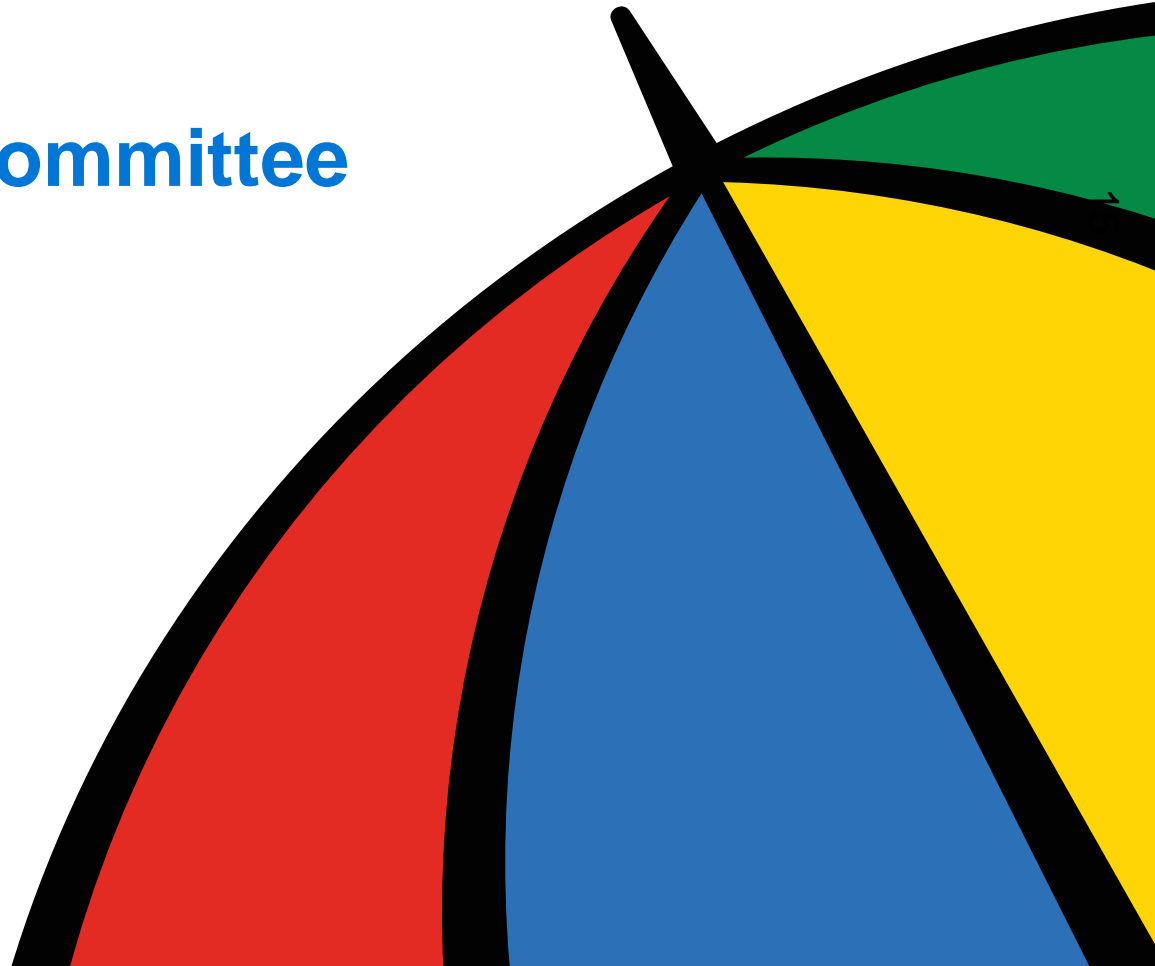


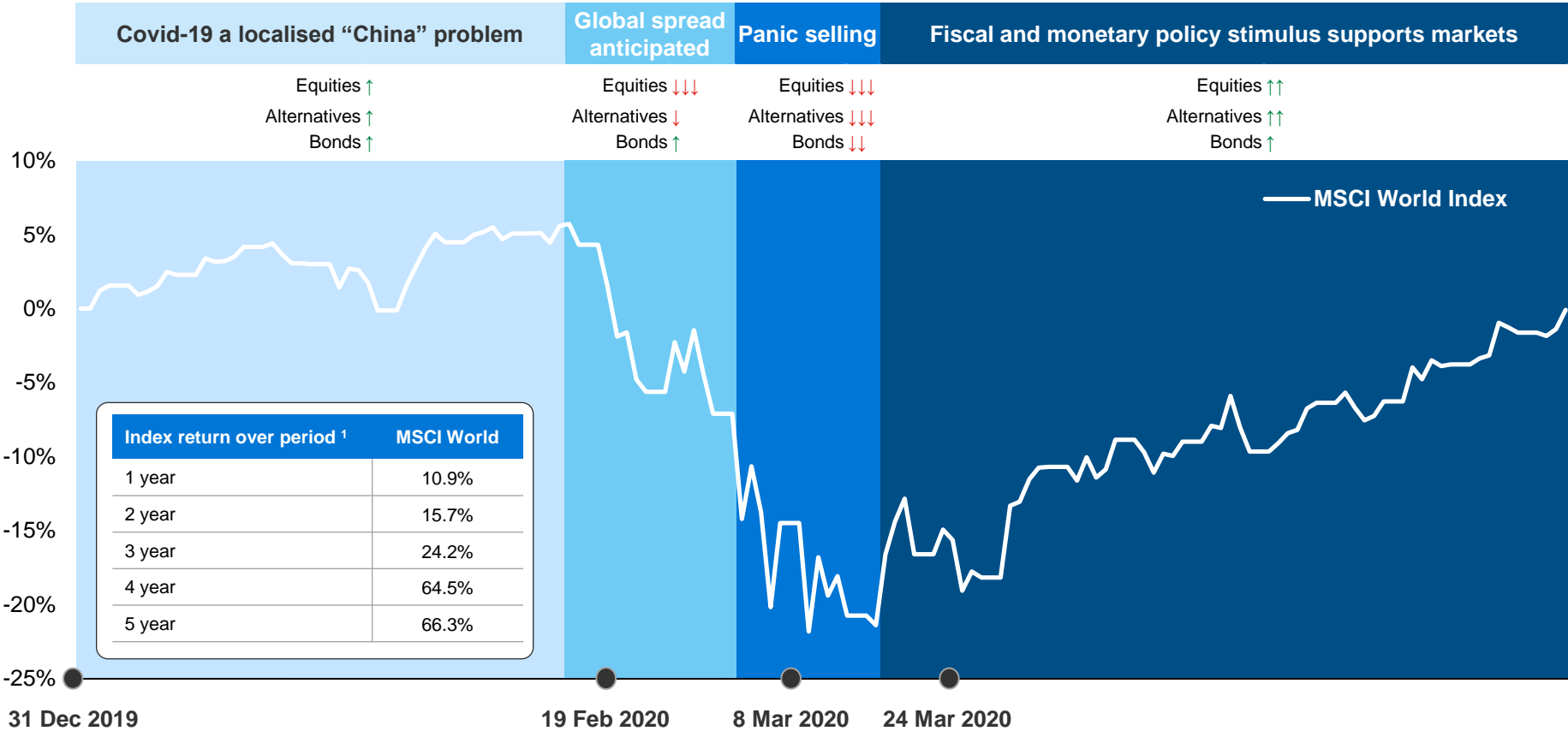
Market update for Leicestershire CCPF Committee

John Roe, Head of Multi-Asset Funds



Financial markets have reacted in four acts

Market panic briefly challenged the principles of diversification



16



An act-by-act review of the first quarter

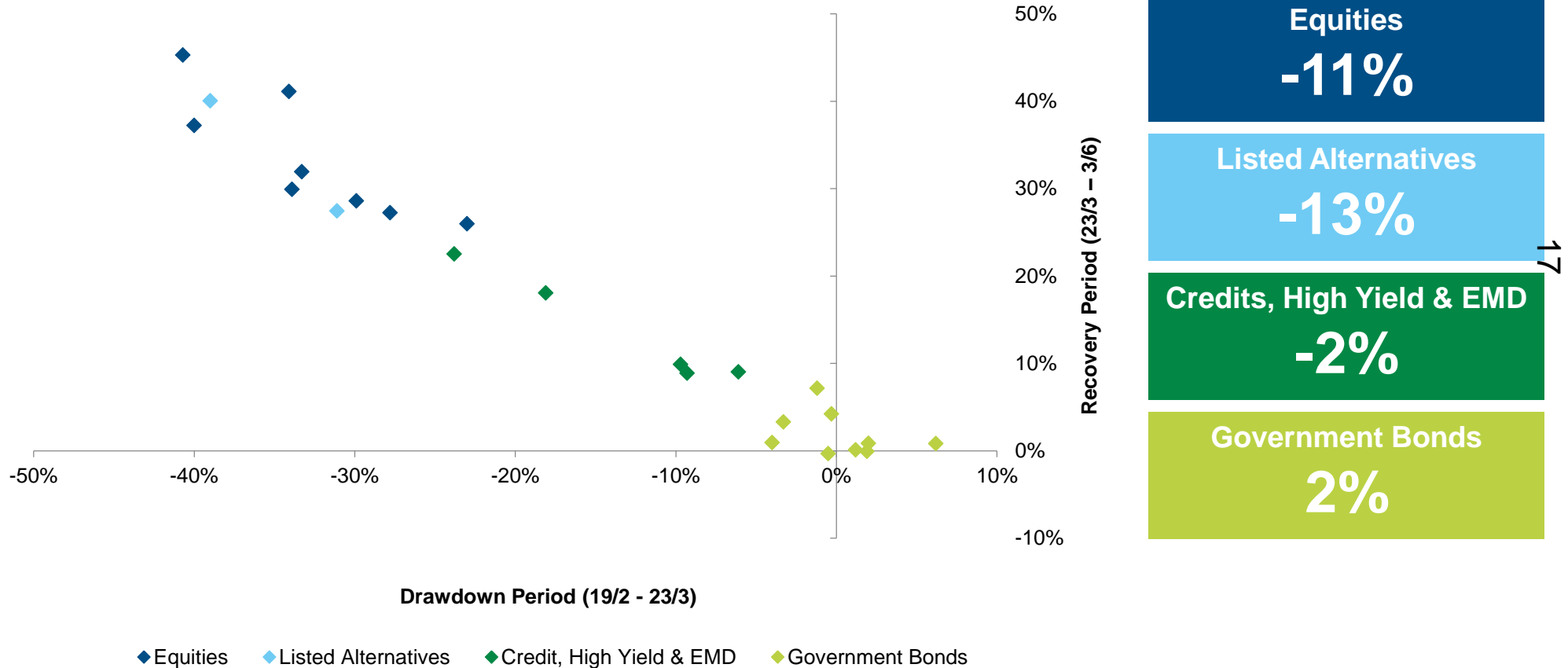


¹ | Source: LGIM, Bloomberg LP, as at 3 June 2020. MSCI World is price index in GBP. Past performance is not a guide to the future. There is no guarantee that any forecasts made will come to pass. ¹ 21 May 2015 to 21 May 2020.

Assets have recovered in line with their drawdowns

Market panic briefly challenged the principles of diversification in March, but broadly speaking asset class performance reflects levels of risk

Asset class performance in drawdown and recovery



2 | Source: Bloomberg, as at 3 June 2020, local-currency terms. Past performance is not a guide to the future. The value of an investment and any income taken from it is not guaranteed and can go down as well as up, you may not get back the amount you originally invested. There is no guarantee that any forecasts made will come to pass.

Investors seemingly looking through current earnings drop

Our central scenarios see US corporate earnings to fall c. 40% in 2020, anchoring the downside risk for equities. Markets are currently pricing the upside scenario of a quick earnings recovery

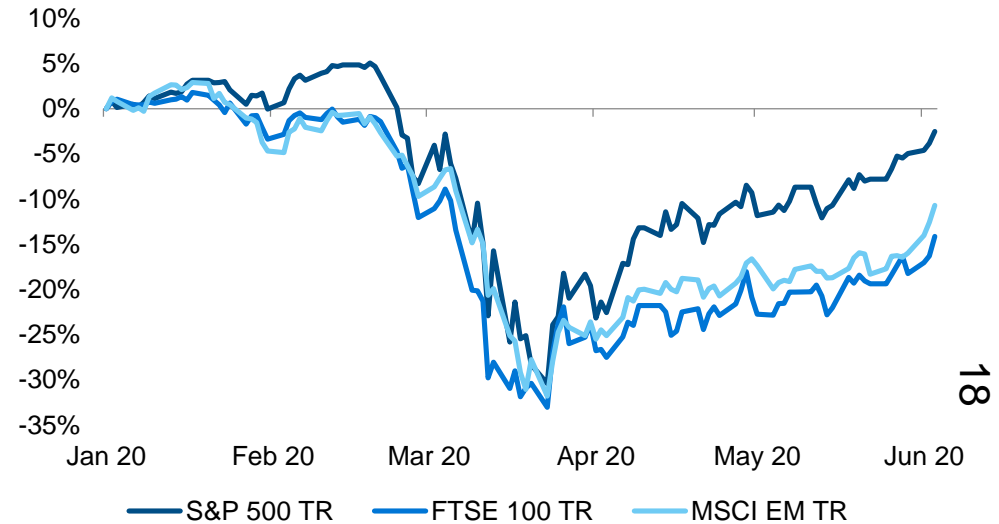
Scenario 1: Markets look through earnings drop

- Earnings trough much less important
- Focus on the shape of the earnings rebound
- Return to peak earnings late 2021

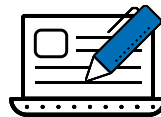
Scenario 2: Markets anchor to earnings drop

- Peak to trough earnings decline c. 40%
- Energy sector worst hit
- Defensives sectors still suffer

Index performance since the start of 2020



Earnings season brings micro relief



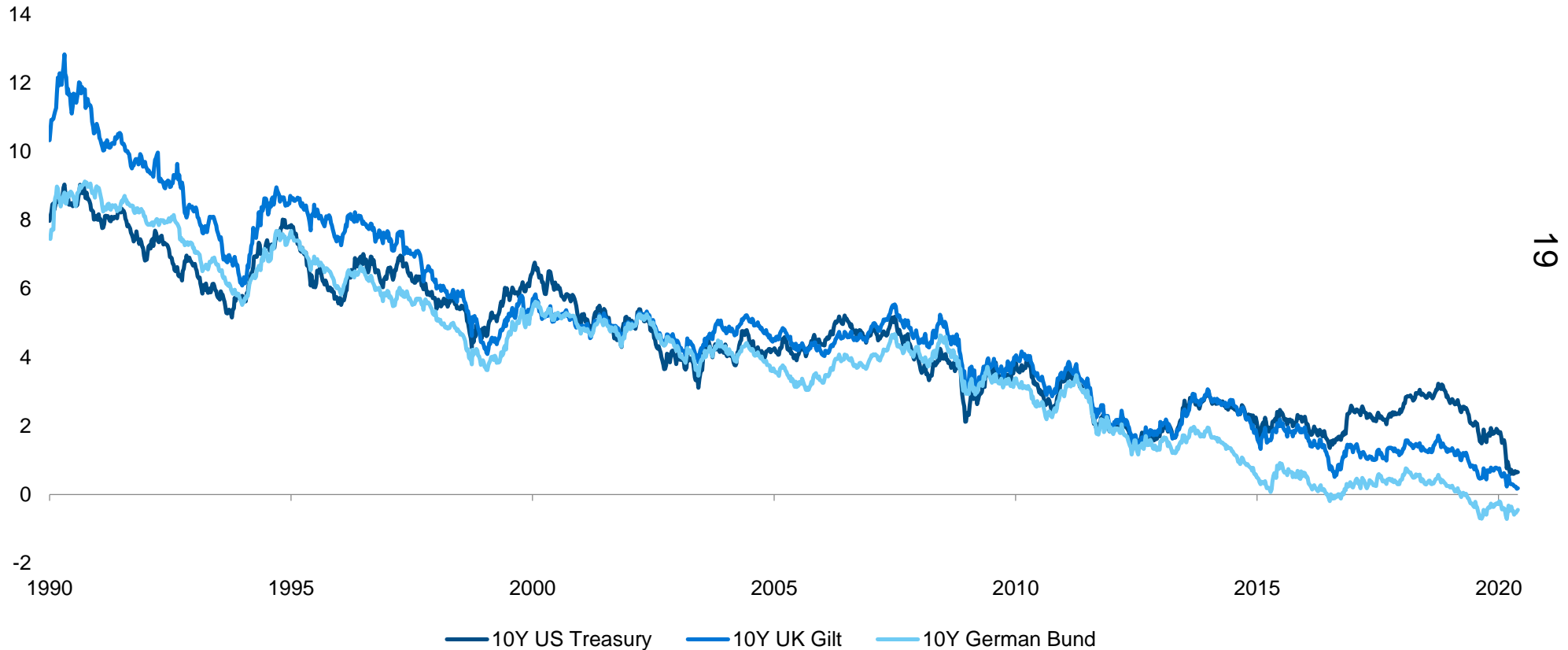
Index return over period ¹	S&P 500 TR	FTSE 100 TR	MSCI EM TR
1 year	16.1%	-7.7%	0.5%
2 year	18.8%	-10.0%	-8.0%
3 year	35.9%	-4.5%	4.7%
4 year	61.2%	20.7%	33.3%
5 year	63.6%	12.2%	11.9%

3 | Source: LGIM, Bloomberg, as at 3 June 2020, Past performance is not a guide to the future. Opinions and estimates are provided for illustrative purposes only. There is no guarantee that any forecasts made will come to pass.¹ 21 May 2015 to 21 May 2020.

Could we see the end of the 40-year bond bull market?

The world is changing with huge fiscal deficits, rate cuts, quantitative easing and weak economic growth, while the US Fed and BoE's resolve to avoid negative interest rates is being tested

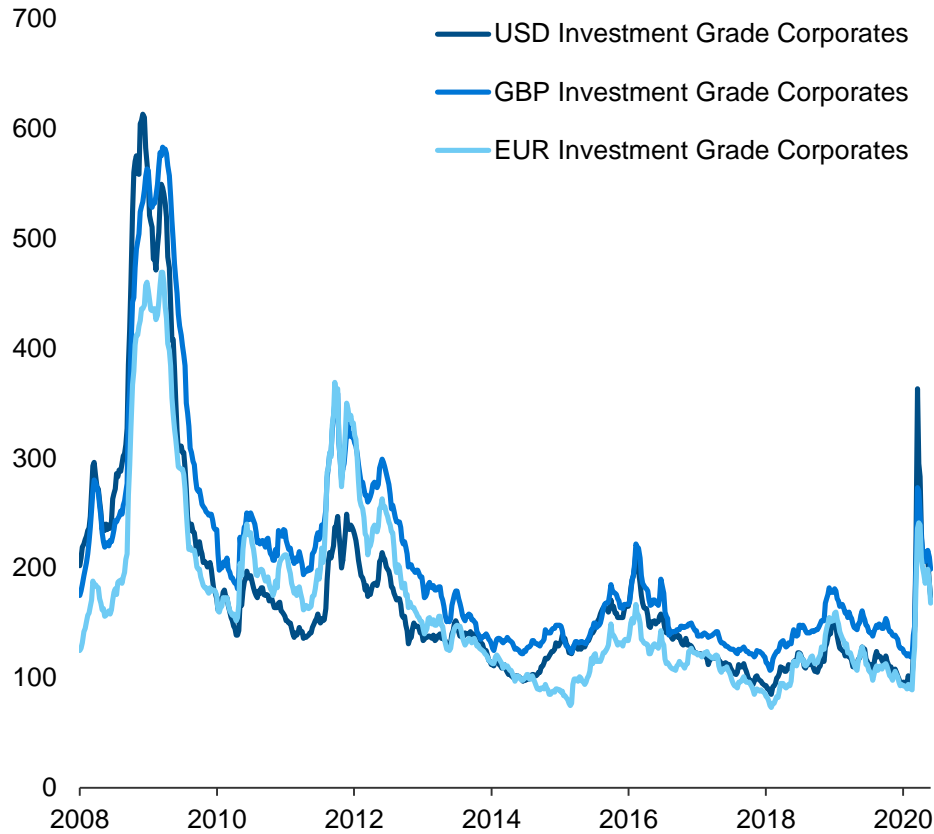
Government bond yield, %



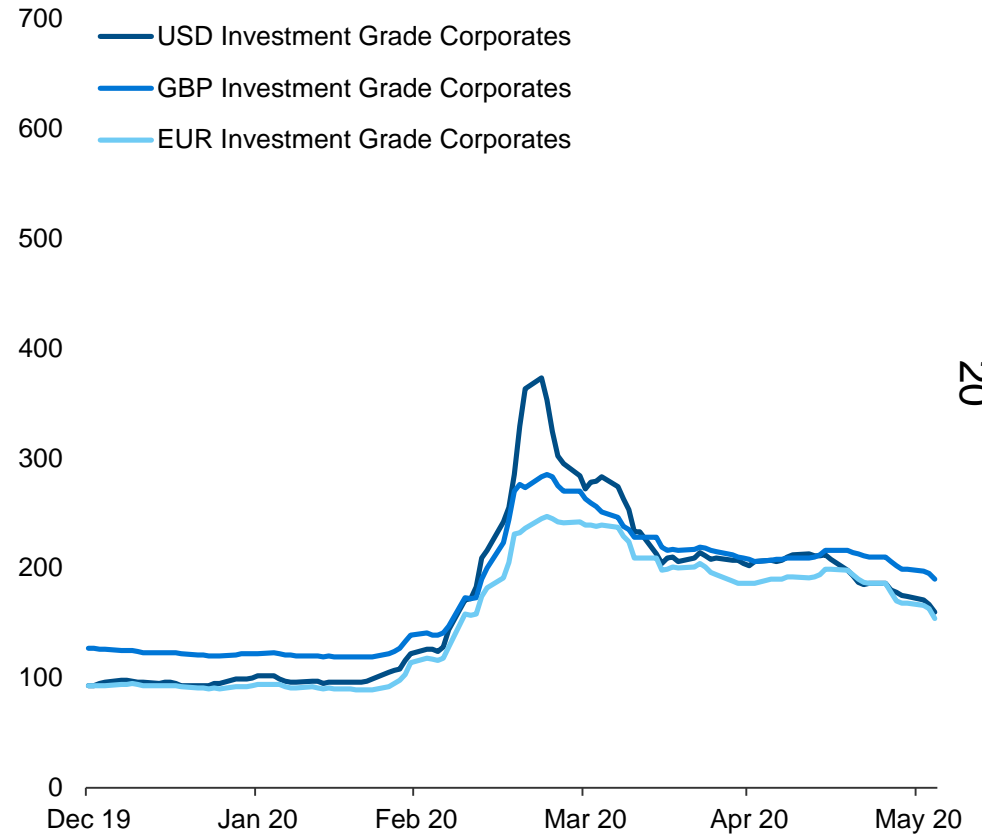
Investment grade credit spreads have partially recovered

Targeted central bank buying has driven a market recovery. Record issuance as companies raised cash has checked the market recovery somewhat despite significant inflows

Spreads to government bonds (bps)



Spreads to government bonds (bps)



Global economic impact scenarios

Too early to tell if we are heading for Scenario 1 or 2, but the risk of Scenario 3 has diminished

Probability

40%

Scenario 1: Strong, partial rebound

- Initial hit still twice as bad as global financial crisis '08
- Relaxation of most economically damaging restrictions
- Return to normal by end 2021

50%

Scenario 2: Some recovery, some scarring

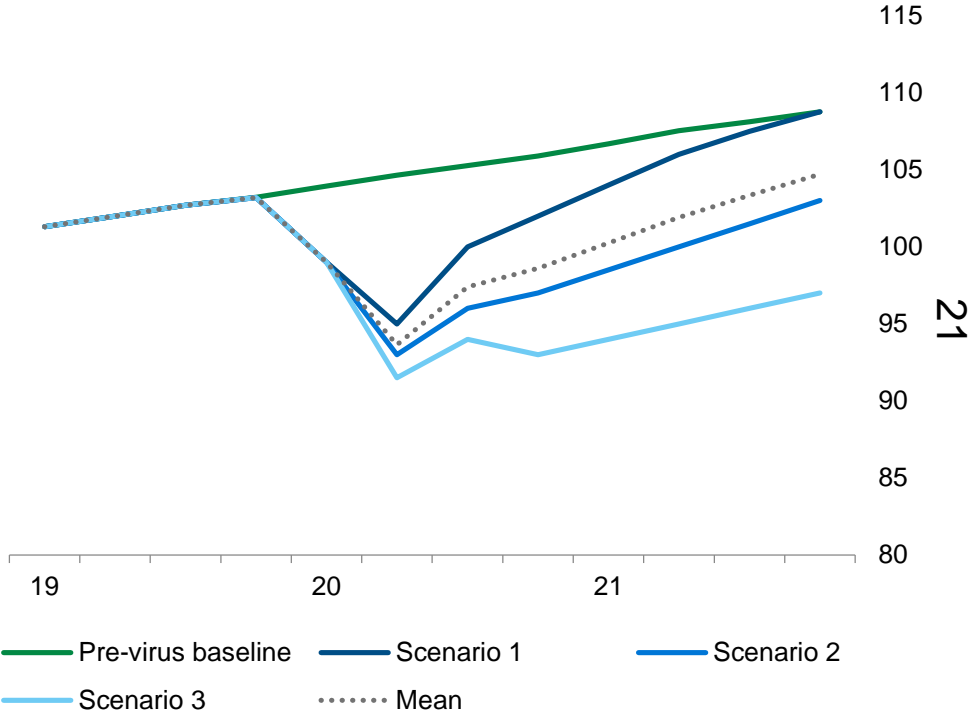
- Restrictions slowly lifted, some re-imposition necessary
- Unemployment remains high along with bankruptcies
- The world loses 2-3 years of output growth

10%

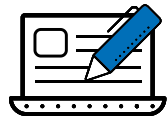
Scenario 3: Persistent slump

- Restrictions lifted slowly, fully re-imposed later in Q3
- Understanding of Covid-19 progresses slowly
- Policy support is exhausted

Level of GDP scenarios




Escaping lockdown: revisiting the economic scenarios



6 | Source: BEA, ONS, LGIM estimates as at 19 May 2020. Assumptions, opinions and estimates are provided for illustrative purposes only. There is no guarantee that any forecasts made will come to pass.

Summary of views



Economic cycle

Coronavirus pandemic has triggered a deep recession

- Deep initial recession, uncertain rebound
- Inflation further suppressed
- Supported by enormous policy response



Valuations

Bounce back in assets makes valuations more balanced

- Risk assets appear cheap versus government bonds
- Equities pricing optimistic shorter term earnings fall
- Credit spreads have tightened from wide levels on central bank support



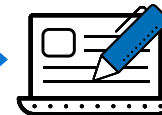
Systemic risk

Concern around interaction of recession and high global debt

- High uncertainty around the longer term impact of coronavirus
- Recession could expose the areas of excessive debt
- Lack of conventional policy space



COVID-19 Markets Overly Sanguine



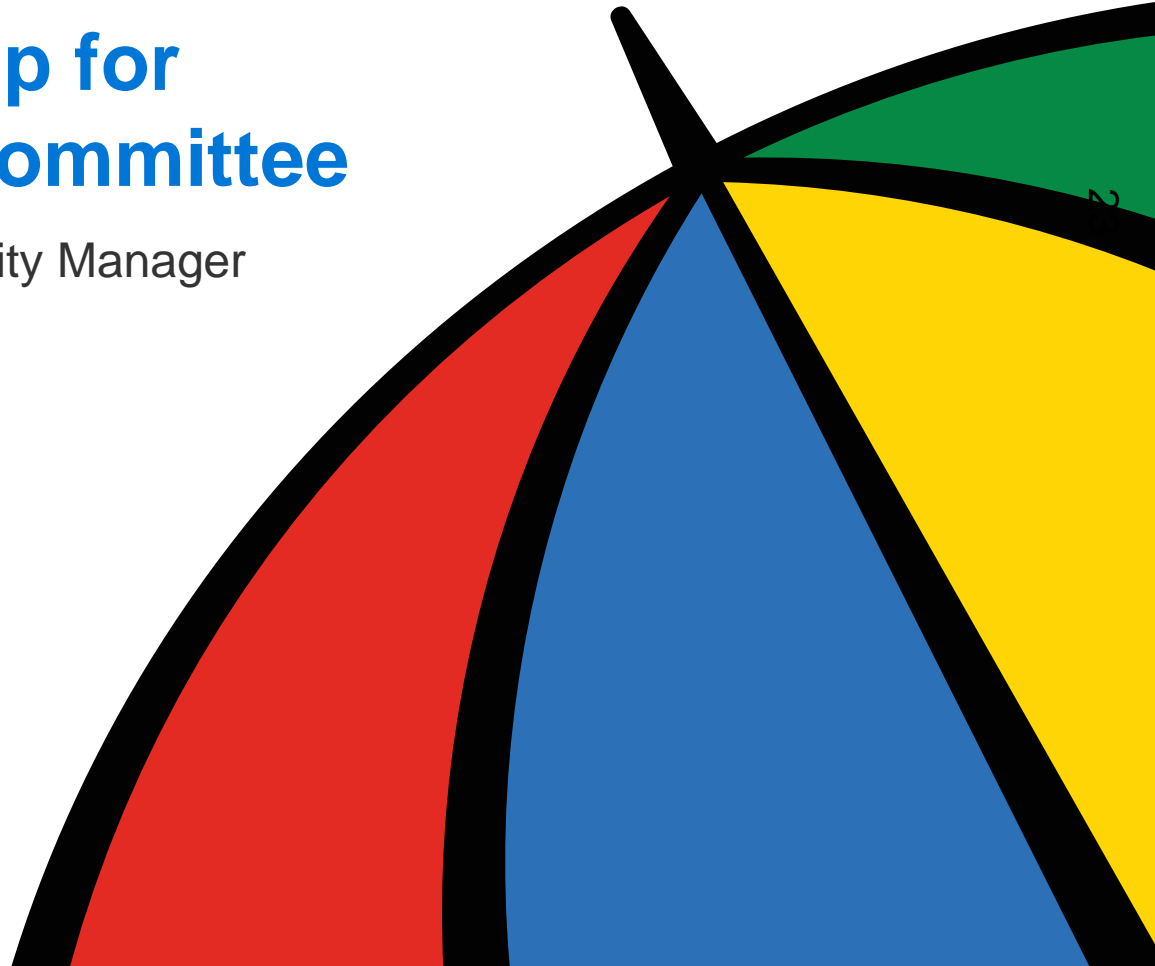
June 2020



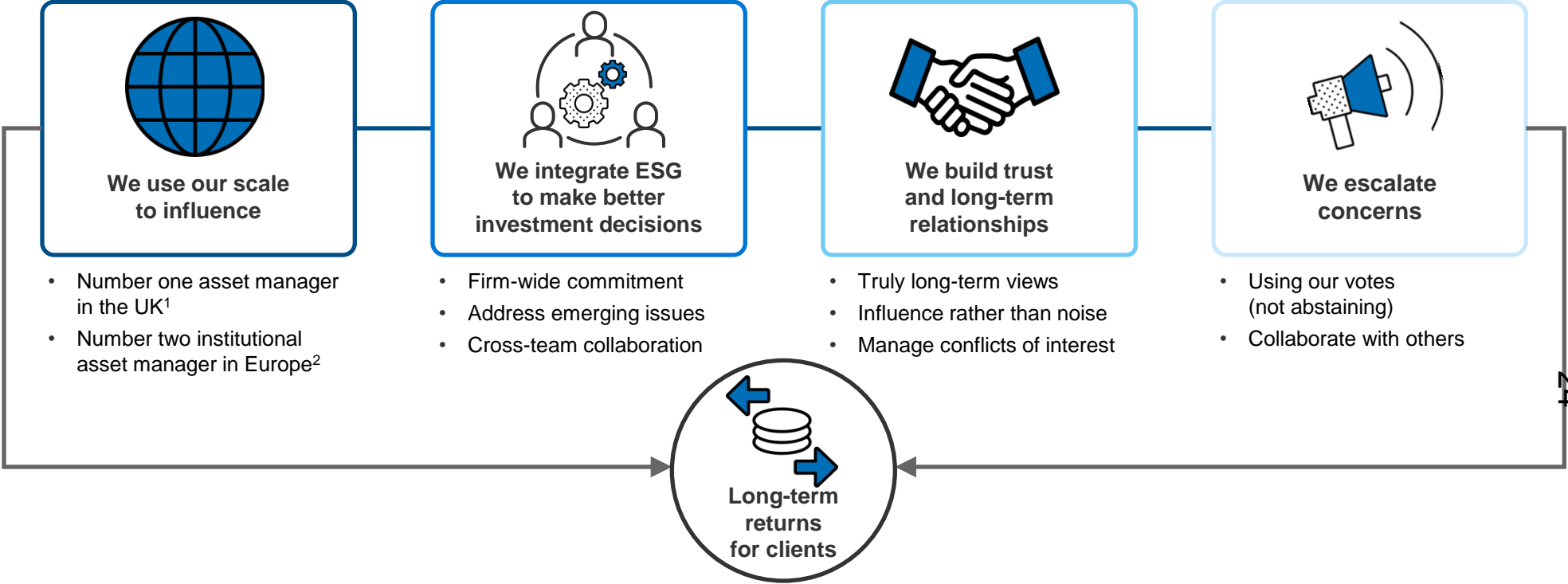
Investment Stewardship for Leicestershire CCPF Committee

Clare Payn, Senior Global ESG & Diversity Manager

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LGIM's approach to stewardship



Recognised as industry leader, delivering on our vision



World's largest asset managers on managing climate risk within portfolios







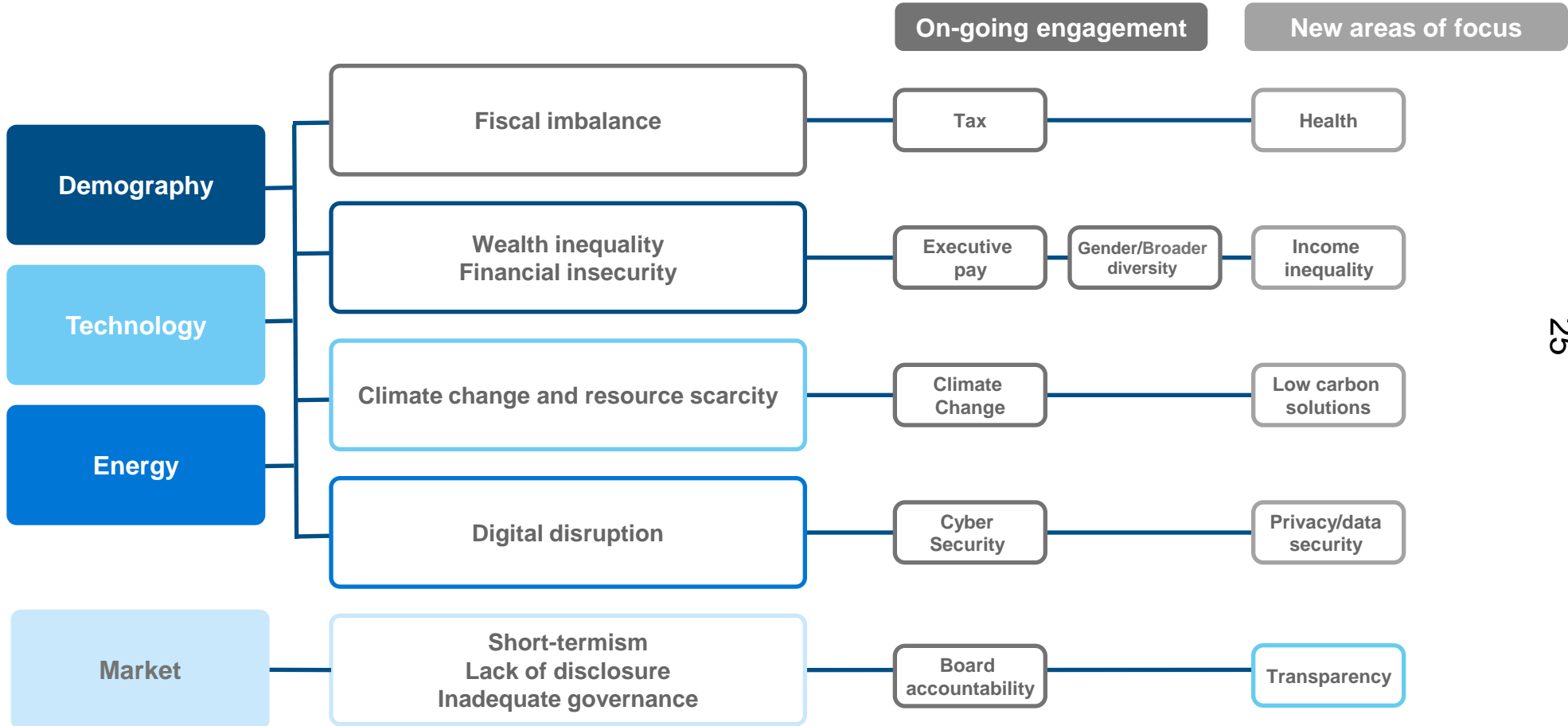






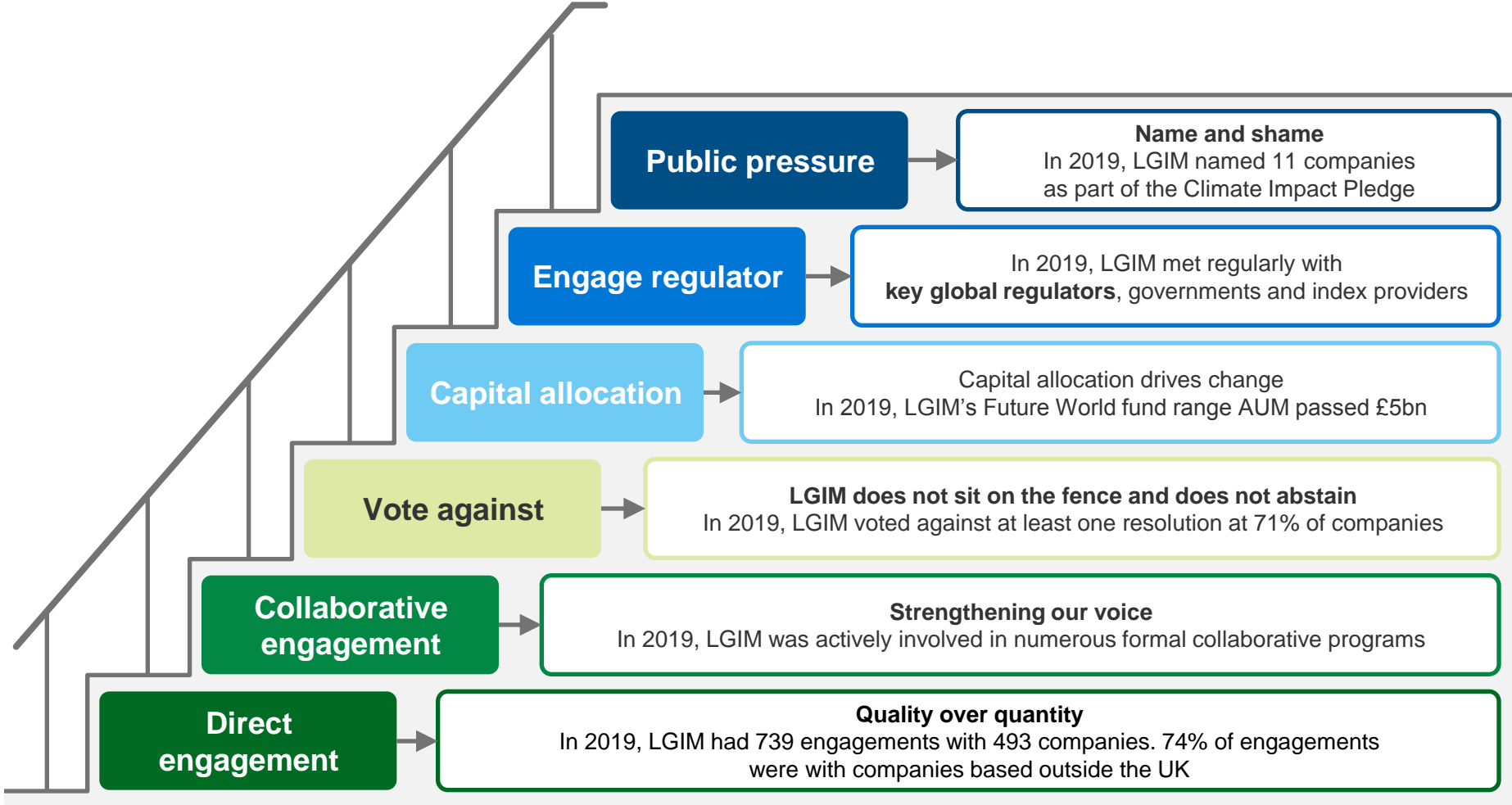
Key Themes – risks and opportunities

Identification of engagement priorities

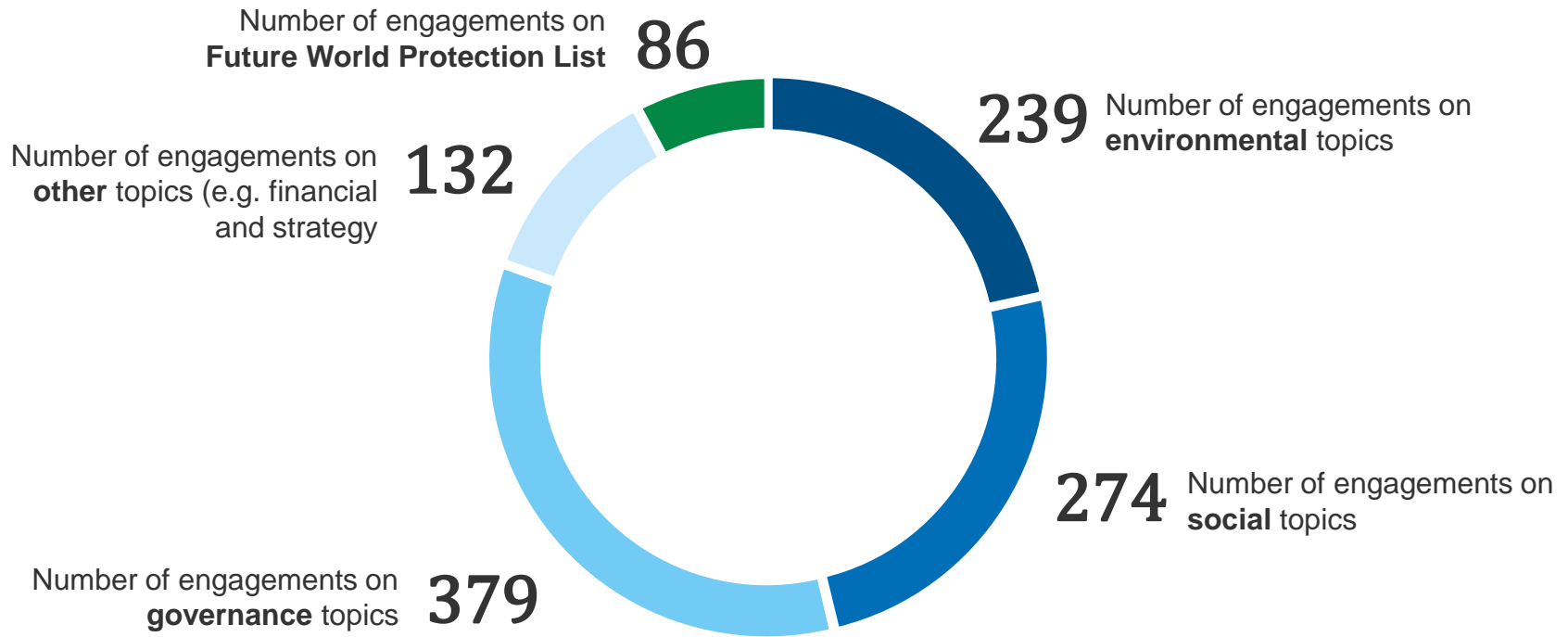


Engagement with consequences

LGIM's escalation procedure



These were our top engagement topics



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Top 5 engagement themes



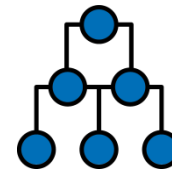
Climate change



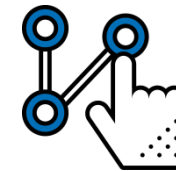
Remuneration



Diversity



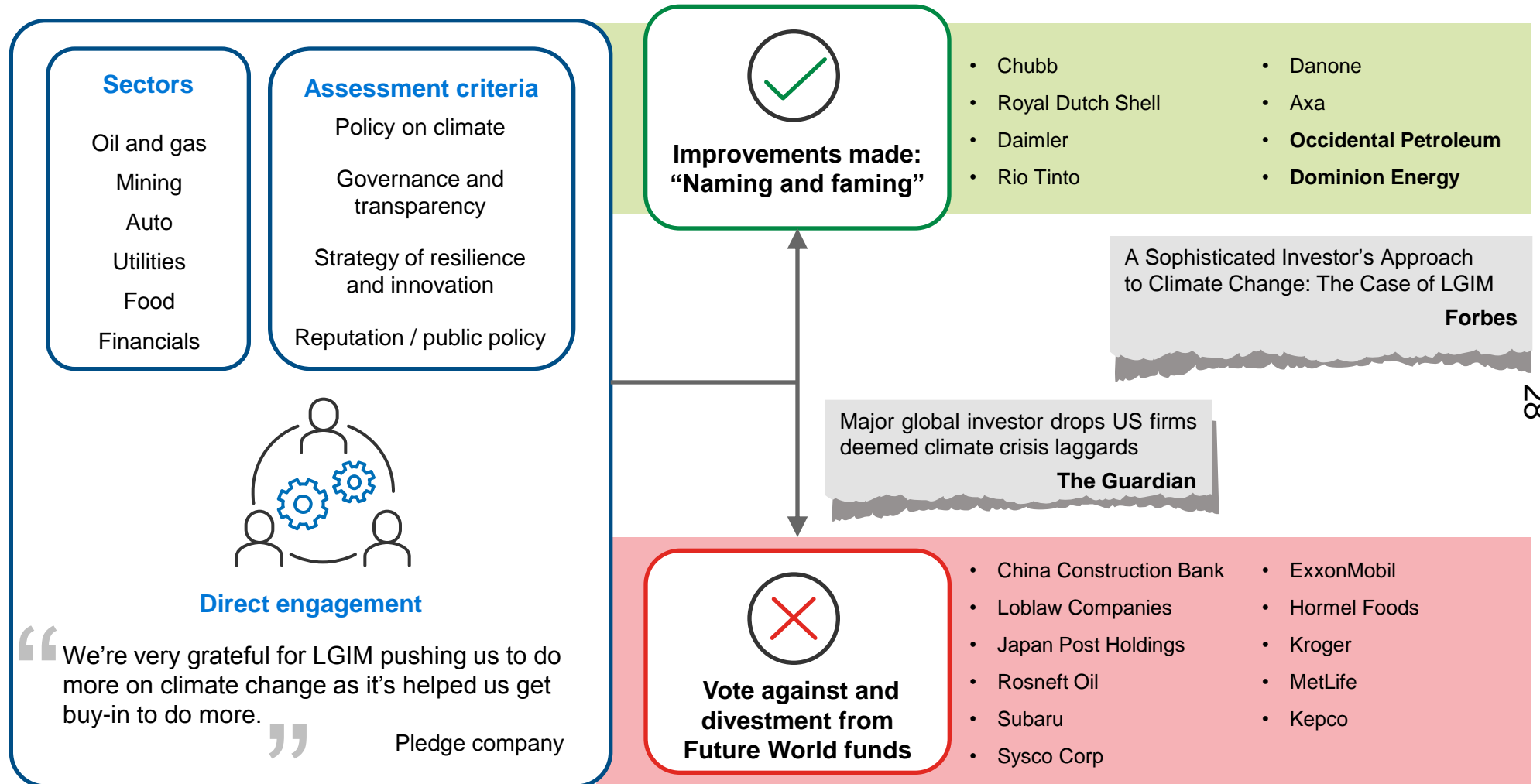
Board composition



Strategy

Targeted engagements on the environment

LGIM unveiled the second annual results of its Climate Impact Pledge



Future World protection list

Climate Impact Pledge

Update every 12 months
Applied at fund level



**Climate
Governance**

Future World Protection List

Update every six months
Applied at index construction



Coal Mining



**Controversial
Weapons**

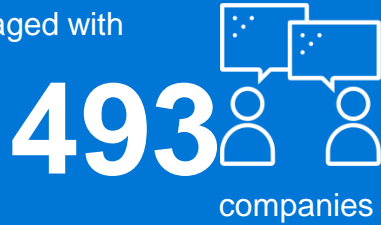


**United Nations Global
Compact**

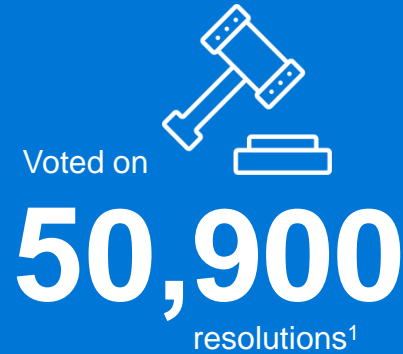
**Vote against Chair across the entire LGIM holdings
Divested/not held within Future World Funds**

Some of our achievements in 2019

Engaged with



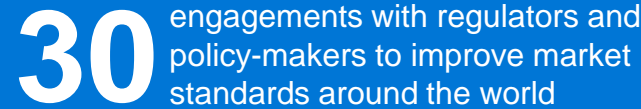
Voted on



Opposed the election of more than



Participated in about



Took sanctions against



Companies named as laggards under our Climate Impact Pledge

Voted against management at



of companies, primarily to due to concerns around the suitability of directors or auditors, pay or other elements of company strategy

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