

May 2024

# Newsletter

## HOT TOPICS

### Alternatives to Investment Grade Corporates

Investment Grade credit spreads have tightened considerably over the past twelve months and are at or below average levels. These assets continue to play a helpful role in providing excess return, contributing to interest rate hedges and forming part of collateral waterfalls. However, with valuations more stretched, we have been finding other options more suitable for some of our clients with capital available to reinvest. In a number of cases we have favoured high quality, liquid asset backed securities which offer a higher credit spread than equivalent quality conventional credit. This has to be balanced against the shorter credit spread duration of securitised assets, and the associated reinvestment risk, but we believe investors are well compensated currently.

### Inflation hedging

The annual recalibration of liability benchmark portfolios to reflect the latest market conditions is an exercise that always leads to interesting conversations with clients. The complexities involved in constructing liability benchmark portfolios are a science in themselves (and perhaps more of an art than science!)

Given the higher volatility experienced in UK gilt yields and inflation markets over recent years, it is not unsurprising that clients are questioning whether there are alternative options to rebalance (or not rebalance) liability hedging benchmarks, relative to the traditional market approaches that have been historically adopted. This has been particularly relevant to inflation sensitivities in recent times, and the required trading that would be implied under the traditional annual 'delta hedging' approach.

We have been continuing to explore with clients more dynamic approaches to hedging inflation, along with input from Scheme Actuaries and LDI managers. This is an exciting development (in our world anyway) that we look forward to continuing to evolve.

### ESG hot topics

As ever, there have been ongoing developments in the ESG space (with even more acronyms to boot). Recent updates that we have been discussing with our clients include:

- » Initial work on metrics reporting following the recommendations from the Taskforce on Nature Related Financial Disclosures (TNFD).
- » The recent guide published by DWP based on work undertaken by the Taskforce on Social Factors (TSF).
- » Climate scenario analysis and the evolution of approaches being taken to ensure investors are considering scenarios that are appropriately severe.
- » Emissions reporting on derivative positions following guidance published by MSCI, Standards Board for Alternative Investments (SBAI) and the Institutional Investors Group on Climate Change (IIGCC).

## BUSINESS UPDATE



Assets under advice of £16bn.



Dedicated consulting team of 9 professionals based in Windsor.



Strategic advisory appointments across corporate pension schemes, charities and outsourced CIO.



## TEAM UPDATE

### Darting around

After a busy Q1, we arranged a team evening out playing darts at Flight Club. Well done to "bullseye" Mags and Anna the assassin for being the "killers".

### Looking forward to the summer

As the weather starts to warm up and the sun is showing its face again, the fitter members of the team have signed up to several of the industry running events, and continue to work towards CFA exams. Both of which we have no doubt the team will excel at!

*Partnering with large institutional investors to help them achieve their goals*

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