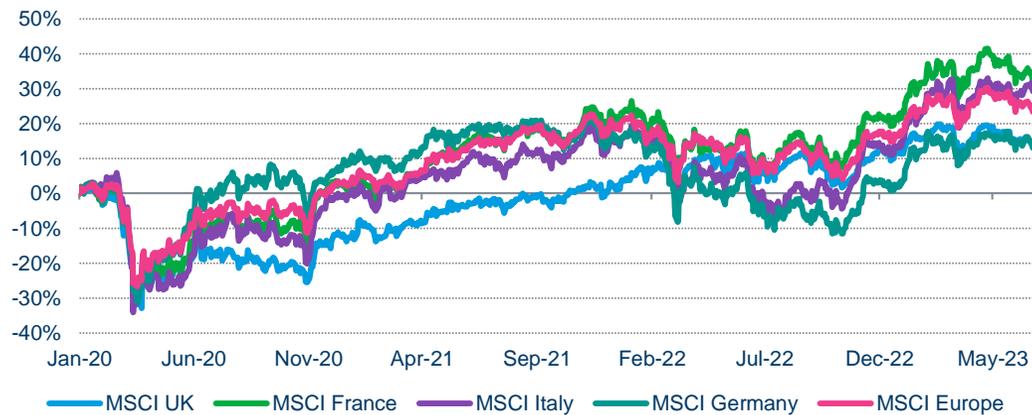
- UK equities returned 1.0% over June 2023 in Sterling terms and underperformed overseas equities which returned 3.3%. Financials, energy and materials posted strong returns but these returns were offset by real estate. Increasing interest rates are continuing to weigh on the sector as property prices begin to decline. Over the month the FTSE 350 Homebuilder Index fell 9.5%.
- In the US, we are continuing to see narrow leadership in equity returns driven by technology stocks in the S&P 500. Thanks to this rally Apple became the first ever stock to reach a market capitalisation of \$3trn. Returns in continental Europe were positive.
- The earnings season for Q2 2023 starts in July and US earnings are estimated to decline by 6.8%, which would be the largest earnings decline since Q2 2020 (31.6%)<sup>1</sup>.
- Emerging markets returned 1.3% over June with positive returns for China, India and Brazil. Brazil benefitted from increasing energy costs over the month.

Global Equity Performance (GBP)



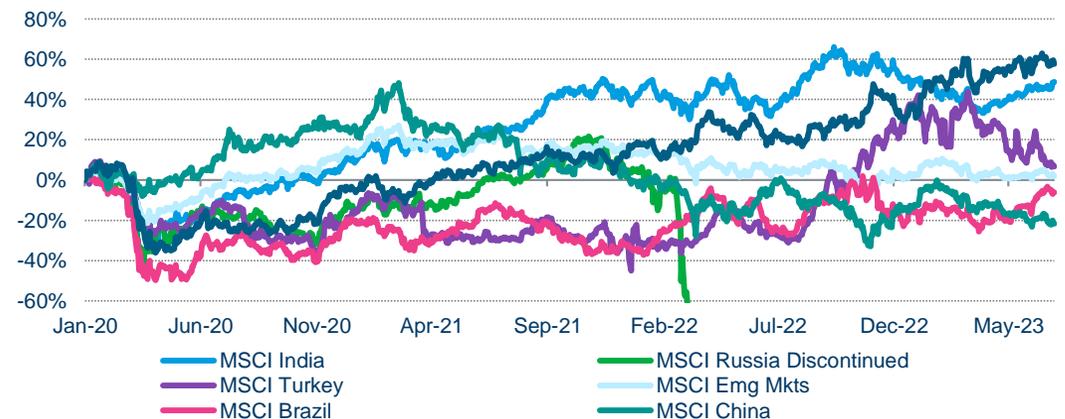
Source: Refinitiv, Data as at 30/06/2023

European Equity Performance (GBP)



Source: Refinitiv, Data as at 30/06/2023

Emerging Market Equity Performance (GBP)



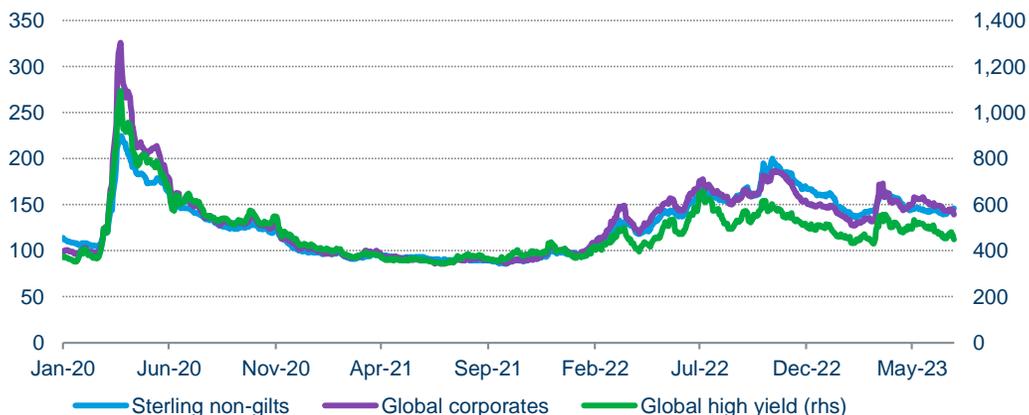
Source: Refinitiv, Data as at 30/06/2023

<sup>1</sup>[https://advantage.factset.com/hubfs/Website/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight\\_063023.pdf](https://advantage.factset.com/hubfs/Website/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_063023.pdf)

# UK Fixed Income

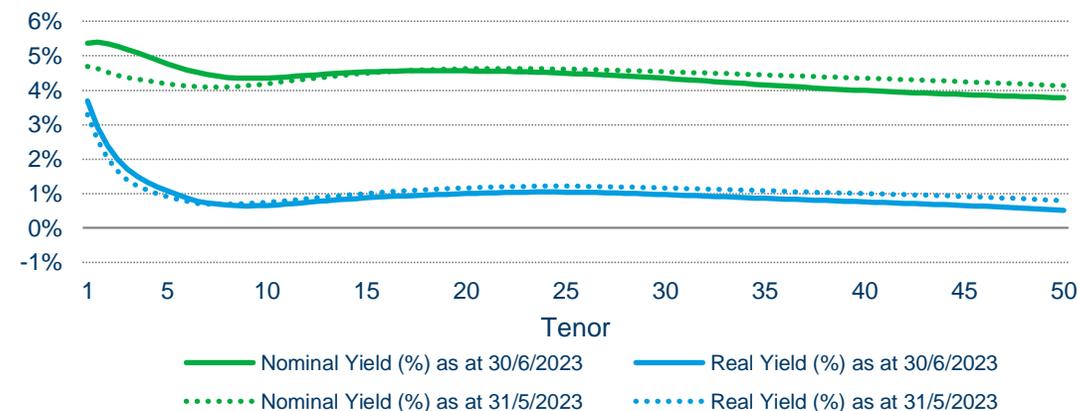
- Bond markets saw yield increases across the curve globally through June, with the exception of Japan. Increased expectations of tightening of monetary policy drove yields higher. Yields in the UK are now close to levels witnessed last September in the *gilt market crisis*, however, we are not witnessing similar levels of market disorder.
- In the UK, yields rose across the curve. The 2-year and 10-year gilt yields rose 93bps and 10bps respectively, leading to a further inversion of the yield curve. A sticky inflation print and a 50bps rate hike, which surprised the bond market was largely to blame for the sharp increase in front end yields over June. Real yields were mixed over the month.
- Market based measures of inflation expectations rose over the month. The 10-year UK breakeven increased to 3.86% from 3.69% in the month prior. The May CPI print surprised to the upside again, and remained at 8.7%.
- Lending conditions remain tighter, but bond markets have remained fairly calm. Credit spreads tightened during the month, with global investment-grade spreads decreasing 12 bps and high yield spreads decreasing 61 bps.

## Corporate bond spreads



Source: Refinitiv, Data as at 30/06/2023

## UK gilt curves



Source: Mercer. Data as of 30/06/2023

## UK government bond yields

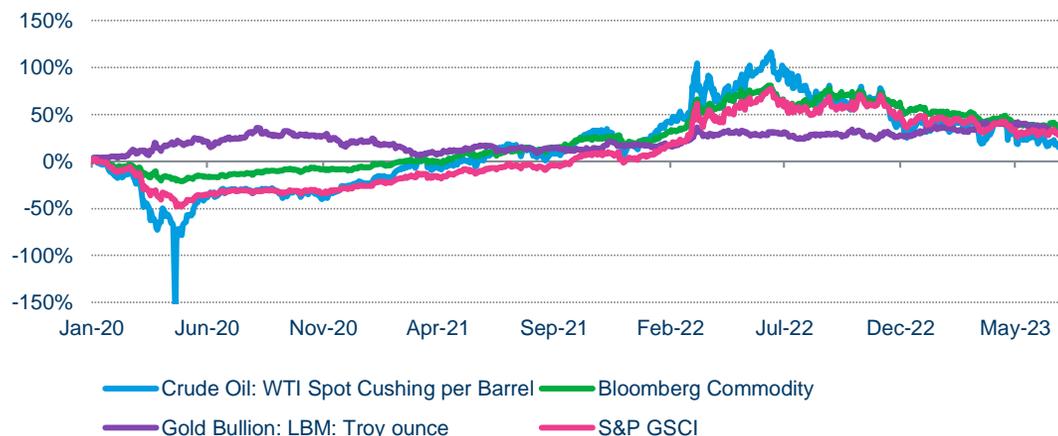


Source: Refinitiv, Data as at 30/06/2023

# Currency and commodities

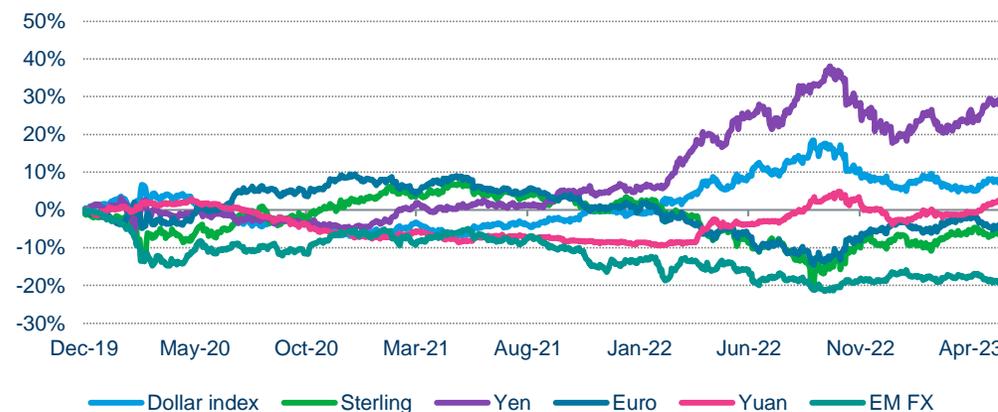
- Broad commodity returns were positive through June. Oil rose 1%, and reached **\$74** a barrel. Wheat prices increased at the sharpest rate since the onset of the Russia/Ukraine conflict, due to escalations in the conflict. Gold was the only major asset class with negative performance, falling by 5.1% during the month due to limited demand for safe haven assets
- Sterling was stronger versus most major currencies through June. The US dollar was weaker against currencies over the month as positive sentiment and prospects of future monetary easing drove much of the narrative over the month.

Commodity performance (GBP)



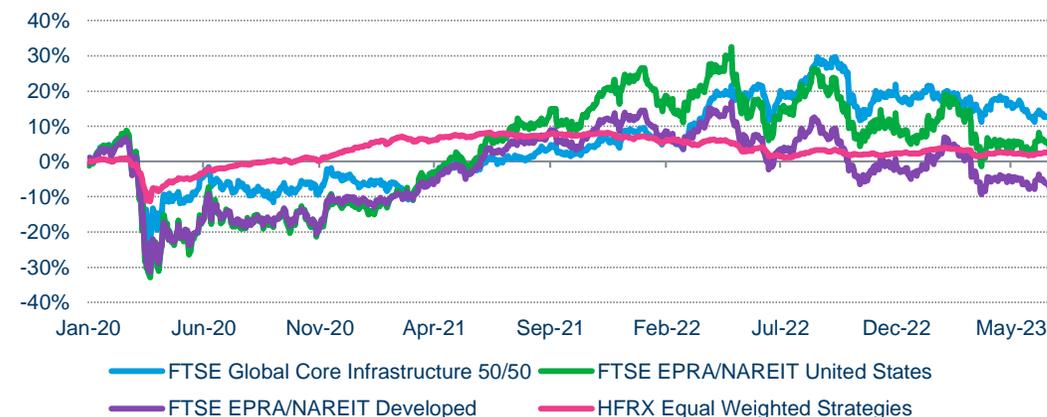
Source: Refinitiv, Data as at 30/06/2023

Currency performance



Source: Refinitiv, Data as at 30/06/2023

REITs, Hedge funds, Infrastructure performance (GBP)



Source: Refinitiv, Data as at 30/06/2023

# Valuation and yields

## Ending 30 June 2023

### Valuations

FTSE ALL-Share	30-06-2023	31-03-2023	31-12-2022	30-09-2022
Index Level	8610.8	8650.3	8391.9	7706.0
P/E Ratio (Trailing)	10.5	10.5	13.9	13.0
CAPE Ratio	16.9	17.3	18.2	16.4
Dividend Yield	4.1	4.2	3.7	4.0
P/B	1.6	1.6	1.5	1.5
P/CF	5.7	5.9	5.2	4.8
MSCI World ex-UK	30-06-2023	31-03-2023	31-12-2022	30-09-2022
Index Level	9077.1	8480.6	7866.8	7187.2
P/E Ratio (Trailing)	19.4	18.2	16.9	15.6
CAPE Ratio	26.1	24.4	24.6	23.4
Dividend Yield	2.0	2.1	2.3	2.3
P/B	3.0	3.0	2.8	2.6
P/CF	13.4	12.2	11.3	9.8
MSCI EM	30-06-2023	31-03-2023	31-12-2022	30-09-2022
Index Level	509.8	505.3	486.1	443.1
P/E Ratio (Trailing)	12.9	12.7	11.9	10.1
CAPE Ratio	16.8	16.5	17.0	16.0
Dividend Yield	3.0	3.2	3.2	3.4
P/B	1.5	1.6	1.5	1.3
P/CF	8.3	7.5	8.0	6.6

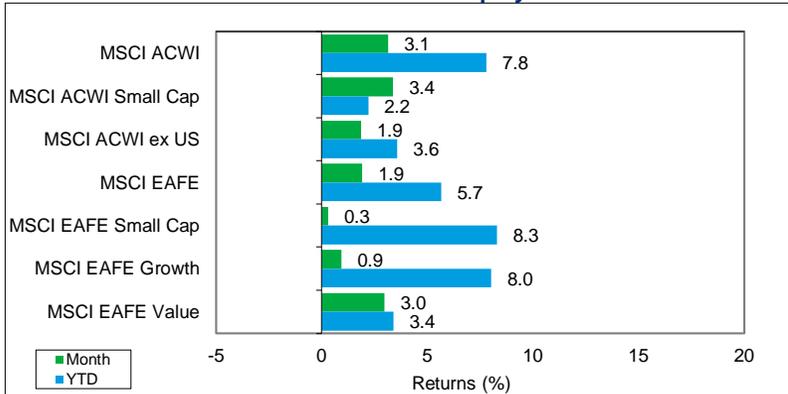
### Yields

Global Bonds	30-06-2023	31-03-2023	31-12-2022	30-09-2022
Germany – 10Y	2.39	2.29	2.57	2.11
France - 10Y	2.93	2.79	3.12	2.72
US - 10Y	3.84	3.47	3.87	3.83
Switzerland – 10Y	0.96	1.25	1.62	1.23
Italy – 10Y	4.07	4.10	4.72	4.52
Spain 10Y	3.39	3.30	3.66	3.29
Japan – 10Y	0.40	0.35	0.42	0.24
Euro Corporate	4.44	4.22	4.32	4.24
Euro High Yield	8.29	8.18	8.32	9.01
EMD (\$)		9.66	8.55	9.57
EMD (LCL)	6.66	6.78	7.00	7.32
US Corporate	5.48	5.17	5.42	5.69
US Corporate High Yield	8.50	8.52	8.96	9.68
UK Bonds	30-06-2023	31-03-2023	31-12-2022	30-09-2022
SONIA	4.93	4.18	3.43	2.19
10 year gilt yield	4.39	3.38	3.67	4.10
30 year gilt yield	4.42	3.83	3.96	3.83
10 year index linked gilt yield	0.52	-0.29	0.06	0.07
30 year index linked gilt yield	0.95	0.37	0.55	0.07
AA corporate bond yield	5.71	4.76	4.79	5.62
A corporate bond yield	6.08	5.13	5.20	6.05
BBB corporate bond yield	6.82	5.84	5.96	6.96

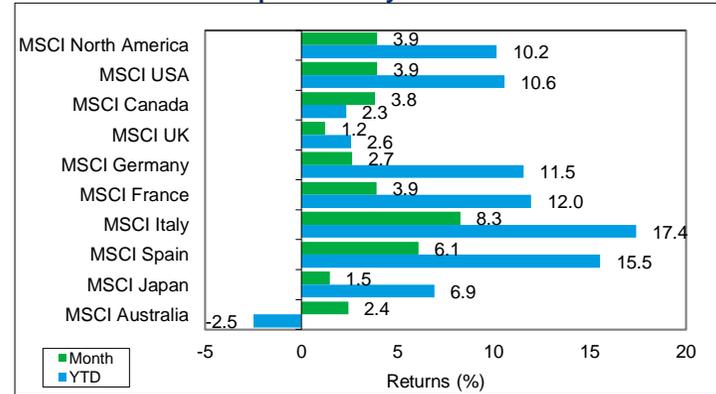
# Performance summary (GBP)

## International Equity ending 30 June 2023

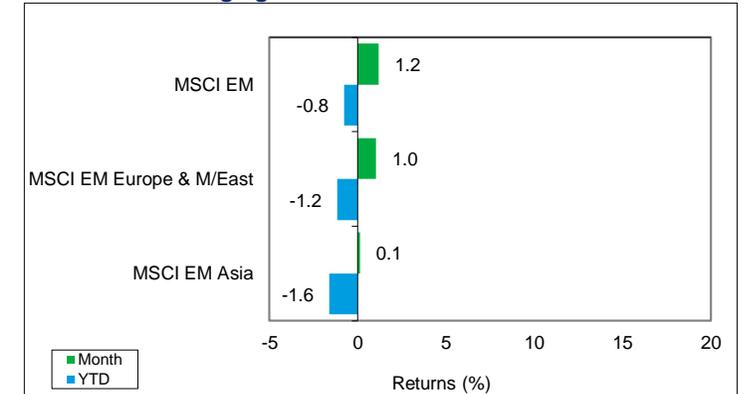
International Equity Performance



Developed Country Performance



Emerging Market Performance

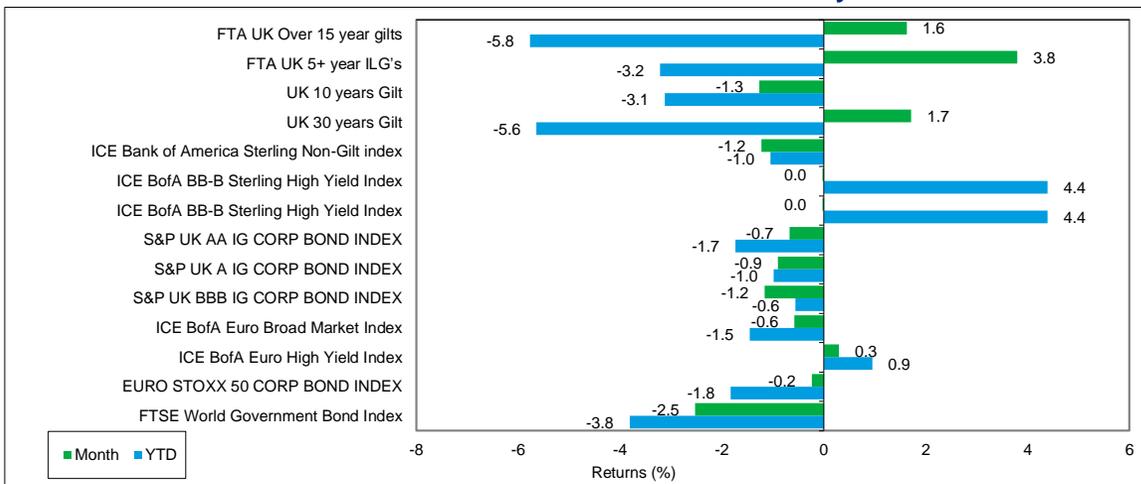


Index	Returns	1 Mth	3 Mth	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years	20 Years	2022	2021	2020	2019	2018
MSCI ACWI		3.1	3.3	7.8	11.3	3.3	9.9	8.9	10.7	10.7	9.6	-8.1	19.6	12.7	21.7	-3.8
MSCI ACWI IMI		3.2	3.1	7.5	11.5	3.1	10.4	9.0	11.0	11.1	10.3	-7.7	19.8	13.2	22.1	-4.0
MSCI ACWI Small Cap		3.4	0.8	2.2	8.0	-2.0	9.8	5.3	8.8	9.5	10.8	-8.4	17.2	12.7	19.8	-9.1
MSCI ACWI ex US		1.9	-0.4	3.6	7.7	-0.7	6.2	4.3	7.1	6.6	8.1	-5.4	8.8	7.2	16.8	-8.9
MSCI EAFE		1.9	0.1	5.7	13.5	3.0	7.9	5.2	7.6	7.3	7.9	-3.7	12.3	4.5	17.3	-8.4
MSCI EAFE Growth		0.9	0.0	8.0	14.8	-0.2	5.3	6.2	8.2	8.3	8.4	-13.2	12.3	14.6	23.0	-7.4
MSCI EAFE Value		3.0	0.3	3.4	12.1	6.0	10.3	3.7	6.8	6.0	7.3	6.3	11.9	-5.6	11.6	-9.5
EM		1.2	-1.9	-0.8	-2.8	-9.1	1.4	1.7	5.7	4.8	9.6	-10.0	-1.6	14.7	13.8	-9.3
North America		3.9	5.4	10.2	13.1	5.8	12.5	12.2	13.3	13.7	10.8	-9.4	27.6	16.2	25.7	0.1
Europe		2.2	-0.1	7.5	16.4	4.4	9.6	6.0	8.1	7.6	8.0	-4.4	17.4	2.1	19.0	-9.6
EM Europe & M/East		1.0	2.9	-1.2	-1.6	-12.4	-2.1	-1.0	2.2	-0.7	4.8	-27.2	25.1	-10.4	14.6	-2.2
EM Asia		0.1	-3.5	-1.6	-5.3	-10.7	0.2	2.0	6.7	6.5	10.1	-11.2	-4.2	24.4	14.6	-10.2
Latin America		9.2	10.9	12.1	24.0	8.8	15.3	5.6	6.2	2.9	10.8	22.6	-7.2	-16.5	12.9	-0.8
USA		3.9	5.6	10.6	13.7	6.0	12.5	12.5	13.5	14.2	10.9	-9.7	27.6	17.0	25.8	0.9
Canada		3.8	0.8	2.3	2.2	3.4	11.7	7.2	8.3	7.1	9.2	-1.9	27.1	2.1	22.6	-12.1
Australia		2.4	-2.5	-2.5	6.2	2.5	9.5	5.7	8.1	6.8	10.0	6.7	10.4	5.4	18.2	-6.5
UK		1.2	-0.6	2.6	8.1	8.7	11.5	3.6	6.0	5.7	6.9	7.1	19.6	-13.2	16.4	-8.8
Germany		2.7	0.0	11.5	22.6	-2.0	4.2	2.5	6.1	5.9	8.4	-12.6	6.3	8.1	16.1	-17.3
France		3.9	0.4	12.0	25.8	8.1	13.8	7.8	11.0	9.5	8.4	-2.4	20.6	0.9	20.9	-7.3
Italy		8.3	5.2	17.4	37.0	9.8	13.8	6.7	10.3	8.2	4.2	-3.6	16.1	-1.3	22.4	-12.6
Spain		6.1	2.7	15.5	23.2	8.3	11.1	2.5	6.3	5.7	6.2	4.4	2.3	-7.7	7.7	-11.0
Japan		1.5	3.5	6.9	12.8	1.4	4.7	3.9	7.1	7.1	7.1	-6.1	2.6	10.9	15.0	-7.5
Brazil		13.0	17.4	10.6	24.0	4.0	12.3	7.1	7.5	3.6	12.0	28.5	-16.6	-21.5	21.4	5.7
China		1.4	-12.2	-10.5	-20.5	-21.5	-11.1	-4.6	3.6	4.9	10.7	-12.1	-21.0	25.5	18.7	-13.8
India		2.1	9.2	-0.6	9.0	8.7	18.2	9.6	10.4	10.8	14.0	3.6	27.4	12.0	3.4	-1.5

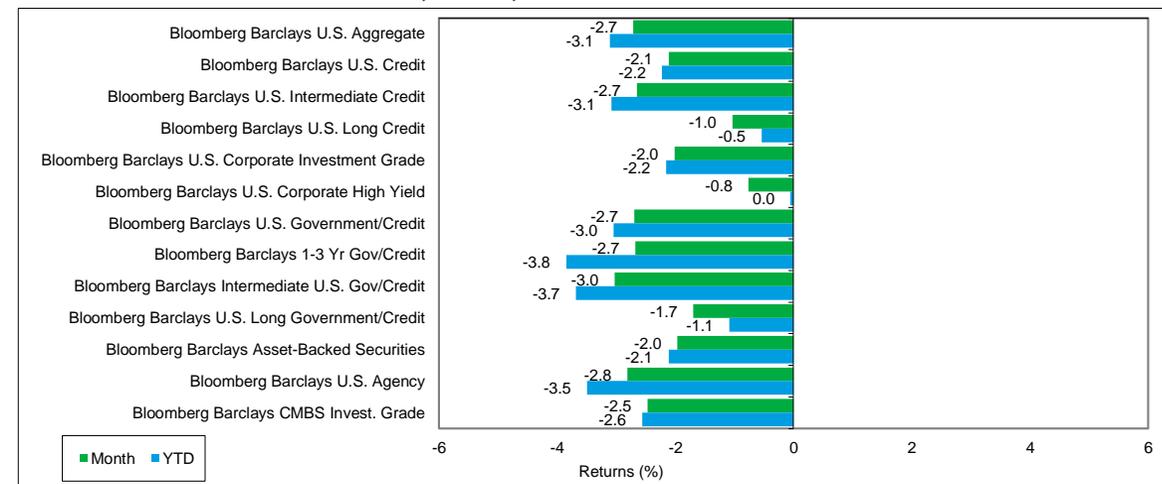
# Performance summary (GBP)

## Fixed Income ending 30 June 2023

### Bond Performance by Duration



### Sector, Credit, and Global Bond Performance

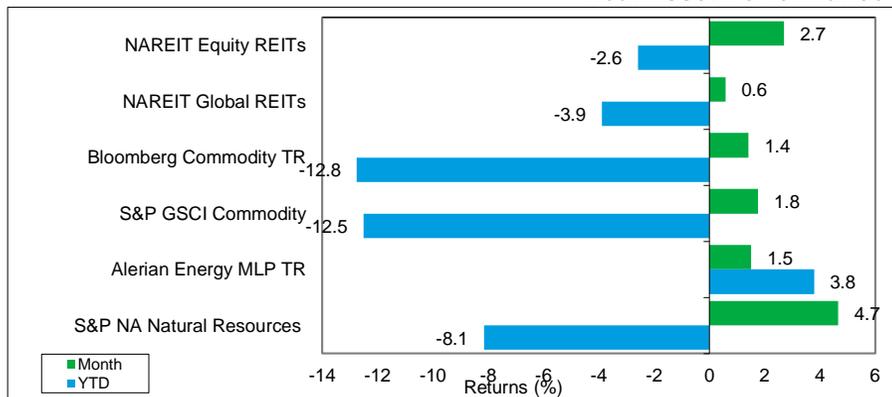


Index Returns	1 Mth	3 Mth	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years	20 Years	2022	2021	2020	2019	2018
FTA UK Over 15 year gilts	1.6	-8.3	-5.8	-24.9	-23.9	-19.8	-7.9	-5.4	0.3	3.1	-40.1	-7.3	13.9	12.0	0.3
FTA UK 5+ year ILG's	3.8	-7.8	-3.2	-20.0	-19.5	-14.8	-5.5	-2.7	1.6	4.3	-38.0	4.2	12.4	6.8	-0.4
UK 10 years Gilt	-1.3	-6.1	-3.1	-14.0	-12.6	-10.0	-3.5	-2.4	0.7	3.3	-20.1	-5.7	6.6	5.2	2.0
UK 30 years Gilt	1.7	-8.6	-5.6	-26.8	-25.5	-20.7	-8.6	-6.1	0.1	3.0	-42.7	-6.4	13.8	11.7	0.4
ICE Bank of America Sterling Non-Gilt index	-1.2	-3.4	-1.0	-7.1	-10.0	-6.2	-1.4	-0.2	2.0	3.7	-17.8	-3.0	8.0	9.5	-1.6
ICE BofA BB-B Sterling High Yield Index	0.0	0.6	4.4	5.8	-3.5	1.4	2.6	4.1	5.2	9.1	-11.1	3.0	6.1	13.8	-1.4
S&P UK AA IG CORP BOND INDEX	-0.7	-3.3	-1.7	-7.4	-10.0	-7.2	-2.1	-0.8	1.5	3.5	-17.3	-4.6	7.7	7.3	-0.3
S&P UK A IG CORP BOND INDEX	-0.9	-3.5	-1.0	-8.2	-11.0	-7.4	-1.7	-0.5	2.0	3.6	-19.9	-3.7	8.4	10.4	-1.5
S&P UK BBB IG CORP BOND INDEX	-1.2	-2.9	-0.6	-5.4	-9.6	-5.2	-0.7	0.6	2.5	4.6	-17.4	-2.3	8.7	11.6	-2.6
ICE BofA Euro Broad Market Index	-0.6	-2.1	-1.5	-4.0	-8.3	-7.2	-2.5	-1.0	0.8	3.6	-12.2	-8.8	9.9	0.1	1.6
ICE BofA Euro High Yield Index	0.3	-0.7	0.9	8.5	-3.7	-0.8	0.8	2.9	3.5	7.3	-6.5	-3.1	8.6	5.1	-2.5
EURO STOXX 50 CORP BOND INDEX	-0.2	-2.3	-1.8	-1.0	-5.7	-4.8	-1.6	-0.2	0.9	--	-6.9	-7.3	8.5	-0.9	0.1
FTSE World Government Bond Index	-2.5	-4.5	-3.8	-6.9	-6.1	-7.4	-1.3	-1.1	1.3	3.4	-8.0	-6.1	6.7	1.8	5.3
Bloomberg Barclays U.S. Aggregate	-2.7	-3.4	-3.1	-5.1	-1.9	-4.8	1.5	1.1	3.2	4.1	-2.5	-0.7	4.3	4.6	5.8
Bloomberg Barclays U.S. Credit	-2.1	-2.9	-2.2	-3.0	-2.6	-4.2	2.4	2.0	4.2	5.0	-4.9	-0.2	6.0	9.4	3.7
Bloomberg Barclays U.S. Intermediate Credit	-2.7	-2.9	-3.1	-2.8	0.1	-2.7	2.5	2.1	3.9	4.6	1.9	-0.1	3.8	5.4	5.9
Bloomberg Barclays U.S. Long Credit	-1.0	-3.1	-0.5	-3.3	-7.1	-6.9	2.3	2.0	5.2	6.1	-16.0	-0.3	9.8	18.6	-1.1
Bloomberg Barclays U.S. Corporate Investment Grade	-2.0	-2.9	-2.2	-2.8	-2.8	-4.3	2.5	2.1	4.3	5.1	-5.5	-0.2	6.5	10.2	3.3
Bloomberg Barclays U.S. Corporate High Yield	-0.8	-0.9	0.0	4.4	1.4	2.2	4.0	5.2	6.1	7.6	-0.5	6.1	3.9	10.0	3.6
Bloomberg Barclays U.S. Government/Credit	-2.7	-3.5	-3.0	-4.9	-2.1	-4.9	1.7	1.3	3.3	4.2	-3.1	-0.9	5.6	5.6	5.4

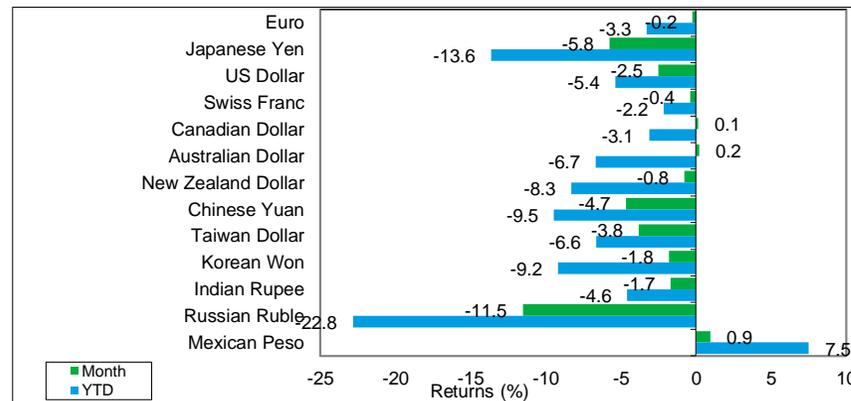
# Performance Summary (GBP)

## Alternatives ending 30 June 2023

Real Asset Performance



Performance of Foreign Currencies versus the US Dollar



Index Returns	1 Mth	3 Mth	YTD	1 Year	2 Years	3 Years	5 Years	7 Years	10 Years	20 Years	2022	2021	2020	2019	2018
NAREIT Equity REITs	2.7	-1.6	-2.6	-8.7	-1.1	5.1	5.6	4.9	8.7	10.3	-15.5	42.6	-8.1	23.7	1.9
NAREIT Global REITs	0.6	-2.2	-3.9	-7.9	-4.4	3.3	1.6	2.4	5.7	8.8	-14.9	28.4	-11.0	18.3	1.2
Bloomberg Commodity TR	1.4	-5.2	-12.8	-13.7	10.5	16.7	5.5	4.2	0.8	2.0	30.7	28.3	-6.1	3.5	-5.7
S&P GSCI Commodity	1.8	-5.4	-12.5	-18.1	16.3	23.9	3.5	5.2	-1.8	0.2	41.9	41.6	-26.1	13.1	-8.5
Alerian Energy MLP TR	1.5	2.5	3.8	24.7	21.6	29.5	7.0	4.5	2.7	9.8	47.4	41.5	-30.9	2.4	-7.0
Oil	1.1	-9.2	-16.7	-36.2	2.2	20.5	-0.2	6.3	-1.4	5.7	20.2	56.4	-23.0	29.3	-20.2
Gold	-5.1	-5.5	0.0	2.0	8.8	1.4	9.8	6.3	6.5	10.4	12.5	-2.6	20.6	14.3	3.9
S&P NA Natural Resources	4.7	-2.9	-8.1	7.3	22.1	24.9	6.2	6.9	5.4	9.0	51.0	41.2	-21.5	13.1	-16.2
Euro	-0.2	-2.3	-3.3	-0.3	0.0	-1.9	-0.6	0.5	0.0	1.1	5.7	-6.2	5.6	-5.6	1.1
Japanese Yen	-5.8	-10.4	-13.6	-10.2	-8.7	-10.1	-4.5	-4.1	-2.0	0.4	-1.7	-9.5	2.0	-2.9	9.1
US Dollar	-2.5	-2.7	-5.4	-4.5	4.2	-0.9	0.8	0.7	1.8	1.3	12.6	0.9	-3.1	-3.9	6.2
Swiss Franc	-0.4	-0.7	-2.2	2.2	6.0	1.0	2.9	2.0	2.4	--	10.9	-2.1	6.2	-2.1	5.0
Canadian Dollar	0.1	-0.5	-3.1	-6.9	0.8	0.0	0.6	0.5	-0.5	1.4	5.0	1.8	-1.4	1.3	-2.6
Australian Dollar	0.2	-3.0	-6.7	-7.4	-1.7	-2.0	-1.4	-0.8	-1.4	1.3	4.6	-5.0	5.9	-4.0	-4.0
New Zealand Dollar	-0.8	-4.8	-8.3	-6.1	-2.3	-2.7	-1.4	-1.3	-0.6	--	3.8	-4.5	3.1	-2.9	0.2
Chinese Yuan	-4.7	-8.0	-9.5	-12.0	-1.7	-1.8	-1.1	-0.6	0.1	2.0	3.2	3.6	3.2	-5.2	0.7
Taiwan Dollar	-3.8	-4.9	-6.6	-8.8	-1.4	-2.7	0.3	1.2	1.4	1.8	1.4	2.5	3.4	-1.4	2.8
Korean Won	-1.8	-3.9	-9.2	-5.9	-3.6	-3.9	-2.6	-1.2	0.3	0.8	5.9	-7.8	3.2	-7.2	1.9
Indian Rupee	-1.7	-2.6	-4.6	-8.0	-0.8	-3.6	-2.8	-2.0	-1.4	-1.5	1.2	-0.8	-5.3	-6.0	-2.9
Russian Ruble	-11.5	-15.6	-22.8	-41.6	-5.8	-8.2	-6.2	-4.0	-7.9	-4.0	15.7	-0.5	-18.6	7.4	-11.9
Brazilian Real	3.5	2.2	3.6	3.6	6.3	3.4	-3.7	-5.0	-5.9	-1.3	18.8	-5.9	-24.9	-7.4	-9.1
Mexican Peso	0.9	2.4	7.5	12.4	12.3	9.4	3.5	1.8	-1.0	-1.2	18.2	-1.7	-8.2	0.3	5.5
BofA ML All Convertibles	2.5	1.8	2.7	5.6	-2.3	7.5	10.6	11.9	11.8	9.8	-8.5	7.3	41.7	18.4	6.4
60%S&P 500/40% Barc Agg	1.3	2.1	5.1	6.5	3.9	6.2	8.5	9.0	10.2	8.5	-5.7	17.7	10.6	17.7	3.3

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