JAGGER & ASSOCIATES

Investment Update
April 2013

Investment Headlines & Comment

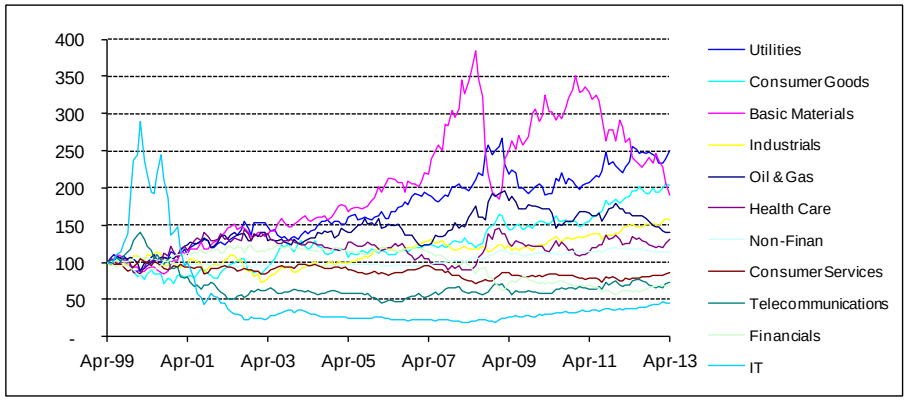
- **Spain**'s unemployment hits a new record yet their 10-year yields fall to 4.12% (last seen in Q3 2010).
- The UK issues a tranche of **Index-Linked Gilt** maturing in 2062 on a real yield of *minus* 0.21%.
- The **Basic Materials** sector continues to struggle, as mining stocks retreat.

Feature Section

This month we look at longer-term versions of the sector and size charts we produce each month for the UK Equity market (Figures 4a and 4b). Whilst the 12-month versions show there can be material dispersion over any 12-month period, the longer-term outputs give some stark conclusions.

First, we consider the outputs for sectors. The current broad 11 sectors have been in place since April 1999, over which period the cumulative total return on the All Share has been 76% (which is "only" 4.1% p.a. once annualized). Figure 1a shows the cumulative total return on the sectors (relative to the All Share being fixed at a constant 100).

Figure 1a: Sectors relative to All Share



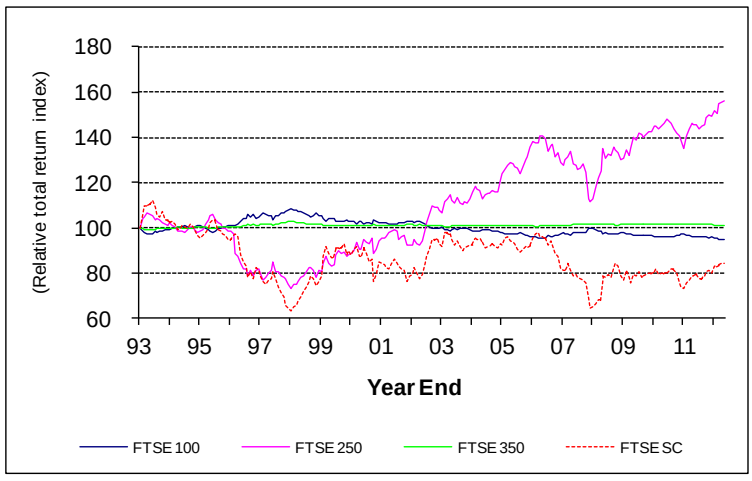
Source: FTSE (also for Figure 1b)

Labels are shown in order of end point values, for ease of reading. Basic Materials has easily been the most volatile sector in relative terms, although IT was pretty volatile early on, as might be expected from a 1999 "tech bubble" start point.

Over the 14 years shown, Utilities have come out as the best performers, 150% ahead of the All Share. Consumer Goods have also done well in a reasonably steady way.

For the size split, we use the conventional 100/250/Small Cap splits. These have been published at the total return level since the end of 1993. Figure 1b shows the cumulative total return on the size groups (relative to the All Share being fixed at a constant 100). As the FTSE100 and FTSE350 are dominant parts of the index, it is not unexpected that they stay pretty close to the 100 level, although it is fair to say that the FTSE100 has now underperformed by about 5%.

Figure 1b: Size groups relative to All Share



With the size groups data, it is only fair to note that individual equities can move between these groups rather more easily than on a sector basis (you don't see many oil companies converting to being telecoms companies). So, the results achieved within a size group now, may be from a rather different population to, say, 10 or 20 years ago.

Having said that, what does strike you about Figure 1b is the pretty relentless outperformance of the All Share by the Mid 250 from 1998 onwards. There have also been periods where Small Cap has done well, but the cumulative results have been rather disappointing.

Finally, this month is the 20th anniversary of having earnings data for the overall All Share as opposed to just for the non-Financials component. So, for the statistics anoraks amongst you, and for those building actuarial valuation bases, Table 1 now has a 20-year figure for earnings growth on the All Share – roughly 3.5% p.a. ahead of RPI inflation.

© Jagger & Associates, May 2013

Asset Returns and Financial Measures [*in Sterling unless marked otherwise*]

The cells in bold with light shading show the best and worst performing asset classes from each column. The commodities and $-based and unhedged-£-conversion hedge fund returns are excluded from that.
[**NB** Future returns cannot be inferred from this table alone, but coupled with other items within *Update*, readers can make inferences as to whether they should be higher or lower than the past returns shown below.]

Table 1: Investment Data to 30 April 2013

Asset Class	1 month (%)	3 months (%)	12 months (%)	3 years (% p.a.)	5 years (% p.a.)	10 years (% p.a.)	20 years (% p.a.)
UK Equities	0.6	4.3	17.8	9.5	5.6	9.7	8.1
Overseas Equities	0.4	7.0	21.2	8.6	7.4	9.9	7.4
US Equities	-0.5	9.2	22.1	12.2	10.6	8.5	**9.0**
Europe ex UK Equities	2.3	2.6	26.7	5.9	2.3	10.2	8.8
Japan Equities	**6.0**	**19.1**	**27.2**	5.9	4.8	8.2	**0.5**
Pacific ex Japan Equities	0.0	3.3	18.2	7.1	8.4	16.5	8.4
Emerging Markets	**-1.7**	**-0.3**	8.9	2.9	4.9	**16.8**	8.4
UK Long-dated Gilts	2.3	6.6	9.9	12.9	9.8	7.0	8.7
UK Long-dated Corp. Bonds	4.3	8.0	18.6	11.9	10.3	6.9	-
UK Over 5 Yrs Index-Linked Gilts	1.2	5.6	13.5	**13.4**	9.7	8.5	8.1
High Yield (Global)	-0.2	4.6	20.1	10.3	**16.3**	10.3	-
Overseas Bonds	**-1.7**	1.3	2.8	3.7	9.3	5.8	5.9
Property *	0.4	1.1	2.5	6.6	**1.0**	5.6	8.5
Cash	0.0	0.1	**0.6**	**0.8**	1.5	**3.2**	4.6
Commodities £-converted	-7.1	-6.4	-5.0	0.3	-7.6	2.8	3.3
Hedge Funds original $ basis *	1.0	3.7	5.3	4.0	3.0	7.0	9.7
Illustrative £-converted version *	1.0	11.0	10.9	4.0	8.7	7.4	9.6
Euro relative to Sterling	0.2	-1.0	4.0	-0.8	1.5	2.0	-
US $ relative to Sterling	-2.4	1.9	4.4	-0.5	4.9	0.3	0.0
Japanese Yen relative to Sterling	-5.8	-4.6	-14.4	-1.7	6.4	2.3	0.7
Price Inflation (RPI) *	0.4	0.8	3.3	4.1	3.2	3.3	2.9
Price Inflation (CPI) *	0.3	0.5	2.8	3.4	3.3	2.7	2.2
Price Inflation (RPIX) *	0.4	0.8	3.2	4.1	3.9	3.3	2.9
Earnings Inflation **	3.6	6.6	-0.2	0.5	0.1	2.9	3.7
All Share Capital Growth	0.3	3.1	13.6	5.8	1.8	6.0	4.6
Net Dividend Growth	0.6	2.8	9.7	7.1	0.4	5.4	-
Earnings Growth	6.8	-5.8	-15.8	9.3	-1.7	8.2	6.4

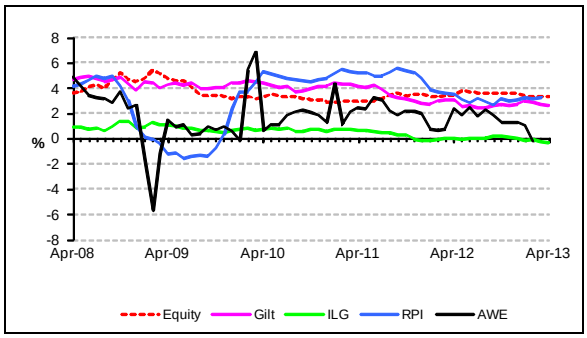
Note: All market returns are total returns for pension funds with income reinvested monthly. Indices used are as follows:

- *UK Equities (incl. dividends and earnings) – FT-A All Share.*
- *Overseas Equities (incl. regions) – blend of FT All-World / World subindices*
- *Emerging Markets from MSCI US $ based total return index (overall Index to 31 Oct 2001, Free Index from 1 Nov 2001 to take account of foreign investment restrictions), conversion to UK £ by J&A.*
- *UK Bonds – FT-A indices (Gilts Over 15 Years, ILG Over 5 Years)*
- *UK Corporate Bonds – iBoxx Non-Gilt **Over 15 Year** index (all credit ratings combined)*
- *High Yield – Merrill Lynch Global, £ Unhedged*
- *Overseas Bonds – JP Morgan Traded Unhedged World ex UK*
- *Property – IPD Monthly Index*
- *Commodities – GSCI Total Return, converted to UK £ by J&A*
- *Hedge Funds Composite – HFRI US $ based total return index plus converted to UK £ by J&A. **NB A smooth "cash+x%" return will only be shown in the base 'hedged' currency, here the US $.***
- *Cash – an indicative index based on the three-month London Interbank Sterling mid-rate, calculated internally by J&A*
- *Price and earnings inflation – RPI, CPI, RPIX, and Average Weekly Earnings (whole economy, not seasonally adjusted, latest provisional data)*
- *Currency data – London close, from the Financial Times*
- ** denotes data lagged by 1 month, ** by 2 months – these reflect the later publication dates of these data items.*

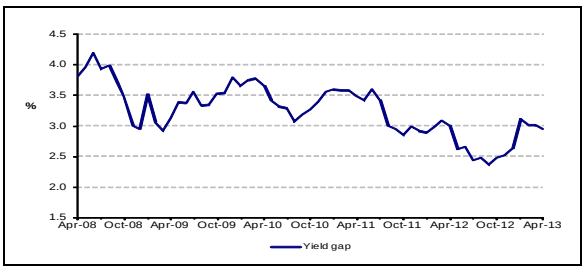
© Jagger & Associates, May 2013

Yields and Yield Gaps

Figure 2: Yields, Inflation and Yield Gaps



The yield gap is a measure of expected average future inflation, derived as long bond yield minus ILG yield.

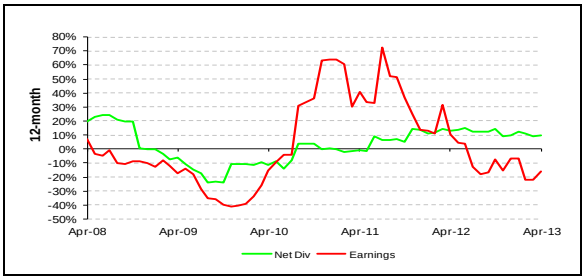


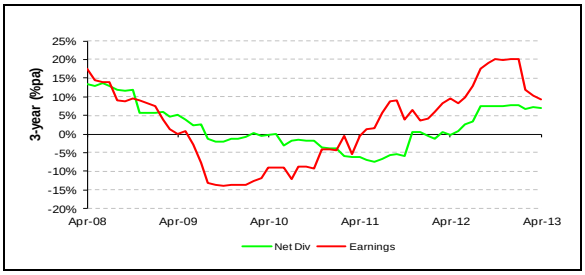
The gap gives a current expectation of about 3% for longer-term inflation + risk premium for gilts, relative to index-linked gilts.

Growth in Earnings and Dividends

These charts show movements in rolling 12-month and 3-year dividend and earnings growth for UK Equities over the last 5 years. [*NB the charts have different scales*]

Figure 3: Dividend & Earnings Growth

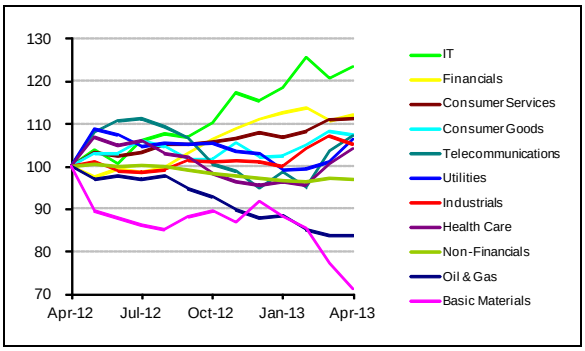




Sources for charts on this page:
Financial Times, Office for National Statistics, J&A

UK Equity Sector Returns

Figure 4a: Sectors relative to All Share



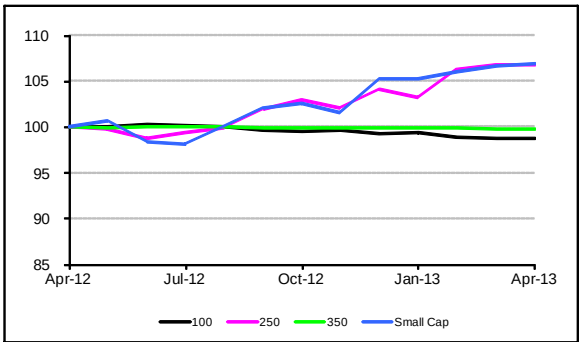
Note: Sector labels for relative lines are in end-value order

There was a large jump this month in the rolling 12-month sector dispersion (rising from 37% to 52%).

(% absolute return)	1 mth	3 mth	12 mth
Oil & Gas	0.3	-1.2	-1.4
Basic Materials	-7.3	-16.1	-16.3
Industrials	-1.2	9.8	24.0
Consumer Goods	-0.3	9.3	26.5
Health Care	4.4	12.9	22.9
Consumer Services	0.8	8.6	31.0
Telecommunications	3.9	13.3	26.1
Utilities	5.7	11.8	25.3
Non-Financials	0.2	4.5	14.1
Financials	1.8	3.8	32.2
IT	2.8	8.6	45.5
All Share	0.6	4.3	17.8

UK Equity Size Returns

Figure 4b: Size groups relative to All Share



Mid and Small Cap rose in relative terms this month.

FRS17 volatility indicator

Now discontinued, but available on request.

© Jagger & Associates, May 2013

Bond market information

Figure 5: £ Non-Gilt Credit Margins

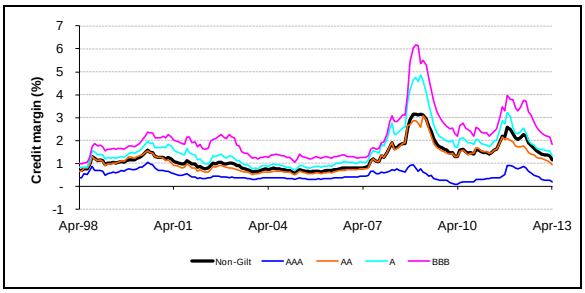


Table 2a: Over 15 Yr Corporate Yields & Margins

Month End	iBoxx Corp AA Y'ld (%)	FT 20 yr Gilt (%)	Margin (%)
Nov 12	3.92	2.64	1.28
Dec 12	4.03	2.71	1.32
Jan 13	4.26	2.99	1.27
Feb 13	4.18	2.94	1.24
Mar 13	4.01	2.76	1.25
Apr 13	**3.75**	**2.63**	**1.12**

Tables 2b, 2c: £ Market Size (£bn) and Maturity

Category	Mkt Val @ Apr 13 & 10, 07			Weight (%)
Gilts (36)	1,113	714	301	67.1
Non Gilts (1,026)	547	465	413	32.9
AAA (148)	127	142	148	7.6
AA (150)	73	72	66	4.4
A (381)	193	160	128	11.6
BBB (347)	154	92	68	9.3

Category	Mkt Val @ Apr 13, & 10		W't (%)	Dur'n (yrs)
Gilts (36)	1,113	714	67.1	9.8
< 5 Yrs (10)	317	204	19.4	2.9
5–15 Yrs (11)	373	267	22.4	7.4
> 15 Yrs (15)	424	243	25.6	17.1
Non Gilts (1,026)	547	465	32.9	8.2
< 5 Yrs (284)	143	134	8.6	2.8
5–15 Yrs (446)	224	199	13.5	7.3
> 15 Yrs (296)	180	132	10.8	13.6

£ Gilt Market "main" Issuance

- £3.57bn 1¾% 2022 (1.68x, 1.73%, Feb 13)
- £2.44bn 3¼% 2044 (1.69x, 3.12%, Jan 13)
- £1.62bn $^{1}/_{8}$% IL 2024 (1.86x, ry -1.26%, Feb 13)
- £1.38bn $^{1}/_{8}$% IL 2029 (1.51x, ry -0.64%, Jan 13)
- £0.50bn ILG $^{3}/_{8}$% 2062 (3.07x, r.y -0.21%, May 12)

Note: Issuance amounts are nominals.

Tables 2d, 2e: € Market Size and Maturity (Apr 13)

Category	Mkt Val (€bn)	Weight (%)
Sovereigns (268)	4,833	59.1
Non Sovereigns	3,347	40.9
AAA (537)	1,091	13.3
AA (375)	628	7.7
A (801)	922	11.3
BBB (676)	707	8.6

Category	Mkt Val (€bn)	Weight (%)
1 – 3 Yrs (820)	2,169	26.5
3 – 5 Yrs (734)	1,854	22.7
5 – 7 Yrs (427)	1,140	13.9
7 – 10 Yrs (460)	1,534	18.8
10+ Yrs (216)	1,482	18.1

Table 2f: Breakdown of £ Index-Linked Market

Category (Number of issues)	Mkt Val (£bn @ Apr 13 & 10)		W't (%)	Dur'n (yrs)
Gilts (21)	383	225	92.2	19.0
< 5 Yrs (2)	46	36	11.0	3.6
5 – 15 Yrs (5)	106	90	25.6	9.7
> 15 Yrs (14)	231	99	65.7	26.4
Non Gilts (43)	32	24	7.8	17.4

Table 2g: High Yield bond yields (BB-B indices)

Month End	US (%)	Euro (%)	Sterling (%)
Dec 12	5.89	* 5.17	* 6.43
Jan 13	5.76	5.27	6.30
Feb 13	5.76	5.07	6.33
Mar 13	5.69	5.11	6.24
Apr 13	**5.43**	**4.66**	**5.89**

Sources: Barclays Capital, DMO, iBoxx, J&A, MLX
*Note: * MLX methodology changed in Dec 2012, so indices with significant "fixed-to-float" constituents now appear low-yielding, whereas specific High Yield fund yields may be somewhat different.*

JAGGER & ASSOCIATES

Contact: Ground Floor, 14 Exchange Quay,
Salford Quays, Manchester M5 3EQ
Tel.: 0161 873 9350, Fax: 0161 877 4851
web: www.jaggerandassociates.co.uk ,
e-mail: enquiries@jaggerandassociates.co.uk

See our website for details of the investment consultancy services we provide to actuarial firms, pension funds, universities and other endowment funds, and charities.

Regulated by the Institute and Faculty of Actuaries in respect of a range of investment business activities.

Although every effort is made to ensure the accuracy of the figures contained in Update, we cannot accept any liability for loss as a result of their use. This publication should not be taken as formal investment advice for any particular institution – specific guidance should be sought from us.

© Jagger & Associates, May 2013