London Borough of Hackney Pension Fund

Q3 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 underperformed the benchmark.

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

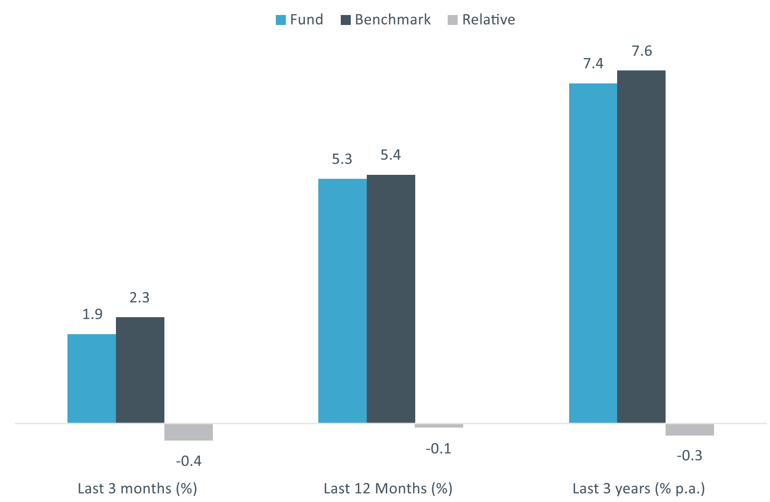
Definitions

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	67.7%	67.5%	0.2%
Income	11.1%	11.0%	0.1%
Protection	21.2%	21.5%	-0.3%

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Asset Allocation

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

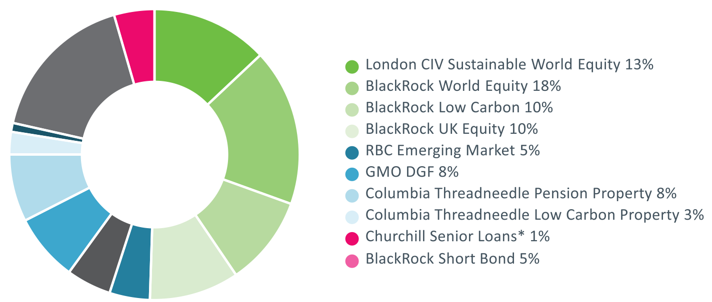
This page includes;

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

Asset Allocation

Mandate	Active/Passive	Valuation (£m) Q2 2019	Valuation (£m) Q3 2019	Actual Proportion	Benchmark	Relative
London CIV Sustainable World Equity	Active	£223.2	£225.7	14.0%	13.0%	1.0%
BlackRock World Equity	Passive	£285.2	£289.6	18.0%	17.5%	0.5%
BlackRock Low Carbon	Passive	£167.8	£174.9	10.9%	10.0%	0.9%
BlackRock UK Equity	Passive	£152.6	£154.6	9.6%	10.0%	-0.4%
RBC Emerging Market	Active	£81.9	£80.6	5.0%	4.5%	0.5%
Invesco DGF	Active	£66.2	£66.8	4.1%	5.0%	-0.9%
GMO DGF	Active	£99.7	£98.1	6.1%	7.5%	-1.4%
Total Growth		**£1,076.7**	**£1,090.3**	**68%**	**68%**	**0%**
Columbia Threadneedle Pension Property	Active	£129.3	£137.5	8.5%	7.5%	1.0%
Columbia Threadneedle Low Carbon Property	Active	£26.1	£25.9	1.6%	2.5%	-0.9%
Churchill Senior Loans*	Active	£15.1	£15.8	1.0%	1.0%	0.0%
Total Income		**£170.5**	**£179.2**	**11%**	**11%**	**0%**
BMO Bonds	Active	£247.8	£262.6	16.3%	17.0%	-0.7%
BlackRock Short Bond	Passive	£78.0	£78.1	4.9%	4.5%	0.4%
Total Protection		**£325.8**	**£340.7**	**21%**	**22%**	**0%**
Total Scheme		**£1,572.97**	**£1,610.27**	**100%**	**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.*

Source: Investment Managers

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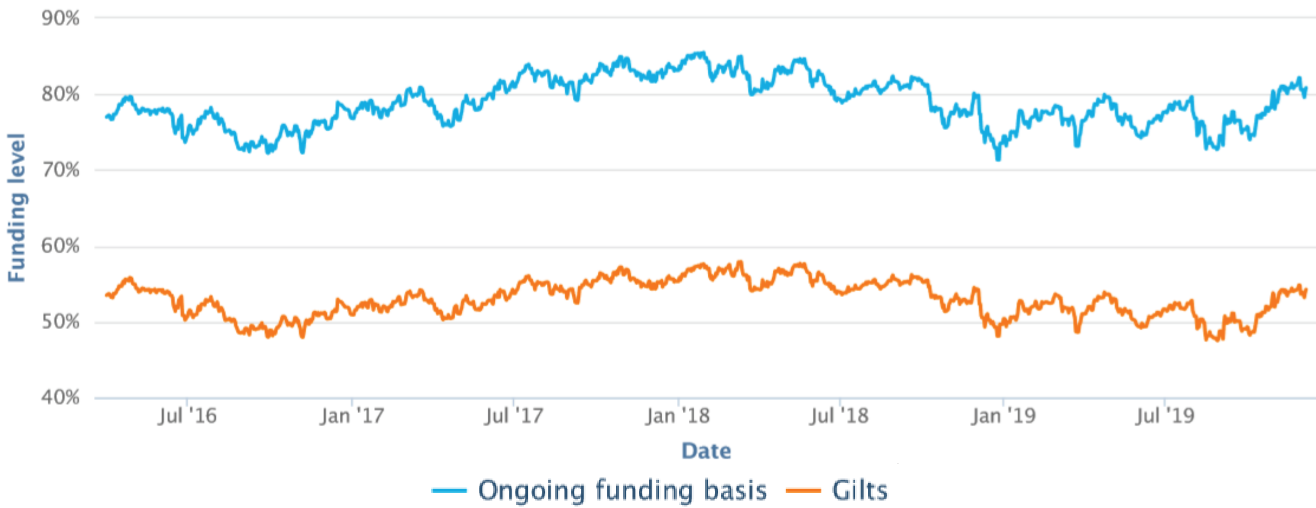
Funding

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 £75.3m 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	(£m)
Surplus/(deficit) as at 30 June 19	(453.6)
Contributions (less benefits accruing)	0.5
Interest on surplus/(deficit)	(3.6)
Excess return on assets	60.0
Impact of change in yields & inflation	(132.2)
Surplus/(deficit) as at 30 September 19	(528.9)

Since previous valuation

Surplus	(£m)
Surplus/(deficit) as at 31 March 2016	(350.2)
Contributions (less benefits accruing)	52.7
Interest on surplus/(deficit)	(46.2)
Excess return on assets	226.0
Impact of change in yields & inflation	(411.2)
Surplus/(deficit) as at 30 September 19	(528.9)

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Manager Performance

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

Performance relative to benchmark & target

	Last 3 months (%)					Last 12 months (%)					Last 3 years (% p.a.)				
	Fund	B'mark	Relative	Target	Relative	Fund	B'mark	Relative	Target	Relative	Fund	B'mark	Relative	Target	Relative
Growth															
London CIV Sustainable World Equity	1.2	3.8	-2.5	4.3	-3.0	8.4	7.8	0.6	9.8	-1.2	n/a	n/a	n/a	n/a	n/a
BlackRock World Equity	1.6	1.4	0.1	n/a	n/a	2.3	1.7	0.6	n/a	n/a	n/a	n/a	n/a	n/a	n/a
BlackRock Low Carbon	4.3	4.1	0.1	n/a	n/a	8.5	8.2	0.3	n/a	n/a	n/a	n/a	n/a	n/a	n/a
BlackRock UK Equity	1.3	1.3	0.0	n/a	n/a	2.7	2.7	0.0	n/a	n/a	n/a	n/a	n/a	n/a	n/a
RBC Emerging Market	-1.7	-1.1	-0.6	n/a	n/a	5.5	3.7	1.8	n/a	n/a	6.8	7.8	-1.0	n/a	n/a
Invesco DGF	0.7	0.2	0.5	1.4	-0.8	0.0	0.8	-0.8	5.8	-5.5	0.5	0.6	-0.1	5.6	-4.8
GMO DGF	-1.7	0.2	-1.9	1.5	-3.1	-0.5	1.5	-2.0	6.5	-6.6	1.7	1.8	-0.2	6.8	-4.8
Income															
Columbia Threadneedle Pension Property	0.3	0.4	-0.1	0.7	-0.4	1.9	2.2	-0.3	3.2	-1.3	6.5	6.7	-0.2	7.7	-1.2
Columbia Threadneedle Low Carbon Property	0.2	-1.9	2.1	-1.7	1.9	0.8	-0.1	0.9	0.9	-0.1	n/a	n/a	n/a	n/a	n/a
Churchill Senior Loans	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Protection															
BMO Bonds	5.9	5.9	0.1	6.1	-0.2	14.1	13.9	0.2	14.9	-0.7	4.5	3.8	0.7	4.8	-0.3
BlackRock Short Bond	0.2	0.2	0.0	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total	1.9	2.3	-0.4			5.3	5.4	-0.1			7.4	7.6	-0.3		

Source: Fund performance provided by Investment Managers and is net of fees except for the BMO 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 both the Fund vs Benchmark and the Fund vs Target Return.*
- *Churchill have not provided performance figures for their Fund as the fund is still relatively new.*

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.

Market Background

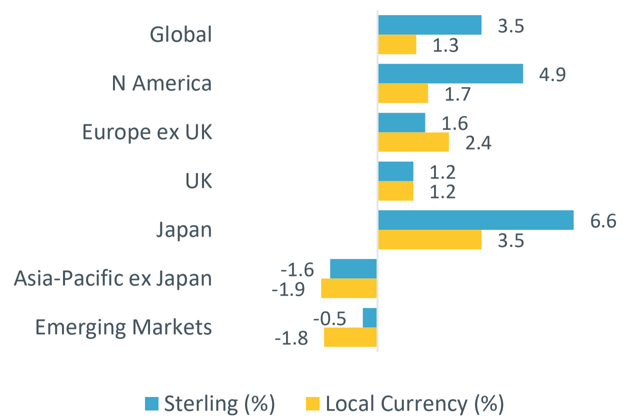
The ongoing trade war between the US and China, and its disruption to external demand and global supply chains, particularly in the manufacturing sector, continued to impact global growth. Consensus forecasts still suggest most major economies will avoid technical recession next year but GDP growth for many countries has slowed.

UK GDP growth is expected to achieve a modest recovery in Q3, however forecasts have slumped, with increasing downside risk posed by acute Brexit uncertainty and its negative impact on business investment. The US economy has continued to outperform its developed market peers but its manufacturing PMI fell to its lowest level since June 2009 in September.

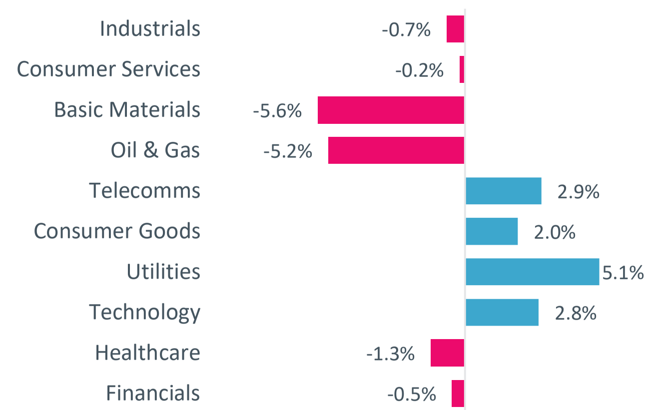
Inflation pressures remain elusive despite real wage growth on the back of low unemployment. In-line with the weaker economic backdrop and subdued inflationary environment, sovereign bond yields continued to drift lower over the quarter. UK Implied inflation fell at longer maturities but rose at shorter terms reflecting fears of a near-term spike in inflation on the back of a potential post-Brexit sterling depreciation. Despite prices spiking significantly, following an attack on Saudi production facilities, oil prices ended the quarter around 9% lower.

Historic returns for world markets [1]

Regional equity returns [2]



Global equity sector returns (%) [3]



[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 [3] Relative to FTSE All World Indices.

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Market Background

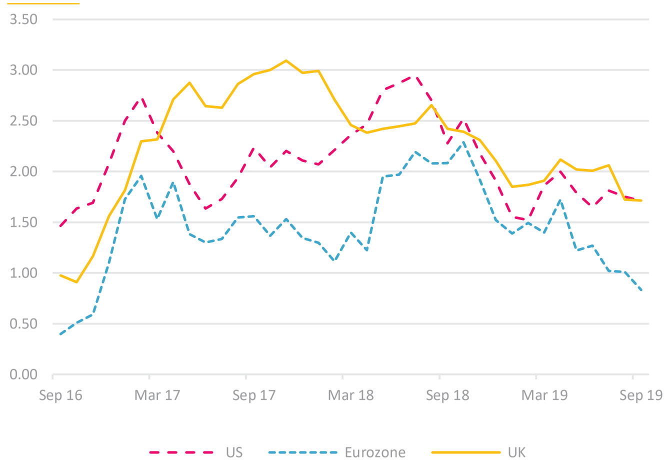
Investment-grade credit spreads continued to move in lock-step over the period across the US, Europe and Sterling markets and finished the period broadly unchanged. Global high yield spreads were also little changed over the quarter, though leveraged loan spreads have moved wider as interest rate cuts have made floating-rate assets less attractive to prospective investors.

Global equities ended the period in marginally positive territory as the impact of global trade relations and softening economic data was ultimately outweighed by central bank policy and supportive corporate earnings. Sterling-denominated returns were enhanced by the currency's continued depreciation amid the ongoing Brexit saga. Trade-weighted dollar was up c.3.1% over the quarter and Yen strength appears to remain a feature in-line with a bid for safe assets.

Japan was the top performing region in both local currency and Sterling terms. This was in part a reversal of some the poor performance from the first half of the year, as well as the improved performance of the value style. Asia Pacific (ex-Japan) and Emerging Market equities continued to lag global equities as the ongoing trade tensions weighed on investor sentiment.

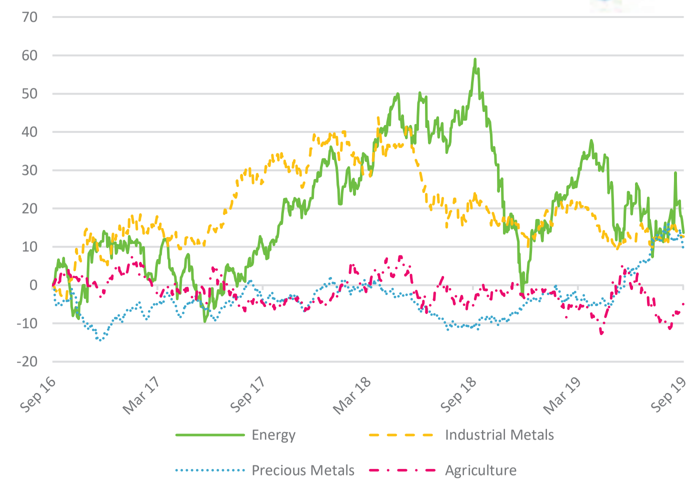
In the two months and one year to the end of August, UK property produced total returns of 0.5% and 1.6%, respectively. Marginal positive rental growth and return from income compensated for capital declines.

Annual CPI Inflation (% p.a.)



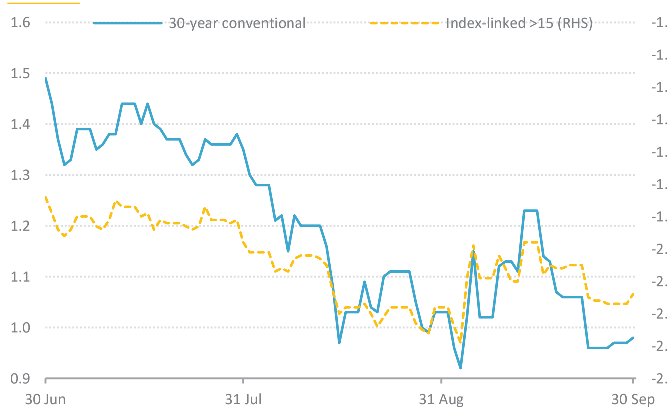
Higher CPI inflation can lead to higher income on CPI-linked assets like property, but will also lead to higher benefit payments

Commodity Prices



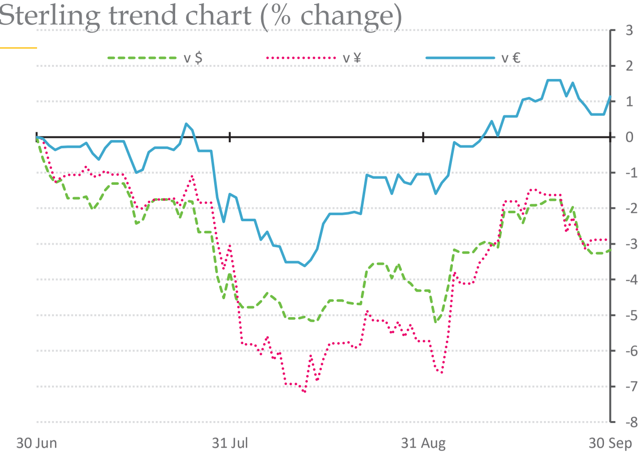
Funds which have exposure to commodities will benefit when the prices go up.

Gilt yields chart (% p.a.)



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.

In some cases, we have commercial business arrangements/agreements with clients within the financial sector where we provide services. These services are entirely separate from any advice that we may provide in recommending products to our advisory clients. Our recommendations are provided as a result of clients' needs and based upon our independent research. Where there is a perceived or potential conflict, alternative recommendations can be made available.

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.