London Borough of Hackney Pension Fund

Q2 2019 Investment Monitoring Report

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Dashboard

Executive Summary

The objective of this page is to set out some key metrics on the Fund.

Over the quarter the fund has outperformed the benchmark.

The high level asset allocation is broadly in line with target.

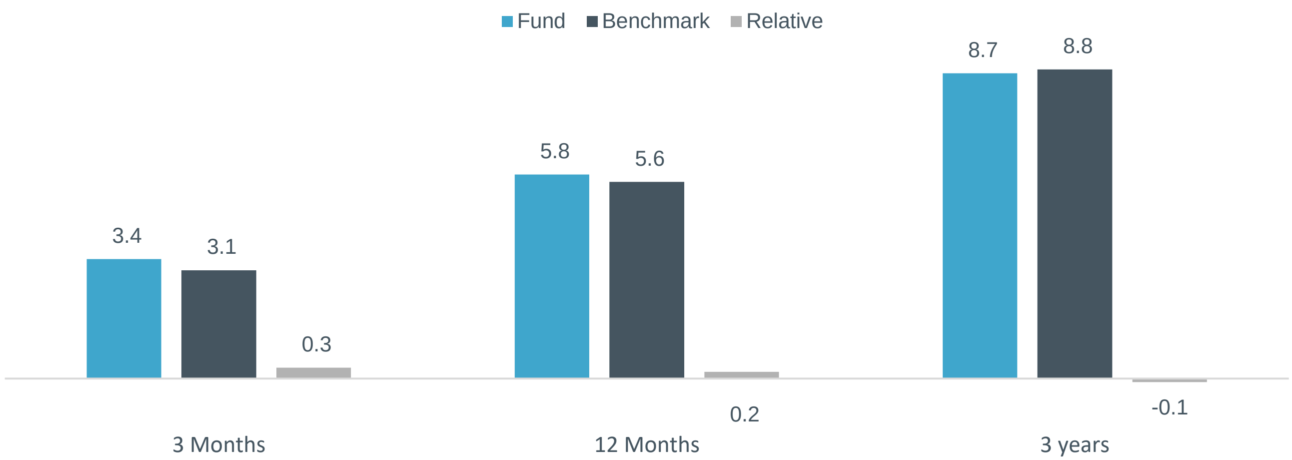
Definitions

Growth
Growth assets are designed to provide return in the form of capital growth. They may include investments in company shares, alternative investments and property. Growth assets tend to carry higher levels of risk compared to other assets yet have the potential to deliver higher returns over the long term.

Income
Income producing assets are investments which produce recurring revenue. They may include investments in interest paying bonds, property leases and dividend paying stocks. The income generated may be fixed or variable.

Protection
Protection assets aim to secure your investment and typically take less risk compared to other asset types. As a result the growth generated tends to be lower over the long term. Protection assets may include investment grade fixed income and cash. Derivative strategies may also be used to hedge unexpected investment losses.

Performance



Growth, Income & Protection Allocation

Growth, Income & Protection	Actual	Benchmark	Relative
Growth	68.4%	67.5%	0.9%
Income	10.8%	11.0%	-0.1%
Protection	20.7%	21.5%	-0.8%

Asset Allocation

This section sets out the Scheme's high level asset valuation and strategic allocation.

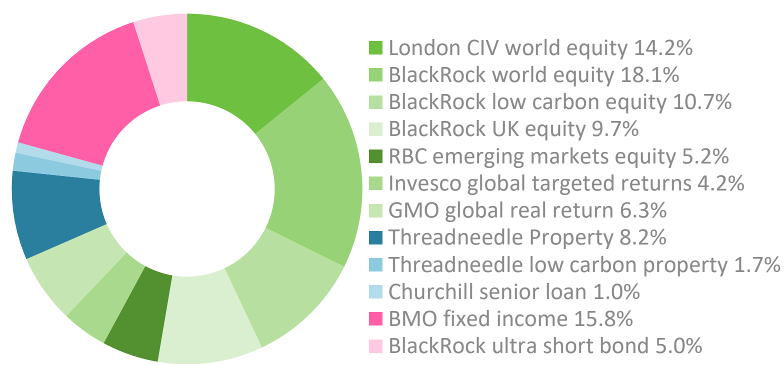
This page includes;

- Start and end quarter mandate valuations.
- Asset allocation breakdown relative to benchmark for rebalancing purposes.
- Asset allocation breakdown pie chart.

Asset Allocation

Manager	Active/Passive	Mandate	Valuation (£m)		Actual Proportion	Benchmark	Relative
			Q1 2019	Q2 2019			
London CIV	Active	Sustainable World Equity	207.7	223.2	14.2%	13.0%	1.2%
BlackRock	Passive	World Equity	275.7	285.2	18.1%	17.5%	0.6%
BlackRock	Passive	Low Carbon	155.6	167.8	10.7%	10.0%	0.7%
BlackRock	Passive	UK Equity	147.8	152.6	9.7%	10.0%	-0.3%
RBC	Active	Emerging Markets	79.1	81.9	5.2%	4.5%	0.7%
Invesco	Active	DGF	66.0	66.2	4.2%	5.0%	-0.8%
GMO	Active	DGF	98.7	99.7	6.3%	7.5%	-1.2%
Total Growth			**1,030.6**	**1,076.7**	**68.4%**	**67.5%**	**0.9%**
Columbia Threadneedle	Active	Property	128.7	129.3	8.2%	10.0%	-0.1%
Columbia Threadneedle	Active	Low Carbon Property	26.4	26.1	1.7%		
Churchill*	Active	Senior Loans	8.4	15.1	1.0%	1.0%	0.0%
Total Income			**163.5**	**170.5**	**10.8%**	**11.0%**	**-0.2%**
BMO	Active	Bonds	243.0	247.8	15.8%	17.0%	-1.2%
BlackRock	Passive	Bonds	77.8	78.0	5.0%	4.5%	0.5%
Total Protection			**320.8**	**325.8**	**20.7%**	**21.5%**	**-0.7%**
Total Scheme			**1,514.9**	**1,573.0**	**100.0%**	**100.0%**	

Asset class exposures



Source: Investment Managers

**The Churchill allocation is being drawn down over a period of time. The ultimate target allocation is 10%. In the interim period the assets are held in the BlackRock World Equity and Ultra Short Bond Funds.*

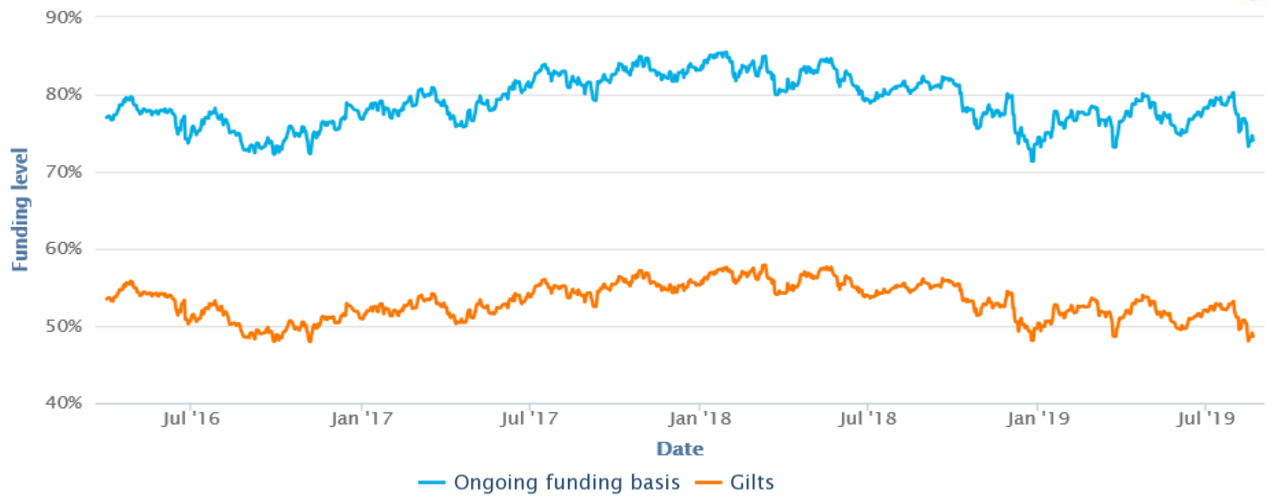
Funding

This page is used to show funding information, both historic and projected.

This page includes;

- Funding level progressions on different bases.
- Analysis of Surplus table.
- Over the quarter the deficit has decreased by £25.2m mainly as a result of an increase the excess return on assets.
- The current objective is to reach a fully funded position by 2031 on an ongoing basis of 1.65% over gilts.

Funding level progression



Funding level reconciliation

Quarter

Surplus/(deficit)	£m
Surplus/(deficit) as at 31 March 2019	(466.2)
Contributions (less benefits accruing)	1.9
Interest on surplus/(deficit)	(3.8)
Excess return on assets	52.2
Impact of change in yields & inflation	(25.1)
Surplus/(deficit) as at 30 June 2019	(441.0)

Since previous valuation

Surplus/(deficit)	£m
Surplus/(deficit) as at 31 March 2016	(350.2)
Contributions (less benefits accruing)	52.2
Interest on surplus/(deficit)	(42.6)
Excess return on assets	178.6
Impact of change in yields & inflation	(279.0)
Surplus/(deficit) as at 30 June 2019	(441.0)

- This section shows the Scheme's manager performance.
- The table shows a summary of the full Scheme performance over different time periods.

Manager performance

Manager	Active/Passive	Mandate	3 months (%) Fund	3 months (%) B'mark	3 months (%) Relative	12 months (%) Fund	12 months (%) B'mark	12 months (%) Relative	Last 3 years (% p.a.) Fund	Last 3 years (% p.a.) B'mark	Last 3 years (% p.a.) Relative
Growth											
London CIV	Active	Sustainable World Equity	7.4	6.5	**0.8**	12.8	10.3	**2.3**	n/a	n/a	**n/a**
			7.4	7.0	**0.4**	12.8	12.3	**0.4**	n/a	n/a	**n/a**
BlackRock	Passive	World Equity	3.5	3.3	**0.1**	6.0	5.4	**0.6**	n/a	n/a	**n/a**
BlackRock	Passive	Low Carbon	7.8	7.6	**0.2**	10.4	10.1	**0.3**	n/a	n/a	**n/a**
BlackRock	Passive	UK Equity	3.3	3.3	**0.0**	0.6	0.6	**0.1**	n/a	n/a	**n/a**
RBC	Active	Emerging Markets	3.7	3.0	**0.6**	7.3	5.0	**2.2**	11.0	12.5	**-1.3**
Invesco	Active	DGF	0.2	0.2	**0.0**	-1.3	0.8	**-2.1**	1.1	0.6	**0.5**
			0.2	1.5	**-1.2**	-1.3	5.8	**-6.8**	1.1	5.6	**-4.3**
GMO	Active	DGF	1.0	0.7	**0.3**	1.0	1.0	**0.0**	3.3	1.2	**2.0**
			1.0	1.9	**-0.9**	1.0	6.0	**-4.7**	3.3	6.2	**-2.8**
Income											
Columbia Threadneedle	Active	Property	0.3	0.6	**-0.3**	3.0	3.4	**-0.4**	0.1	6.3	**-5.9**
			0.3	0.9	**-0.5**	3.0	4.4	**-1.3**	0.1	7.3	**-6.8**
Columbia Threadneedle	Active	Low Carbon Property	-0.3	0.6	**-0.9**	1.6	3.4	**-1.8**	n/a	n/a	**n/a**
			-0.3	0.9	**-1.1**	1.6	4.4	**-2.7**	n/a	n/a	**n/a**
Churchill	Active	Senior Loans	n/a	n/a	**n/a**	n/a	n/a	**n/a**	n/a	n/a	**n/a**
Protection											
BMO	Active	Bonds	2.0	1.8	**0.2**	6.6	6.4	**0.2**	4.5	3.8	**0.7**
			2.0	2.0	**0.0**	6.6	7.4	**-0.8**	4.5	4.8	**-0.3**
BlackRock	Passive	Bonds	0.2	0.2	**0.0**	n/a	n/a	**n/a**	n/a	n/a	**n/a**
Total			3.4	3.1	**0.3**	5.8	5.6	**0.2**	8.7	8.8	**-0.1**

Source: Fund performance provided by Investment Managers and is net of fees except for the BlackRock and BMO funds and the Low Carbon Property fund which are gross of fees. Benchmark performance provided by Investment Managers and DataStream.

** The London Collective Investment Vehicle, Invesco, GMO and BMO Funds have targets above that of their benchmark's. The table above shows two performance rows for these funds, the top row showing the Fund vs Benchmark and the second row (highlighted in pink) showing the Fund vs Target Return.*

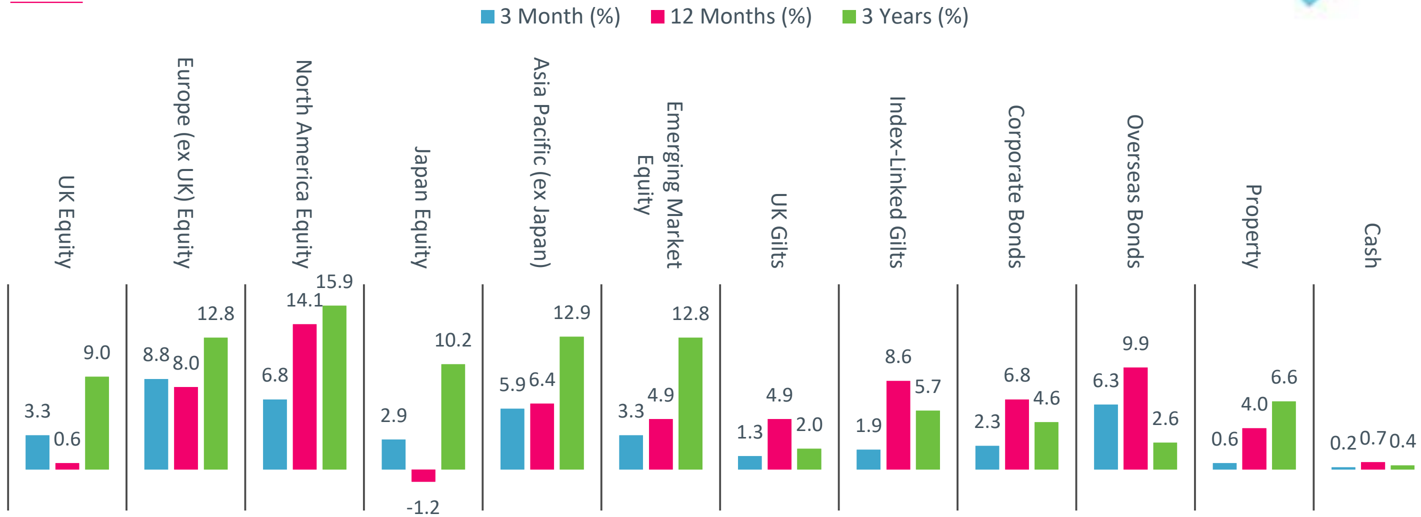
Long term returns are calculated by rolling up historic quarterly returns and include the contribution of all current and historical mandates over the period. These include returns from funds held over the period which are no longer held by the Fund.

While US GDP growth remained resilient in Q1, Q2 data suggests a large share of this growth was spurred by inventory building amid trade uncertainty. Indications in the UK also suggest that the economy might stagnate or even contract in the second quarter as stockpiling provided a temporary boost to Q1 figures. Weaker external demand has impacted the large export and manufacturing oriented portions of the Eurozone and Japanese economies. Amidst the heightened UK political uncertainty, Sterling has depreciated against the major developed currencies over the quarter, weakening by around 3.5% in trade weighted terms.

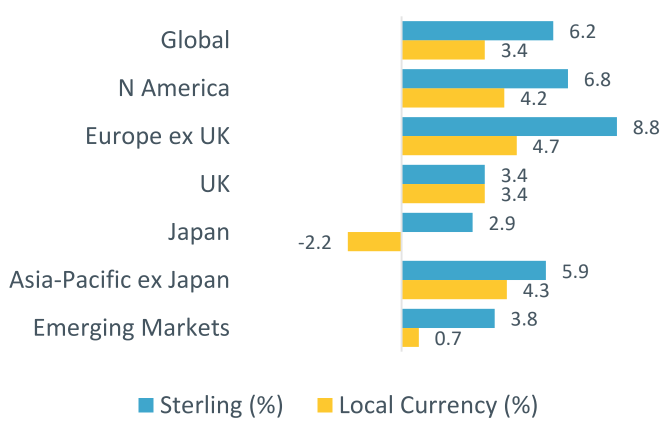
A shift in the messaging from global central banks towards looser monetary policy to support their economies, if required, has been well established. The Bank of England has been more equivocal, reluctant to commit to tightening or easing amidst the Brexit uncertainty. In the US, markets continue to price in a greater extent of interest rate cuts than the most recent Fed rate-setter's voting intentions suggest.

It was a positive quarter for financial markets with both risk seeking assets and government bonds delivering a positive return to investors. Yields on UK conventional gilts and index-linked gilts continued to fall over the quarter with the later touching new record lows in early June.

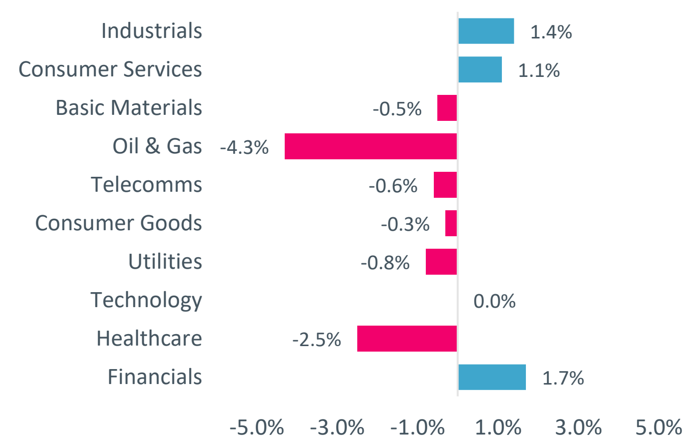
Historic returns for world markets [1]



Regional equity returns [2]



Global equity sector returns (%)



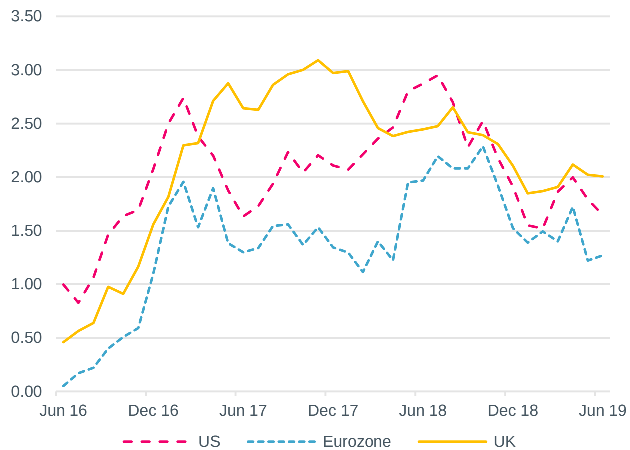
[1] All returns are in Sterling terms. Indices shown (from left to right) are as follows: FTSE All Share, FTSE AW Developed Europe ex-UK, FTSE North America, FTSE Japan, FTSE AW Developed Asia Pacific ex-Japan, S&P/IFCI Composite, FTSE Fixed Gilts All Stocks, FTSE Index-Linked Gilts All Maturities, iBoxx Corporates All Investment Grade All Maturities, JP Morgan GBI Overseas Bonds, MSCI UK Monthly Property Index; UK Interbank 7 Day. [2] FTSE All World Indices.

Global credit markets largely ignored the escalation in US-China trade tensions and the potential negative implications for growth as spreads continued to narrow over the quarter. The picture was more mixed across sub investment grade credit markets with European high yield experiencing the greatest tightening in spreads across corporate credit markets.

The equity market momentum of the first quarter of 2019 continued in Q2. After a brief pull-back in May, equity markets recovered in June and the US market reached another all-time high. The equity rally was broad-based, with most major equity regions producing strong returns. European (ex UK) equities were the best performing region in local currency terms as financials posted strong returns, while Japanese and Emerging Market equities lagged global indices. Japanese equities have been hindered by the strength of the yen, while Emerging Market equities suffered from their exposure to global trade.

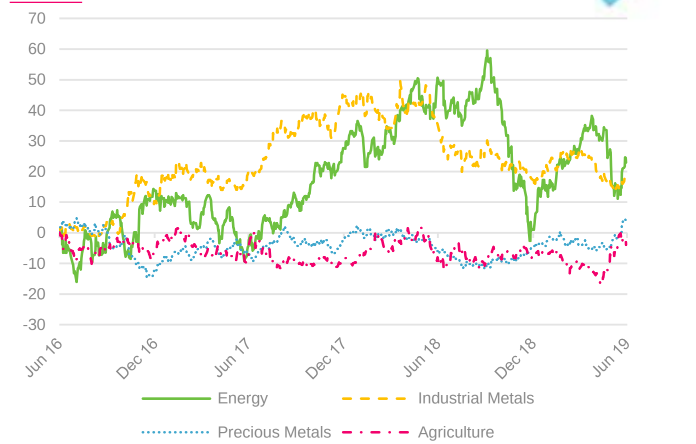
In the two months to the end of May, UK property produced total returns of 0.5%, with the return from income more than offsetting a fall of 0.4% in the capital growth index. Rental growth has been flat over the period.

Annual CPI Inflation (% p.a.)



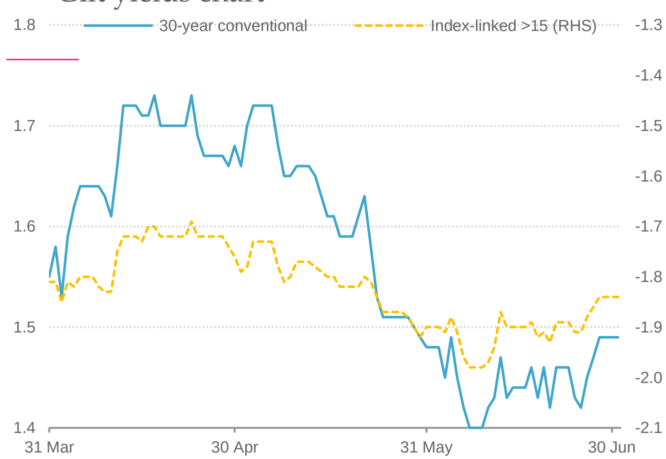
Higher CPI inflation can lead to higher income on CPI-linked assets like property, but will also lead to higher benefit payments

Commodity Prices



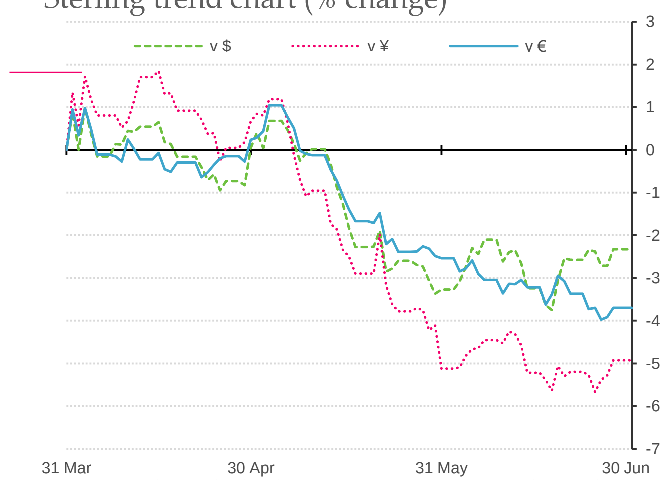
Funds which have exposure to commodities will benefit when the prices go up.

Gilt yields chart



Gilt (UK government bond) yields are often used as a basis for valuing liabilities. When gilt yields increase the value of the liabilities decreases, as does the value of any bonds held by the Fund.

Sterling trend chart (% change)



Funds invested in unhedged overseas assets are exposed to exchange rate risks. If the Sterling strengthens against other currencies the value of unhedged overseas investments will increase.

Source: Reuters

Risk Warning

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

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Geometric v Arithmetic Performance

Hymans Robertson are among the investment professionals who calculate relative performance geometrically as follows:

$$\frac{(1 + Fund\ Performance)}{(1 + Benchmark\ Performance)} - 1$$

Some industry practitioners use the simpler arithmetic method as follows:

$$Fund\ Performance\ - Benchmark\ Performance$$

The geometric return is a better measure of investment performance when compared to the arithmetic return, to account for potential volatility of returns.

The difference between the arithmetic mean return and the geometric mean return increases as the volatility increases.