

London Borough of Hackney Pension Fund

Q3 2020 Investment Monitoring Report

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Executive Summary

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

The Fund performed strongly over the quarter as risk asset markets rallied against a backdrop of bold fiscal and monetary stimulus and easing of lockdown measures in developed economies. 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.

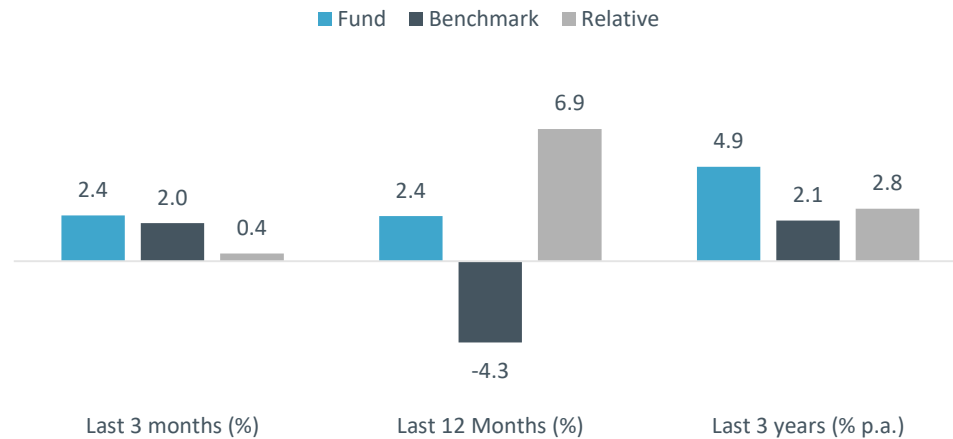
Income

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

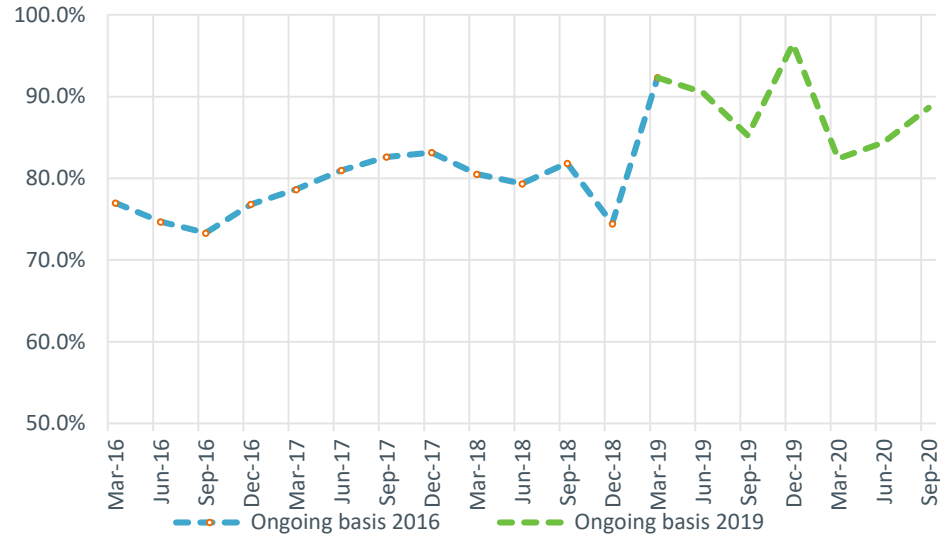
Growth, Income & Protection	Actual	Benchmark	Relative
Growth	66.9%	66.2%	0.7%
Income	13.6%	14.6%	-1.0%
Protection	19.5%	19.3%	0.2%

This page is used to show funding information. The figures shown represent the current quarter's position based on the Q1 2019 valuation basis as signed off by the Pensions Committee.

This page includes;

- Funding level progressions on the ongoing basis.
- Analysis of Surplus table.
- Over the quarter the deficit has decreased by £80m.
- The current objective is to reach a fully funded position on the ongoing basis by 2039.

Funding level progression



Funding level reconciliation

Quarter

	Surplus	(£m)
Surplus/(deficit) as at 30 June 20	(304.6)	
Contributions (less benefits accruing)	1.1	
Interest on surplus/(deficit)	(0.1)	
Excess return on assets	23.2	
Impact of change in yields & inflation	55.8	
Surplus/(deficit) as at 30 September 20	(215.9)	

Since previous valuation

	Surplus	(£m)
Surplus/(deficit) as at 31 March 2019	(130.6)	
Contributions (less benefits accruing)	19.5	
Interest on surplus/(deficit)	1.5	
Excess return on assets	45.5	
Impact of change in yields & inflation	(157.6)	
Surplus/(deficit) as at 30 September 20	(215.9)	

Asset Allocation

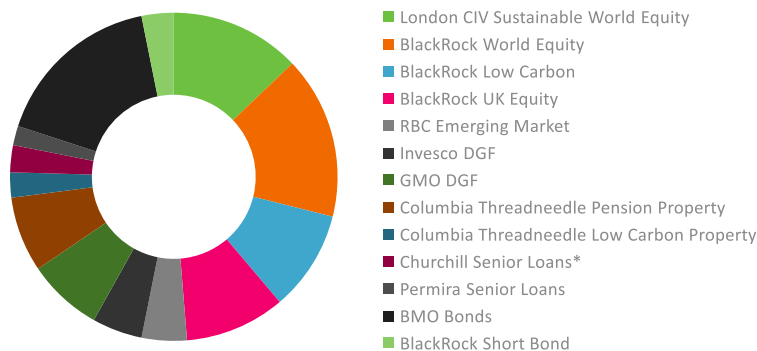
This section sets out the Fund's high level asset valuation and strategic allocation.

This page includes;

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

Mandate	Active/Passive	Valuation (£m)		Actual Proportion	Benchmark	Relative
		Q2 2020	Q3 2020			
London CIV Sustainable World Equity	Active	£243.9	£258.9	15.4%	13.0%	2.4%
BlackRock World Equity	Passive	£290.2	£308.3	18.3%	16.2%	2.1%
BlackRock Low Carbon	Passive	£179.2	£186.3	11.1%	10.0%	1.1%
BlackRock UK Equity	Passive	£132.8	£129.0	7.7%	10.0%	-2.3%
RBC Emerging Market	Active	£77.2	£80.9	4.8%	4.5%	0.3%
Invesco DGF	Active	£67.0	£66.2	3.9%	5.0%	-1.1%
GMO DGF	Active	£93.2	£94.9	5.6%	7.50%	-1.9%
Total Growth		£1,083.5	£1,124.6	66.9%	66.2%	0.7%
Columbia Threadneedle Pension Property	Active	£127.2	£125.9	7.5%	7.5%	0.0%
Columbia Threadneedle Low Carbon Property	Active	£25.6	£25.5	1.5%	2.5%	-1.0%
Churchill Senior Loans*	Active	£43.4	£43.9	2.6%	2.6%	0.0%
Permira Senior Loans	Active	£30.9	£33.6	2.0%	2.0%	0.0%
Total Income		£227.1	£228.9	13.6%	14.6%	-1.0%
BMO Bonds	Active	£273.6	£273.0	16.2%	17.0%	-0.8%
BlackRock Short Bond	Passive	£58.6	£55.7	3.3%	2.3%	1.0%
Total Protection		£332.2	£328.7	19.5%	19.3%	0.2%
Total Scheme		£1,642.7	£1,682.2	100%	100%	0%

Asset class exposures



*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.

- This section shows the Fund’s performance at the underlying manager level.
- The table shows a summary of the full Fund’s 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	6.2	3.2	2.9	3.7	2.4	14.8	5.2	9.1	7.2	7.0	n/a	n/a	n/a	n/a	n/a
BlackRock World Equity	6.2	6.0	0.1	n/a	n/a	6.4	6.8	-0.3	n/a	n/a	n/a	n/a	n/a	n/a	n/a
BlackRock Low Carbon	4.0	4.0	0.0	n/a	n/a	6.5	6.2	0.3	n/a	n/a	n/a	n/a	n/a	n/a	n/a
BlackRock UK Equity	-2.9	-2.9	0.0	n/a	n/a	-16.6	-16.6	0.0	n/a	n/a	n/a	n/a	n/a	n/a	n/a
RBC Emerging Market	4.8	4.7	0.1	n/a	n/a	0.4	5.4	-4.8	n/a	n/a	2.0	3.7	-1.7	n/a	n/a
Invesco DGF	-1.3	0.0	-1.3	1.3	-2.5	-1.5	0.5	-2.0	5.5	-6.6	-0.8	0.7	-1.5	5.7	-6.1
GMO DGF	1.9	0.5	1.4	1.7	0.2	-3.2	0.4	-3.5	5.4	-8.1	-1.6	1.0	-2.7	6.0	-7.2
Income															
Columbia Threadneedle Pension Property	0.3	0.2	0.1	0.5	-0.2	-2.8	-2.8	0.0	-1.8	-1.0	2.5	2.7	-0.1	3.7	-1.1
Columbia Threadneedle Low Carbon Property	0.4	0.2	0.2	0.5	-0.1	2.3	-10.0	13.6	-9.0	12.4	3.9	-0.7	4.7	0.3	3.7
Churchill Senior Loans	-4.7	n/a	n/a	n/a	n/a	-5.6	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Permira Senior Loans	1.2	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	-0.2	-0.6	0.4	-0.4	0.2	4.0	3.0	0.9	4.0	-0.1	6.2	5.7	0.4	6.7	-0.5
BlackRock Short Bond	0.1	0.0	0.1	n/a	n/a	0.8	0.5	0.3	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total	2.4	2.0	0.4			2.4	2.7	-0.3			4.9	5.4	-0.5		

Source: Fund performance provided by Investment Managers and is net of fees except for the BlackRock, BMO and the Low Carbon Property funds 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 benchmarks. The table above shows both the Fund vs Benchmark and the Fund vs Target Return.
- Churchill and Permira have not provided performance figures for their Fund as the funds are still relatively new. The performance figures shown are estimated by Hymans Robertson based on the fund NAV and adjusted for capital contributions made. We will report on actual performance once these funds have sufficient track records. Please also note that we have not reported benchmark performance for either fund as it is too early to compare relative performance whilst the funds are still calling capital.

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.

- This page includes manager/RI ratings and any relevant updates over the period.

Manager ratings

Mandate	Mandate	Date Appointed	Benchmark Description	Hymans Rating	RI
LCIV	World Equity	Jun-18	MSCI World Index Total Return +2%	Not Rated	Strong
BlackRock	World Equity	Jun-18	MSCI World Net Total Return 95% hedged	Preferred	Adequate
BlackRock LC	Low Carbon	Jun-18	MSCI World Low Carbon Index	Preferred	Adequate
BlackRock UK	UK Equity	Jun-18	FTSE All-Share	Preferred	Adequate
RBC	Emerging Markets	Dec-15	MSCI Emerging Markets	Preferred	Strong
Invesco	DGF	Dec-15	LIBOR 3m + 5%	Positive	Not Rated
GMO	DGF	Sep-12	OECD CPI G7 (GBP) + 5%	Positive	Not Rated
Threadneedle TPEN	Property	Mar-04	MSCI UK Quarterly All Balanced Property Index +1%	Positive	Not Rated
Threadneedle LCW	Low Carbon	May-16	MSCI UK Quarterly All Balanced Property Index +1%	Not Rated	Not Rated
Churchill	Senior Loans	Feb-19	US Credit Suisse Leveraged Loan Index	Not Rated	Not Rated
Permira	Senior Loans	Dec-19	-	Not Rated	Not Rated
BMO	Bonds	Sep-03	Bond Composite + 1%	Positive	Not Rated
BlackRock SDB	Bonds	Feb-19	3m GBP LIBID	Preferred	Good

Source: Investment Managers

Hymans Rating

Preferred	Our highest rated managers in each asset class. These should be the strategies we are willing to put forward for new searches.
Positive	We believe there is a strong chance that the strategy will achieve its objectives, but there is some element that holds us back from providing the product with the highest rating.
Suitable	We believe the strategy is suitable for pension scheme investors. We have done sufficient due diligence to assess its compliance with the requirements of pension scheme investors but do not have a strong view on the investment capability. The strategy would not be put forward for new searches based on investment merits alone.
Negative	The strategy is not suitable for continued or future investment and alternatives should be explored.
Not Rated	Insufficient knowledge or due diligence to be able to form an opinion.

Responsible Investment

Strong	Strong evidence of good RI practices across all criteria and practices are consistently applied.
Good	Reasonable evidence of good RI practices across all criteria and practices are consistently applied.
Adequate	Some evidence of good RI practices but practices may not be evident across all criteria or applied inconsistently.
Weak	Little to no evidence of good RI practices.
Not Rated	Insufficient knowledge to be able to form an opinion on.

Source: Investment Managers



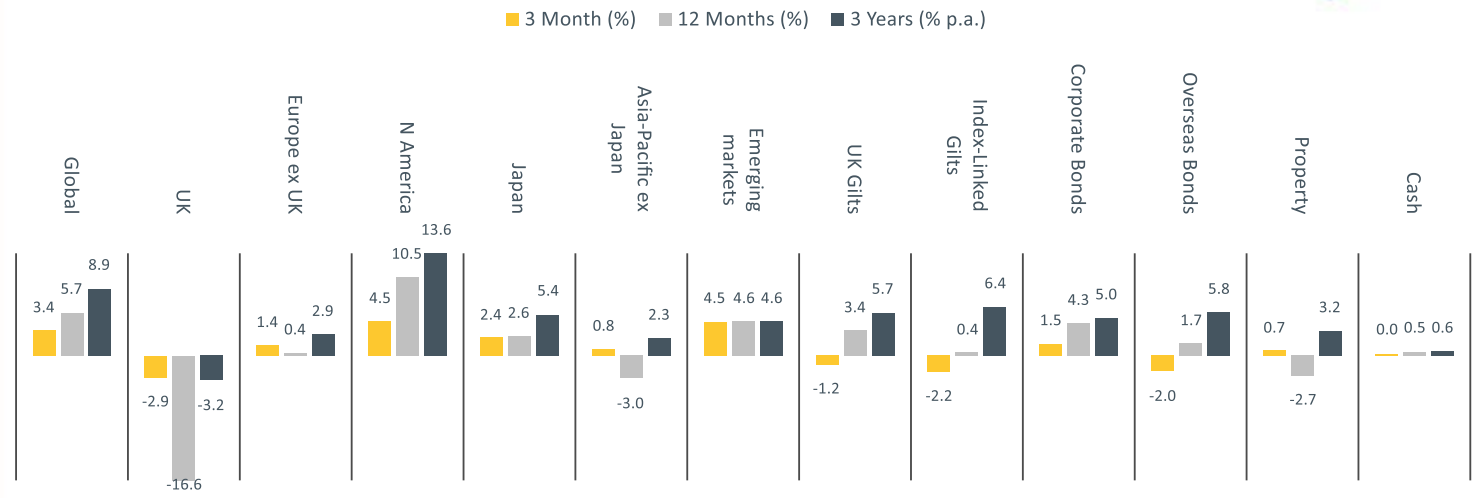
Q3 GDP data will likely reveal record-breaking growth rates for many economies, following Q2's record-breaking declines. Despite signs of a recovery, there is evidence to suggest the pace of improvement in major advanced economies slowed markedly towards the end of Q3. Monthly UK GDP releases show the pattern of growth experienced by the major advanced economies - April marked the nadir of the downturn with the economy returning to month-on month growth in May. Although above longer-term trend growth, the monthly pace of growth slowed from 6.4% in July to 2.1% in August. Purchasing Managers' Indices for both services and manufacturing in the major western economies signalled that the recovery in global activity continued in September.

Sterling partially reversed some of its losses in the first half of 2020, rising 1.7% in trade-weighted terms since the end of June, though weakness returned as trade talks faltered in September. Even allowing for September's gains, the US dollar fell 2.8% in trade-weighted terms in Q3.

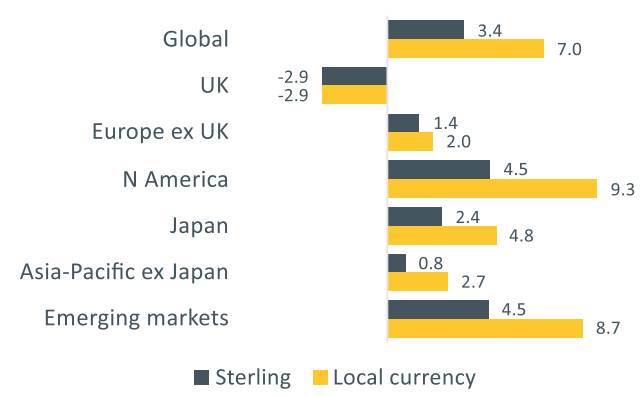
Globally, every major economy has seen its core inflation rate fall since end-2019. Having risen to 1.0% in July, headline UK CPI inflation fell to 0.2% in August, its lowest level since December 2015.

The Fed's shift to "flexible" average inflation targeting over Q3 likely means interest rate rises are even further away than previously envisaged. The Bank of England continues to send mixed messages on the potential use of negative interest rates, but an operational review is ongoing and market pricing, at least, suggests negative interest rates may be introduced in 2021.

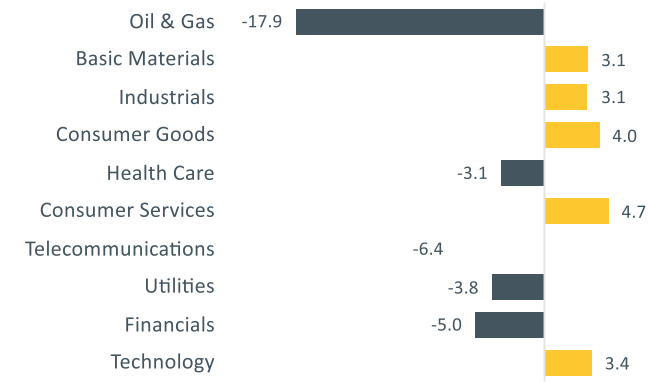
Historic returns for world markets ^[1]



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.



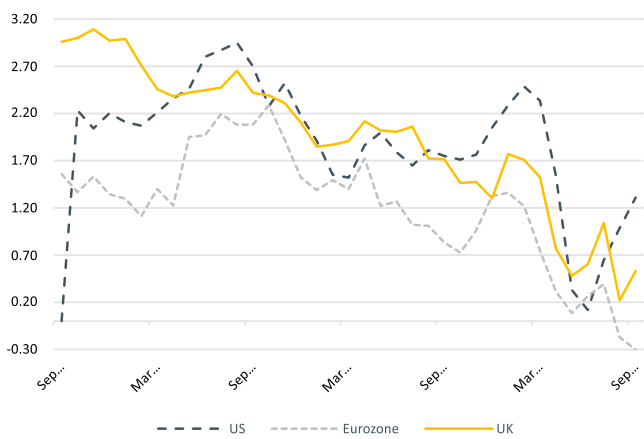
US 10-year treasury yields were little changed, ending the quarter at 0.68% p.a. Equivalent UK yields rose 0.06% p.a. to 0.23% p.a. while German bund yields drifted 0.07% p.a. lower to -0.52% p.a. Equivalent index-linked gilt yields fell, resulting in a rise in 10-year implied inflation to 3.3% p.a.

Despite rising towards the end of Q3, global investment-grade credit spreads fell from 1.6% p.a. to 1.4% p.a. and global speculative-grade spreads fell from 6.4% p.a. to 5.6% p.a. Defaults continued to rise but have been contained in the troubled US energy and retail sectors.

Global equity indices produced a total return of 7% in local currency terms, despite a return of volatility towards the end of Q3. Recent regional trends continued with the US outperforming and the UK underperforming. From a sector perspective technology extended its large year-to-date lead at the top of the performance rankings while oil & gas massively underperformed, cementing its place at the bottom.

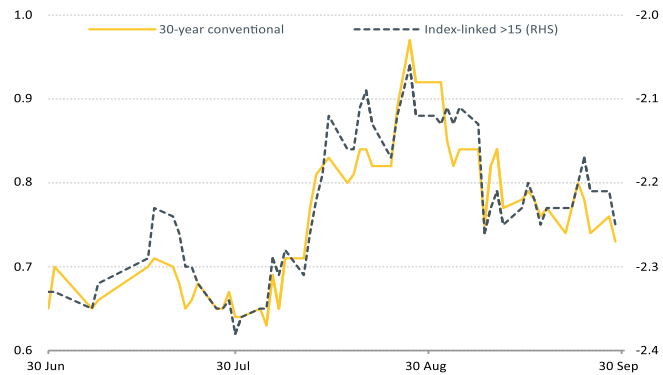
The rolling 12-month performance of the MSCI UK Monthly Property Index continues to fall and is now -2.7% to the end of September. Capital values are, in aggregate, 7.8% lower over the same period. This is mainly due to an 18.6% fall in capital values in the retail sector over year, but values in other sectors have also fallen.

Annual CPI Inflation (% p.a.)



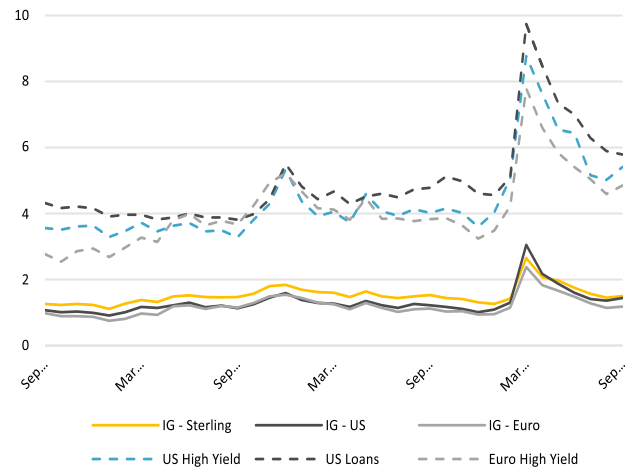
Higher CPI inflation can lead to higher income on CPI-linked assets like property, but will also lead to higher benefit payments

Gilt yields chart (% p.a.)



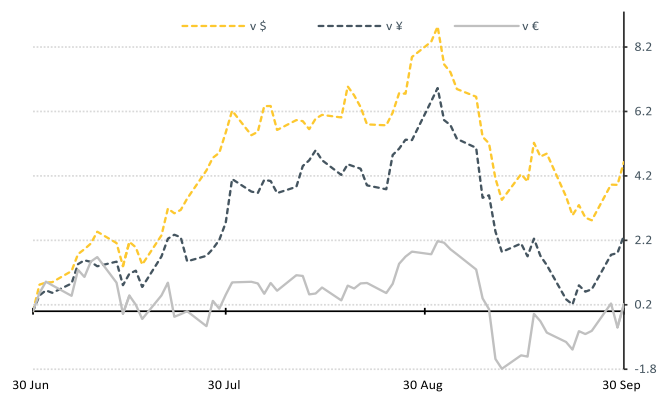
Gilt (UK government bond) yields are often used as a basis for valuing liabilities. When gilt yields increase the value of the liabilities decreases, as does the value of any bonds held by the Fund.

Investment and speculative grade credit spreads (% p.a.)



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

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.

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.

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Geometric v Arithmetic Performance

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

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

Some industry practitioners use the simpler arithmetic method as follows:

$$\text{Fund Performance} - \text{Benchmark Performance}$$

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.