Appendix 5

MJ HUDSON Allenbridge

London Borough of Bromley Pension Fund

Quarterly Report

Q2 2019

Contacts:

John Arthur

Senior Analyst
+44 20 7079 1000
John.Arthur@mjhudson.com

Joanne Job

Head of Research
+44 20 7079 1000
Joanne.Job@mjhudson.com

Performance Summary

The second quarter of 2019 was a benign period for almost all assets with the outlook of a slowing global economy being countered by the promise of further Central Bank easing. The effect of this has been to push government bond yields down to historic lows (bond prices up) and providing a positive background for risk assets to continue the rally experienced in the first quarter, albeit at a more subdued pace. The background of slowing economic growth is being reflected in corporate earnings with downgrades across most regions. This mix of limited earnings growth and slow economic growth countered by a financial system awash with cash looking for a home forces investors to continues to hunt for yield in order to retain the real value of their cash and hence pushes valuations higher. This situation can continue well beyond many investors expectations but a slight change in expectations can quickly lead to a reappraisal of the attractiveness of an asset and, with limited valuation support, can lead to rapid price falls. Despite a benign quarter I would continue to expect significant volatility in all asset prices for the foreseeable future and to caution against taking unnecessary investment risk.

The Fund finished the quarter with a valuation of £1.094bn a rise of 5.6% over the quarter. This was in excess of the rise in the benchmark by 1.28% and the Fund's performance figures now look strong over all time periods. The Fund has returned 9% per annum over the last 22 years since BNY Mellon's records began, this is a highly commendable result. In addition, those managers who have been appointed more than 3 years ago are all outperforming their benchmarks and adding value to the Fund and whilst it is still too early to put much weight on the performance achieved by the more recent appointments in Multi Asset Income and Property, the money is fully invested in these areas now, is performing within expectations and, specifically, generating the Fund's income requirement as intended.

ASSET ALLOCATION

During the quarter the final holding in the Blackrock Global Equity Fund was sold (approx. £11.5m) and reinvested into the Fidelity Multi Asset Income Fund.

Asset Class	Fund weight (30/6/19)	Strategic B/M weight	Difference
Equities	63.6%	60%	+3.6%
Fixed Interest	12.9%	15%	-2.1%
Property	4.4%	5%	-0.6%
Multi Asset Income	19.1%	20%	-0.9%

The majority of the outperformance this quarter came from the individual managers appointed by the Fund. 6 out of 7 of the Fund's portfolios outperformed their benchmark and this continues the excellent track record of the Fund's appointed asset managers. The only area to underperform was UK property, one of the three funds managed by Fidelity, this was marginal and, as noted above, this portfolio was funded just over a year ago and, particularly given the heavy cost of purchasing property assets, it is too early for the performance figures produced for this portfolio to give much indication of the managers' true ability.

As noted in previous reports, given the Multi Asset Income portfolios benchmark is of a 'Cash plus' type, the portfolios should be expected to outperform in a quarter when asset prices have risen and this and the Fund's overweight stance in Equities added value but the majority of the outperformance came from the Fund's two global equity portfolios which both outperformed their benchmark in the period, as they have both done over the long term.

MULTI ASSET CREDIT

The committee received a presentation on Multi Asset Credit at the last PISC meeting from Fidelity. The premise is that investment grade bonds are unattractive at the current yields and that one way to improve returns is to take more credit risk and thereby receive a higher yield. However, we are at a late stage of the current global economic cycle and lower rated credit bonds may underperform if we see a significant economic slowdown leading to concern over corporations ability to pay down debt and potentially higher defaults. My report to the committee on the Fund's fixed interest portfolios in May 2019 recommended divesting 2% of the Funds AuM (Approximately £40m in total) from both the Baillie Gifford Global Alpha Fund and the Fidelity Fixed Interest portfolios and reinvesting the money into a new holding in the Fidelity Multi Asset Credit Fund. By taking money from both the equity portfolio and the investment grade bond portfolios, the fund is balancing the greater credit risk being taken on the bond side with less investment risk in equities by moving the Fund's equity exposure back down to the strategic benchmark of 60% of assets.

One of the positives of the Fidelity fund is that they allocate to different sectors of credit quite proactively and have the ability to position the portfolio very defensively, almost to the extent of mimicking the current investment brief in the investment grade fixed interest portfolio they manage. This could protect the portfolio in difficult market conditions but does rely on the manager correctly predicting such an environment and the track record of this particular fund maybe too short to show real proof of ability here but it is run by a number of the same senior personnel who have added consistent value to the Funds existing Fidelity Fixed Interest Portfolio.

My investment recommendation to do this attempts to balance the required return of the Fund with an acceptable level of investment risk and I continue to believe this would be the case.

Executive Summary

- The possibility of global economic growth slowing remained a concern across markets during the second quarter of 2019, despite this the majority of risk assets (except commodities) delivered strong performance.
- Q2 saw central banks maintain interest rates unchanged, while suggesting that future cuts may be on their way. It is this promise of monetary easing by central banks, particularly the US Federal Reserve (Fed), which has aided the performance of risk assets through the quarter.
- Global equities markets made gains in Q2, despite ongoing US-China trade tensions. The MSCI World Index ended the quarter up 3.01%, whilst in the US the S&P 500 rose 3.11% to a new all-time high.
- In the UK, the FTSE 100 made gains of 2.74%, bringing year to date returns up for end of June to 10.37%. This was amid Theresa May resigning as Prime Minister, Boris Johnson being likely to replace her and the continuing uncertainty surrounding Brexit.
- European stocks were the best performers, with the Euro STOXX 50 index gaining 5.11% over the course of the quarter.
- While the US Fed kept increase rates stable during Q2, it suggested that cuts may happen in the near future. US Bond markets have now priced in two interest rate cuts in 2019. Similarly, the European Central Bank also suggested that a continuation of monetary easing policy may be implemented to counter subdued inflation levels in the region.

- The comments coming from central banks led to government bond prices rising and thus yields falling; the 10-year US Treasury yield fell by 40 bps. Meanwhile, in the UK the 10-year yield fell by just 17 bps whilst German Bunds now have a negative yield out to 10 years.
- Corporate bonds had stronger returns than government bonds over the quarter, as credit spreads narrowed. The Bloomberg Barclays US Corporate Investment Grade TR Index Unhedged returned 4.92%, bringing the year to date return to end of June to 9.85%.
- The comments from the US Fed that rates could be cut in the near future led to the dollar losing value against other currencies over the quarter. Similarly sterling performed poorly as Brexit concerns remained prominent. With any suggestion of a no deal Brexit continuing to undermine sterling.
- UK commercial property returns fell across the board marginally in Q2. Residential property prices struggled largely due to concerns over Brexit with activity falling.
- Generally across commodity markets returns were poor in Q2. Brent crude was down -2.7%, natural gas was down -13.3% and copper was down -7.8%. However, gold had a particularly strong quarter with prices buoyed by US-China trade tensions, the weak dollar and possible interest rates cuts coming, the precious metal closed the quarter up 9.3%.
- VIX volatility index increased slightly from 13.7 up to 15.1, an increase of approximately 10%.

Global Outlook

The second quarter of the year contributed to a strong first half for 2019, with the dovish tone from central banks supporting market sentiment and risk assets. For example, the S&P 500 had the best June return in decades, and the MSCI World the best performance in the first half of the year since 1998. This is certainly positive in the short-term, but going forward more reliance on central bankers continuing to pump money into the financial system and potentially continuing to do 'whatever it takes' to support the economy and markets may prove unsustainable in the long run and the risk of a policy mis-step and a more severe correction has arguably increased.

The macro-economic background is of a slowing in global GDP and corporate earnings growth, with high levels of corporate, consumer and government borrowing certainly unnerving some markets and, were it not for the very low interest rates, the sustainability of these high debt levels would certainly weigh more heavily on investor sentiment. In April, the IMF revised its global growth forecast down to the lowest level since the Great Recession.

To some extent, the dovish rhetoric from central bankers is a continuation of the tone in the first quarter and the end of the one before that, which was on the back of the sharp correction in equities that we witnessed at the end of last year. This rhetoric is expected to continue and investors should brace themselves for a more accommodative monetary policy in the long-term given the consistency of the signals given by the US and European central banks.

Fed Chairman Powell has expressed a strong dovish bias in recent statements and this has been matched by the White House with President Trump frequently pressing the Fed for a more stimulative monetary policy and to take into account relative currency valuations. With the prospect of further rate cuts, the outlook for the dollar is expected to be negative. Furthermore, low rates may encourage investors to continue the search for yield. Of note, US high yield had the best first half of the year since 2009 (rebounding strongly from 2018).

Turning to the Eurozone, the European Central Bank (ECB) slashed their outlook on global growth, emphasized their easing bias, which leads to the consensus expecting lower rates and more accommodative policy. This should be good for risk assets in the short term and lower interest rates for European investors may also lead to a continuation of the search for yield. The nomination of Christine Lagarde to the new ECB chair, to succeed Mario Draghi in a few months is generally expected to maintain the status quo and a continuation of unconventional monetary policies, but that remains to be seen.

Further macro-economic uncertainty could translate to further price volatility. In particular, the ongoing negotiations on the trade deal between the US and China are continuing, accompanied by an escalation of tensions around Huawei and the Hong-Kong protests. On the other hand, China has also expanded the liquidity provisions for bank bailouts, which should help with stability.

The trade tensions, weak dollar, and the potential for rate cuts contributed to the strong performance of gold. Notably, non-commercial positioning data released by the CFTC showed speculators extending their positions, with gold longs above 1- and 3-year averages.

Overall, whilst further Central Bank largess is supporting risk assets in the short term and may continue to do so, this is storing up problems for the future and our expectations for returns from many asset classes over the next 5 years is now very low.

UK Outlook: The next milestone and possibly the *end of the beginning* of Brexit is fast approaching in October. With the selection of the new UK Prime Minister, Boris Johnson, who has vowed that Brexit will happen on 31st October this year 'do or die' a harder negotiating stance seems more likely. The establishment is certainly going to be more skewed in favour of a harder Brexit. This could put further pressure on Sterling, which is already at multi year lows.

Performance report

Asset Class/ Manager	Global Equities/ Baillie Gifford
Fund AuM	£448m Segregated Fund; 41.0% of the Fund
Benchmark/ Target	MSCI All Countries World Index +2-3% p.a over a rolling 5 years
Adviser opinion	Manager continues to meet their performance target
Last meeting with manager	30/6/19 John Arthur/John Carnegie; Paul Roberts
Fees	0.65% on first £30m; 0.5% on next £30m; 0.35% thereafter

The manager outperformed their benchmark by 1.3% in the second quarter and although the portfolio is slightly behind the benchmark on a 1 year view (-0.5%), over the longer term the manager has added significant value and continues to hit their performance target of outperforming the MSCI All Countries Index by 2-3% per annum over a rolling five year period and is ahead of their benchmark since the inception of this portfolio 20 years ago.

The manager remains resolutely research driven and in particular recognises that, to fully understand business dynamics in this rapidly changing world, they need outside help. I continue to be impressed by the focus on research and the number and depth of the partnerships Baillie Gifford has developed with leading universities and research institutions to help drive this research forward.

The portfolio remains highly differentiated from the benchmark and the manager has requested a number of minor changes to the controls around the portfolio which have become outdated over time. I have discussed these with the manager and am happy with the alterations and have recommended their approval.

Asset Class/ Manager	Global Equities/MFS
Fund AuM	£247m Segregated Fund; 22.6% of the Fund
Benchmark/ Target	MSCI All Countries World Index
Adviser opinion	
Last meeting with manager	No meeting this quarter
Fees	0.6% on first £25m; 0.45% on next £25m; 0.4% thereafter

The MFS Global Equity portfolio returned 7.5% in the second quarter, outperforming its benchmark by 1.4% over the period. The manager has outperformed over the last 1 and 5 year periods but has underperformed the benchmark over 3 years. The longer term outperformance of the benchmark is over 1.5% since inception in 2013.

MFS continue to believe that we are nearing the end of the current economic cycle and that the best defence against the next downturn is to own companies with durable business models trading on modest valuations, this sounds simple but in today's environment of continuous disruption, even the strongest business models can be undermined by the fast pace of technological development. Turnover within the portfolio has crept up with average holding periods falling towards 5 years as the manager is looking to set the portfolio for a more market unfriendly future that they perceive. I would expect this turnover to fall back down to historic levels in due course.

The Fund's two global equity portfolios adopt very different investment philosophies and will perform well under differing market conditions. This has the effect of dampening the volatility of the Fund's overall equity exposure and reduced risk. It is therefore pleasing to see that both the Global Equity managers have outperformed their benchmark over time and added significant value to the Fund.

Asset Class/Manager	**Fixed Interest/ Fidelity**
Fund AuM	£81m Unit Trust; 7.4% of the Fund
Performance target	50% Sterling Gilts; 50% Sterling Non-Gilts; +0.75 p.a rolling 3 year
Adviser opinion	Manager continues to meet long term performance targets
Last meeting with manager	23/5/19 Conference; 8/7/19 John Arthur/Paul Harris/Suzy Fredjohn
Fees	0.35% on first £10m; 0.3% on next £10m; 0.21% on next £30m; 0.18% thereafter

The portfolio has a benchmark which is 50% Sterling Government Gilts and 50% Sterling Non-Government Investment Grade Credit. The current yield of the benchmark is 1.6% with an average duration of 10.1 years. The portfolio has some latitude to invest in non-Sterling bonds which are hedged back to Sterling and some latitude to invest in lower grade and unrated credit but this is relatively constrained.

The portfolio returned 2.4% in the second quarter against a benchmark return of 1.7% giving an outperformance of 0.7% over the period. The portfolio has reached the performance target of outperforming its benchmark by 0.75% over longer time periods and since inception 21 years ago which is a highly credible performance.

The portfolio has a current yield of 2% which is higher than the benchmark and is achieved by taking a slightly greater credit risk by holding less highly rated AAA bonds and more BBB and BB bonds which will have a slightly higher yield. The manager has been reducing this credit bias over the last quarter. The duration of the portfolio matches that of the benchmark. The manager has been running a shorter duration but feels the market has now fully discounted future interest rate cuts for the time being.

The uncertainty over Brexit is leading the manager to take limited positions away from the benchmark at the current time.

Asset Class/Manager	**Fixed Interest/ Baillie Gifford**
Fund AuM	£61m Pooled Fund; 5.5% of the Fund
Benchmark/ Target	Tailored benchmark
Adviser opinion	Performance matching benchmark
Last meeting with manager	2/5/19 John Carnegie; Paul Roberts/John Arthur
Fees	0.3% of fund value

The portfolio has a composite benchmark weighted 44% UK Government Bonds (GILTS) and 44% Non-Government Investment Grade Bonds with a 6% allocation to both Emerging Market Bonds and to High Yield Bonds. The benchmark has an average credit rating of single A, a duration of 9.1 years and is currently yielding 3.3%. The benchmark weighting to Emerging Market and High Yield Bonds as well as slightly looser investment constraints than the Fidelity bond portfolio covered earlier gives the manager more leeway to move away from the benchmark and attempt to add value.

The portfolio returned 3.9% in the first quarter, outperforming its benchmark by 1.8%. However, I note that the performance stated by the Fund's custodian (BNY Mellon) is above that stated by the manager suggesting some pricing discrepancy which I will look into but would expect to be unwound next quarter.

The outperformance since inception is roughly equivalent to the management fees charged on this portfolio so on a net basis it has added no value to the Fund so far.

During the quarter the portfolio was positioned to benefit from falling interest rates particularly in the US. This has duly happened and the US Fed cut interest rates shortly after the quarter end. Towards the end of the second quarter the manager moved to a more neutral stance believing that markets were over discounting the probability of further interest rate cuts and now expects some upward pressure on bond yield and limited possibility for lower credit bonds to outperform given their low yield premium to Government bonds at the current time.

Despite the manager's caution on markets the portfolio remains more exposed to credit risk than the benchmark and continues to generate a higher yield than the benchmark. The portfolio is also positioned towards overseas bonds which are hedged back to Sterling because of the continuing uncertainty over Brexit.

Asset Class/Manager	Multi Asset Income / Schroders
Fund AuM	£117m Pooled Fund; 10.7% of the Fund
Performance target	LIBOR +5% including a yield of 4% per annum
Adviser opinion	Too early to make any assessment
Last meeting with manager	10/6/19 John Arthur/ Remi Olu-Pitan
Fees	0.35% of fund value

It is too early to make any assessment of the performance of this fund but it is delivering the required 4% yield and following a number of meetings with the manager I believe it to be soundly constructed and well resourced.

With almost all asset classes gaining in value over the second quarter it should be no surprise that the portfolio outperformed its 'Cash plus' style benchmark for the period. The portfolio rose by 1.9% during the quarter and currently has a yield of 4.7%. Over the last twelve months the portfolio has returned 3.9% against a target of 5% per annum.

During the quarter the manager scaled back their equity exposure by 5% replacing this with preference shares which have a decent yield but benefit from being higher up the capital structure and so have less volatility than equities. The manager also moved credit exposure from Europe to the US and investment grade to high yield following the fall in bond yields over the quarter.

Earlier this year the manager suggested moving the Fund's investment from the existing $ denominated Multi Asset Income fund to a Sterling based equivalent fund which they wished to launch. There are benefits to the Fund in this as it cuts out the duplication of some currency hedging and biases the portfolio to UK denominated investments. The manager offered to do this at no cost to the Fund and following some discussions has agreed to a 9 month fee holiday for the Fund to cover the costs of the transition. The switch was agreed at the last PISC meeting and is being carried out at the time of writing. I will provide a verbal update on this transition at the meeting.

Asset Class/Manager	Multi Asset Income / Fidelity
Fund AuM	£92m Pooled Fund; 8.5% of the Fund
Performance target	LIBOR +4% including a yield of 4% per annum
Adviser opinion	Too early to make any assessment
Last meeting with manager	23/5/19 Conference
Fees	0.4% on first £20m; 0.3% on next £30m; 0.25% on next £100m; 0.18% thereafter

It is too early to make any assessment of the performance of this fund but it is delivering the required 4% yield and following a number of meetings with the manager I believe it to be soundly constructed and well resourced.

As above, with most asset prices rising in the quarter it should come as no surprise that the portfolio outperformed its 'Cash plus' style benchmark. The manager returned 3.2% over the quarter and has returned 5.6% over the last twelve months which is above the Cash +4% benchmark return for that period of 4.6%.

For the second quarter in succession, both bonds (defensive assets) and equities (risk assets) outperformed, the former on lower economic growth and potentially falling interest rates and the latter on the expected impact of these lower rates in stimulating renewed economic growth. It is unlikely that both defensive and growth assets will continue to rise in tandem from here.

Fidelity entered the last quarter of 2018 with sufficient hedges in their equity exposure due to concern over market levels and thereby limited the effect of the rapid market downturn in that quarter. They let some of these hedges unwind early in 2019 and the increased exposure to equities aided the portfolios performance as risk assets rallied through the first half of the current year. The manager is again uncomfortable with market levels in many asset classes including equities and is building up equity hedge levels at the current time. This allows the portfolio to remain invested and collect dividends yet not be totally derailed by a significant market fall. In addition, the portfolio has exposure to more traditionally defensive assets such as the Japanese Yen and US Government Treasuries.

In the short time that Fidelity has managed this portfolio the manager has made a number of sensible investment decisions which have aided performance and limited the volatility of the portfolio, this has given some confidence that the portfolio's objectives will be achieved over the longer term.

Asset Class/Manager	UK Commercial Property / Fidelity
Fund AuM	£48m Pooled Fund; 4.4% of the Fund
Performance target	IPD UK All Balanced Property Index
Adviser opinion	Too early to make any assessment
Last meeting with manager	23/5/19 Conference
Fees	0.75% of fund value

The portfolio returned 0.2% in the second quarter below the benchmark return of 0.9% and is below the benchmark since inception a year ago. Given the portfolio has been in its investment phase over the last year, I regard this performance as acceptable because UK commercial property is expensive to trade and as such there will have been noticeable costs incurred during the investment phase. This portfolio is now fully funded.

The portfolio now holds 45 properties spread across the UK and across all major property types. It has a 5% exposure to retail assets which is significantly below the index weighting and whilst it is seeing some pressure on lease terms in this area these are within current expectations.

In the second quarter retail properties of all types from shops to out of town shopping malls continued to come under valuation pressure. It is also noticeable that property surveyors are valuing properties more conservatively. This is being driven by the slowing UK economy and continuous Brexit uncertainty.

The Fidelity property has a major tenant lease expiry adding to the portfolio vacancy rate which will approach 15% over the next 6 months against an industry average of 7%. Having discussed this issue with them, they are confident in the property's appeal and that post refurbishment it will be quickly re-let at an attractive level.

Global Economy

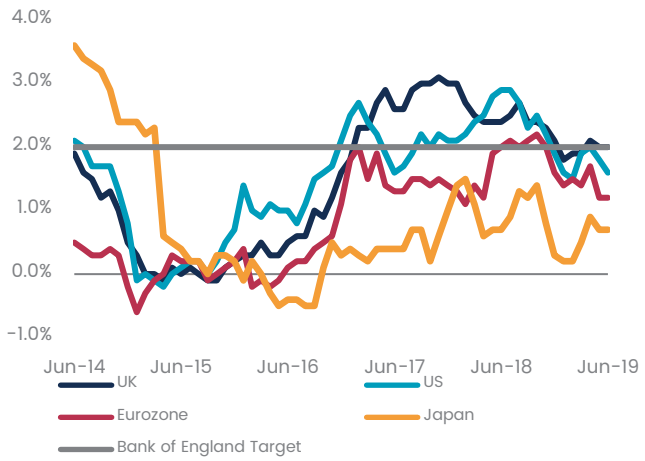
A slowdown of global economic growth remained a concern across markets, while central banks kept interest rates unchanged, but with hints that cuts may be to come. Ongoing trade tensions between China and the US continued to cause uncertainty in markets, with knock-on effects felt around the world. Brexit remained a cause of uncertainty in the UK, particularly as Teresa May resigned as Prime Minister and Boris Johnson was chosen to replace her with little clarity on a way forward outside of a firmer negotiating stance on Brexit.

Table 1: Quarterly GDP Growth Rate

	US GDP	UK GDP	Eurozone GDP	Japan GDP
Q2 2019*	1.8%	-0.1%	0.2%	0.1%
Q1 2019	3.1%	0.5%	0.4%	2.2%
Q4 2018	2.2%	0.2%	0.2%	1.9%
Q3 2018	3.4%	0.7%	0.1%	-2.4%

: Bloomberg. *Forecasts based on leading indicators.
UK Real GDP (Ticker: UKGRABIQ Index), US Real GDP (Ticker: EHGDUS Index),
ne Real GDP (Ticker: EUGNEMUQ Index), Japan Real GDP (Ticker: EHGDJP Index)

: 1: 5-year CPI to March 2019



: Bloomberg.
UK: UK CPI EU Harmonised YoY NSA (Ticker: UKRPCJYR Index); US: US CPI Urban
ner YoY NSA (Ticker: CPI YOY Index); Eurozone: Eurostat Eurozone MUICP All Items
sh Estimate (Ticker: ECCPEST Index); Japan: Japan CPI Nationwide YOY (Ticker:
OY Index).

GDP: US GDP is predicted to grow to 1.8% in Q2, as last quarter's GDP was revised down from 3.2% to 3.1%. The US unemployment rate continued to be very low, at just 3.6%, meanwhile average US earnings per hour increased by 3.1% year on year.

In the UK, Q2 GDP growth is expected to be at -0.1%, while Brexit uncertainty caused a fall in car manufacturing leading to negative economic growth in April. In the Eurozone, GDP growth is predicted to be 0.2% for Q2, as the European Central Bank suggested that there may be continued easing of monetary policy in order to tackle continually low inflation.

Japan is unlikely to face recession after its Q1 GDP annualised growth rate was at 2.2%, despite predictions that it would be negative.

CPI: In Q2, inflation levels in the US fell as quarter end figures were at 1.6, even though levels of unemployment remained low and wage inflation is picking up.

In the UK, the consumer price index rose to 2.0, exactly in line with the 2.0% target set by the Bank of England. This rise was driven in part by changes to the cost of motor fuels, electricity, gas and other forms of fuel, with clothing and food slightly off-setting this.

Central Banks: Central banks maintained their position to keep monetary policy accommodative amid global growth concerns. The Federal Reserve did not lower interest rates in Q2, but suggested that this may happen in the near future and indeed we have seen a cut early in Q3. The European Central Bank suggested that it may continue its policy of monetary easing, aimed at tackling troublingly low levels of inflation in the region. Meanwhile in India, an attempt was made by the central bank to encourage growth through cutting its benchmark interest rate.

Political Headlines: In UK politics, the resignation of Theresa May as Prime Minister and Boris Johnson being named as her replacement means uncertainty regarding Brexit has continued - particularly regarding the question of whether or not the UK will leave the EU with or without a deal. In Argentina, presidential candidates shifted to become more centrist, while elections in South Africa saw the African National Congress Party hold their position as the leading party.

Equities

During Q2 the global equities market made gains, in spite of the ongoing trade tensions between the US and China. Central banks remained accommodative and although the Federal Reserve did not cut interest rates in Q2 they were cut in early Q3. Trade tensions impacted emerging market stocks as they trailed behind developed markets.

UK: Theresa May resigned as Prime Minister and has been replaced by Boris Johnson. As the new leader starts his role there is particular uncertainty regarding Brexit as he is taking a different approach than his predecessor. The FTSE 100 rose by 2.74%, bringing year to date returns for end of June to 10.37%. The Q2 returns were driven in part due to shares in consumer goods companies as well as technology shares.

US: The S&P 500 reached a new high during the quarter amid the ongoing US-China trade tensions. The index ended Q2 up 3.11%. Although President Trump had suggested that the US could increase taxes on Mexican goods, he later said that Mexican tariffs were "indefinitely suspended". The continuation of the Fed's dovish stance helped to buoy markets and led to ever high returns for the S&P 500.

: 2: Global Equity Markets Performance

Source: Bloomberg. All in local currency.
FTSE All-Share Index (Ticker: ASX Index) S&P 500 Index (Ticker: SPX Index) STOXX Europe 600 (Ticker: SXXP Index)
Nikkei 225 Index (Ticker: NKY Index) MSCI World Index (Ticker: MXWO Index) MSCI Emerging Markets (Ticker: MXEF Index)

Japan: The Nikkei 225 was down -0.96% over Q2, mainly driven by concerns regarding the knock-on effects of US-China trade tensions. Particularly bearing in mind Japan's electronic components industry and how this is affected by the US's issues with Huawei. Although the Nikkei 225 returns were negative in Q2, year to date returns to end of June were at 6.3%, due to the strong returns in the previous quarter.

Emerging Markets: The MSCI Emerging Markets Index was down -0.44% for Q2, showing that the continued US-China trade tensions are taking their toll on equity markets in all regions. On a positive note, Argentina's presidential candidates took an increasingly centrist stance. The South African Party, African National Congress Party, was re-elected; although it did see a decrease in its majority. In Indonesia the incumbent President Joko Widodo was re-elected.

EU: The Euro STOXX 50 increased by 5.11% in Q2. Similarly to other markets the region experienced growth over the quarter, despite falls in May. Spain's general elections in April saw the incumbent Socialist Party (PSOE) remain in power. Meanwhile in Italy, the country's GDP growth forecast for 2019 was cut from 0.2% to 0.1% by the European Commission with political tensions mounting within the government.

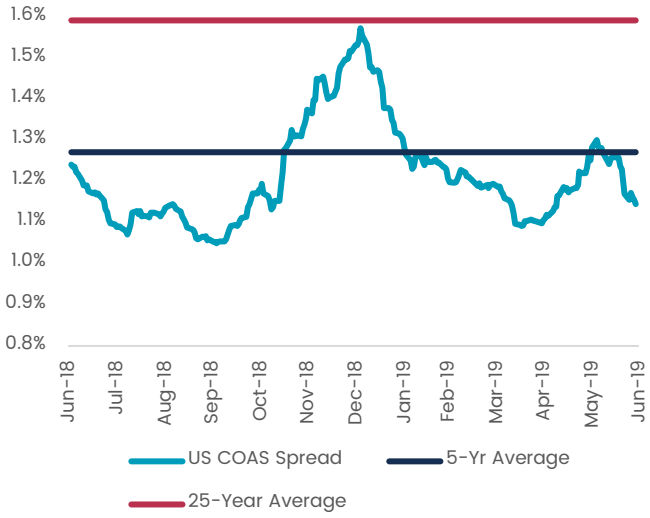
China: The MSCI China Index fell by -5.2%. This fall came as the governor of the People's Bank of China suggested that there may be an easing in monetary policy. The trade tensions between the US and China continued to be of concern, with a temporary truce on tariffs being agreed.

Fixed Income

Over Q2 the global bond markets made gains as markets were encouraged by comments coming from both the US Federal Reserve and the European Central Bank that indicated increasingly dovish positions and the likelihood of further monetary support for the economy and markets.

Government Bonds: During the second quarter of the year, as prices rose government bond yields fell. The 10-year US Treasury yield fell by 40 bps, backed by the potential for Fed and ECB interest rate cuts and the possibility of further quantitative easing by the ECB. In Spain, with the re-election of the incumbent government, the Spanish 10-year yield fell by 70 bps. In Britain, the UK 10-year yield fell by just 17 bps, and in April the yield rose off the back of an extension to the Brexit deadline. In Germany, the yield of the 10-year German Bund fell by 25 bps, taking it into negative territory and closing the quarter at -0.33%.

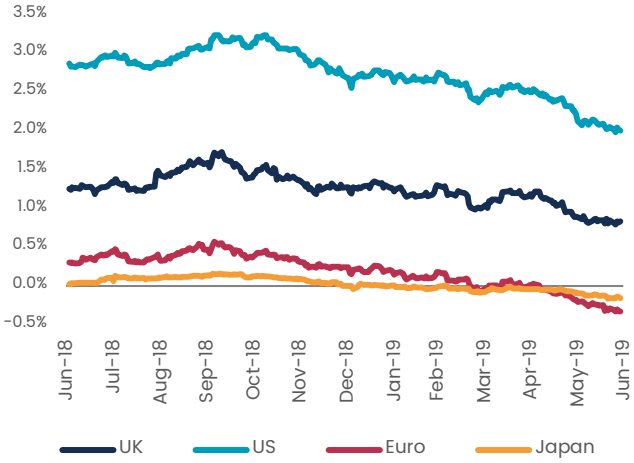
Chart 4: US Corporate Bond Spreads



: Bloomberg. Notes: Bloomberg Barclays US Corporate Total Return Value Unhedged
icker: LUACTRUU INDEX)
-Adjusted Spreads (OAS) represent the difference between the index yield and the
a comparable maturity treasury.

High Yield Credit: Despite a number of concerning geopolitical events over the quarter, high yield credit generally performed well over Q2. The Bloomberg Barclays US Corporate High Yield TR Index Unhedged returned 2.31% over the quarter. With year to date performance also strong the market has performed well although the possibility of defaults increasing could cause concern for markets as the later stages of the credit cycle are approached.

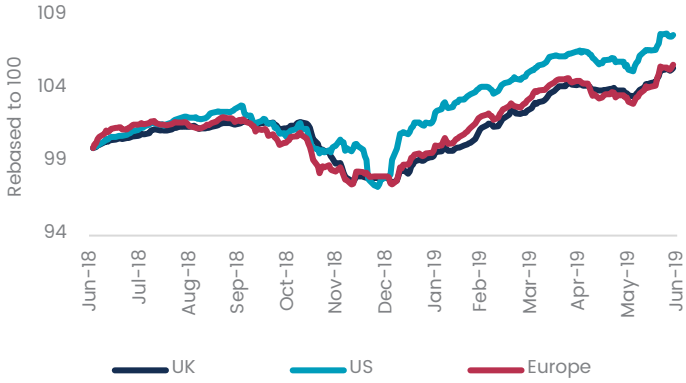
: 3: Government Bond Yields



: Bloomberg.
US Generic Govt 10 Year Yield (Ticker: USGG10YR Index)
t Bonds 10 Year Note Generic Bid Yield (Ticker: GUKG10 Index)
eneric Govt Bond 10 Year (Ticker: GECU10YR Index)

Investment Grade Corporate Bonds: Total returns for corporate bonds were positive in Q2, and, in fact, produced stronger returns than government bonds, closing the quarter 115 bps above US Treasuries. The Bloomberg Barclays US Corporate Investment Grade TR Index Unhedged returned 4.92%, bringing the year to date to June up to 9.85%. However, macroeconomic factors also caused investment grade credit spreads to widen slightly.

: 5: High Yield Corporate Bonds Indices



: Bloomberg. Notes: Bloomberg Barclays Pan-European High Yield: Sterling Total Return
ged GBP (Ticker: I05892GB Index)
berg Barclays US Corporate High Yield Total Return Index Value Unhedged US (Ticker:
UU index)
berg Barclays Pan-European High Yield (Euro) TR Index Value Unhedged EUR (Ticker:
EU Index)

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Currencies

Over the course of Q2 the dollar lost value, partly due to the Federal Reserve suggesting that it could cut interest rates. This had a knock-on effect for the Euro, which rose relative to the US dollar. Sterling performed poorly over the period, with the possibility of a hard Brexit increasing once again. As investors look for a safe currency to put their money into, the Japanese Yen strengthened over the quarter.

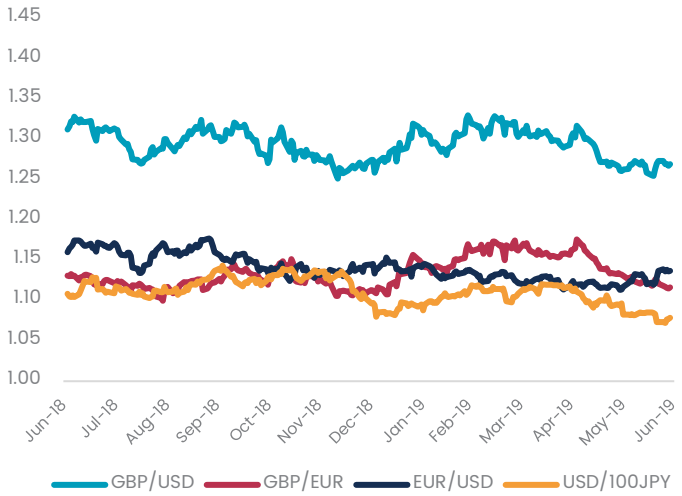
Table 2: Currency Rates as at June 2019

	Quarter-end Value	% Quarter Change
GBP/EUR	1.12	-3.91%
GBP/USD	1.27	-2.6%
EUR/USD	1.14	1.38%
USD/JPY	107.85	-2.72%

: Bloomberg.

: Spot Exchange Rate (Ticker: GBPEUR Currency)
: Spot Exchange Rate (Ticker: GBPUSD Currency)
: Spot Exchange Rate (Ticker: EURUSD Currency)
: Spot Exchange Rate (Ticker: USDJPY Currency)

Chart 6: One-Year Currency Rates of Major Currency Pairs



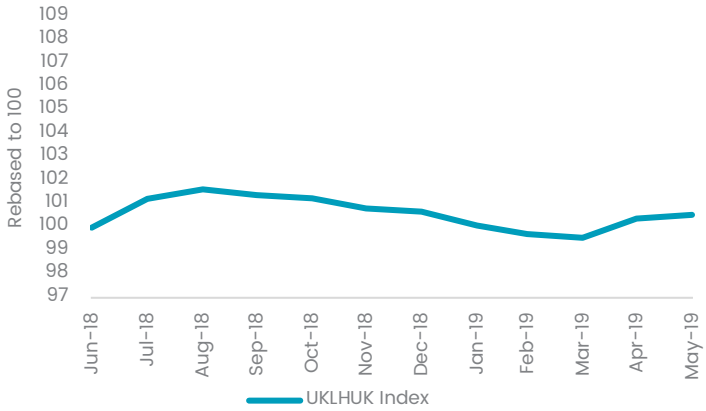
Property

In the UK, property price growth remained low in Q2, with the average UK house price rising by 0.3% (seasonally adjusted) to £215,910.

Commercial Property: CBRE Research figures show that commercial property returns fell across the board, with total return for retail property falling -0.6%, capital growth was down -1.1%, and rental value delivering 0.4%. This was due to poorly performing shopping centres and high streets. Office properties saw total returns fall to 0.3% and capital growth and rental value growth were both flat at 0%. Industrial properties saw a slight increase in capital growth of 0.2%, bring the 2019 year to date figure to 1.3%.

Residential Property: The UK residential property market remained slow, annual house price growth was at 0.5% in June, according to Nationwide. The area in the UK with the strongest growth was Northern Ireland, with annual prices rising from 3.3% in Q1 2019 to 5.2% in Q2. Meanwhile in London, prices fell for the eighth consecutive quarter. This is likely to be due to uncertainty in British markets, particularly regarding Brexit and the possibility of a no deal situation.

Chart 7: 1-Year UK House Price Index



: Bloomberg. FTSE EPRA NAREIT Index (Ticker: ELUK INDEX)

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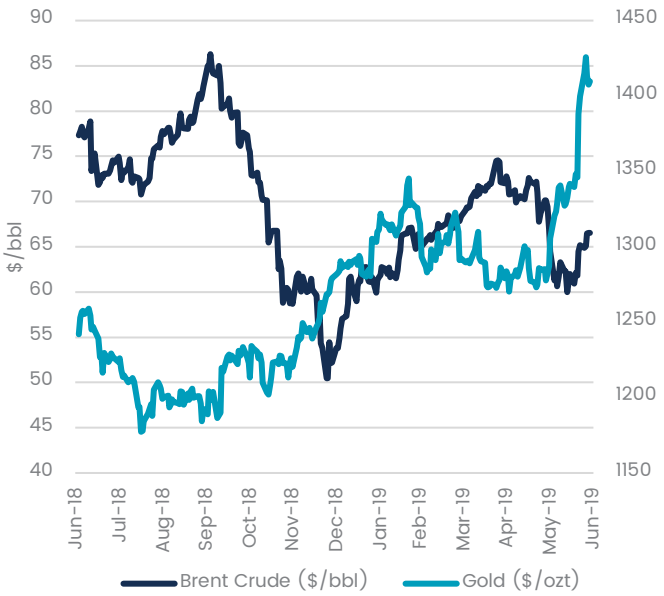
Commodities

Commodities fared poorly in the second quarter of the year as the fear of weaker demand drove prices lower. Brent crude oil fell -2.7%, natural gas -13.3%, and copper -7.85%. Gold, however, had a very positive quarter and was up 9.33%.

Oil: During Q2, crude oil prices fell from $68.39 to $66.55 per barrel, a decrease of -2.69%. The continuing trade tensions and concerns regarding US economic growth were key drivers in the oil price falls, in spite of the continuing geopolitical situation in Iran and the possibility of the US tightening restrictions against Iran. The ongoing political situations in the Middle East as well as Venezuela persisted throughout Q2, with instability in both regions continuing.

Gold: Gold performed well over Q2, particularly in comparison with other commodities. Trade tensions between the US and China, the possibility of interest rate cuts by the Fed and a relatively weak dollar, all contributed to gold gaining 9.33% over the quarter as it is a traditional safe haven asset in times of market uncertainty.

Chart 8: Gold and Brent Crude Oil Prices



: Bloomberg.

nited States Dollar Spot (Ticker: XAU Currency)
: 1st Brent Crude Oil (Ticker: CO1 Commodity)

MJ HUDSON Allenbridge

8 Old Jewry, London EC2R 8DN, United Kingdom | +44 20 7079 1000 | info@allenbridge.com | mjhudson.com | mjhudson-allenbridge.com