

London Borough of Hackney Pension Fund

Q1 2021 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 generated positive returns over the quarter as the improving economic outlook and the rollout of the vaccine attributed to the positive quarterly performance of the Fund's equity and property mandates.

The rise in interest rates over the quarter resulted in negative returns for the corporate bond mandate and although credit spreads narrowed slightly this had little in the way of offsetting positive impact for the corporate bond funds. Over the quarter the Fund has slightly 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.

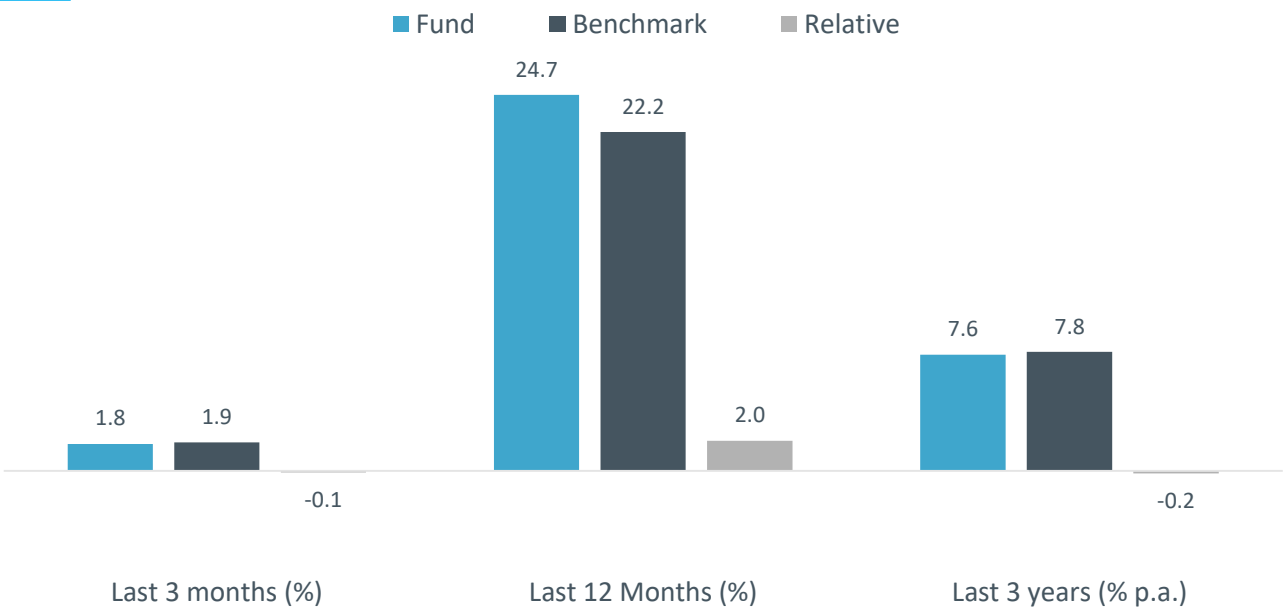
Income

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

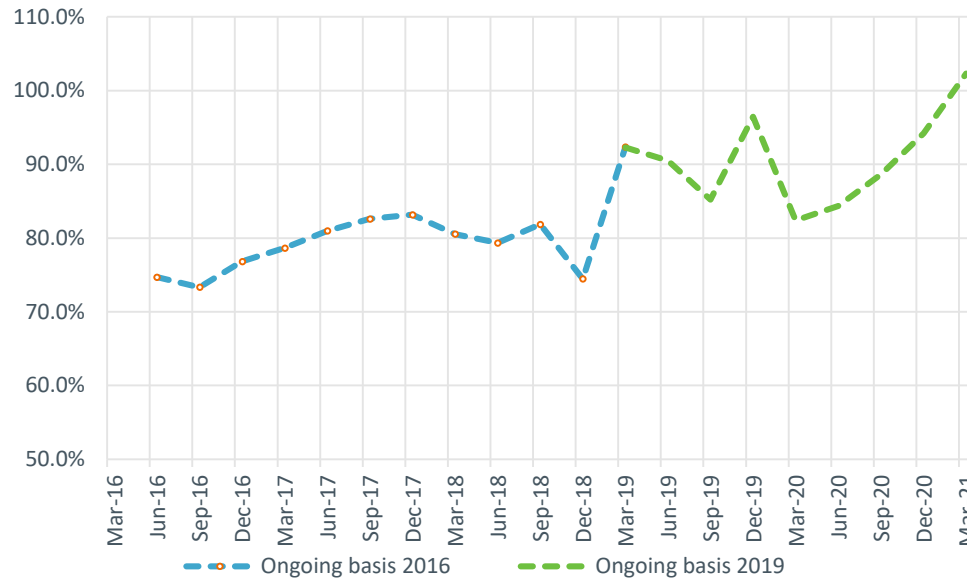
Growth, Income & Protection	Actual	Benchmark	Relative
Growth	66.9%	65.3%	1.6%
Income	14.0%	15.5%	-1.5%
Protection	19.2%	19.2%	0.0%

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 £127m due to the rise in gilt yields. This has put the fund in a surplus of £24m and the Fund's funding level at 102%.
- 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 31 December 20	(103.7)	
Contributions (less benefits accruing)	2.6	
Interest on surplus/(deficit)	0.0	
Excess return on assets	(4.0)	
Impact of change in yields & inflation	128.9	
Surplus/(deficit) as at 31 March 21	23.8	

Since previous valuation

	Surplus	(£m)
Surplus/(deficit) as at 31 March 2019	(130.6)	
Contributions (less benefits accruing)	23.6	
Interest on surplus/(deficit)	(1.4)	
Excess return on assets	179.1	
Impact of change in yields & inflation	(46.9)	
Surplus/(deficit) as at 31 March 21	23.8	

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

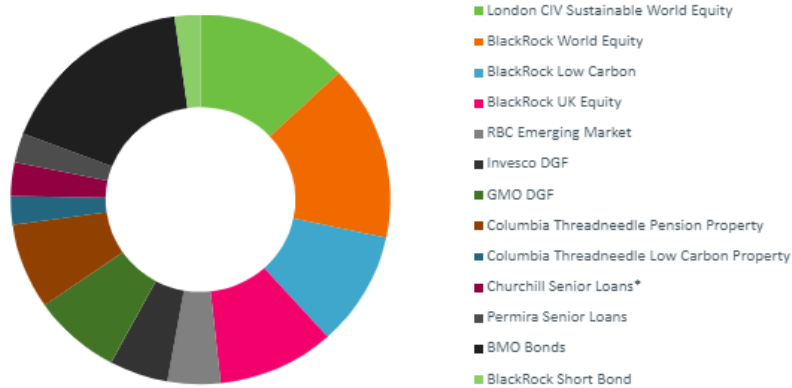
This page includes;

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

Asset allocation

Mandate	Active/Passive	Valuation (£m)		Actual Proportion	Benchmark	Relative
		Q4 2020	Q1 2021			
London CIV Sustainable World Equity	Active	289.9	290.4	15.8%	13.0%	2.8%
BlackRock World Equity	Passive	344.8	310.5	16.9%	15.3%	1.6%
BlackRock Low Carbon	Passive	200.8	208.1	11.3%	10.0%	1.3%
BlackRock UK Equity	Passive	145.2	152.9	8.3%	10.0%	-1.7%
RBC Emerging Market	Active	93.4	97.1	5.3%	4.5%	0.8%
Invesco DGF	Active	67.2	66.6	3.6%	5.0%	-1.4%
GMO DGF	Active	99.8	104.4	5.7%	7.5%	-1.8%
Total Growth		1,241.0	1,230.0	66.9%	65.3%	1.6%
Columbia Threadneedle Pension Property	Active	128.3	130.7	7.1%	7.5%	-0.4%
Columbia Threadneedle Low Carbon Property	Active	25.3	25.0	1.4%	2.5%	-1.1%
Churchill Senior Loans*	Active	46.4	54.0	2.9%	2.9%	0.0%
Permira Senior Loans	Active	38.9	47.2	2.6%	2.6%	0.0%
Total Income		238.9	257.0	14.0%	15.5%	-1.5%
BMO Bonds	Active	279.6	263.4	14.3%	17.0%	-2.7%
BlackRock Short Bond	Passive	51.3	89.0	4.8%	2.2%	2.6%
Total Protection		331.0	352.3	19.2%	19.2%	0.0%
Total Scheme		1,810.9	1,839.4	100%	100.0%	0%

Asset class exposures



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	0.2	4.0	-3.6	4.5	-3.6	46.4	38.4	5.7	40.4	5.7	13.0	10.0	2.7	n/a	2.7
BlackRock World Equity	6.2	6.0	0.1	6.0	0.1	49.6	48.9	0.5	48.9	0.5	10.9	10.7	0.2	n/a	0.2
BlackRock Low Carbon	3.7	3.6	0.1	3.6	0.1	37.4	36.8	0.5	36.8	0.5	10.5	10.1	0.4	n/a	0.4
BlackRock UK Equity	5.3	5.2	0.1	5.2	0.1	27.2	26.7	0.4	26.7	0.4	0.8	0.7	0.1	n/a	0.1
RBC Emerging Market	4.0	1.3	2.7	n/a	2.7	47.6	42.3	3.7	n/a	3.7	7.5	7.1	0.4	n/a	0.4
Invesco DGF	-1.0	-1.0	0.0	0.3	0.0	-1.6	-0.8	-0.8	4.2	-0.8	-0.7	0.2	-1.0	5.2	-1.0
GMO DGF	4.7	0.8	3.8	2.1	3.8	20.1	0.8	19.1	5.8	19.1	0.8	1.0	-0.2	6.0	-0.2
Income															
Columbia Threadneedle Pension Property	2.2	2.2	0.0	2.5	0.0	1.6	2.5	-0.9	3.5	-0.9	1.9	2.4	-0.6	3.4	-0.6
Columbia Threadneedle Low Carbon Property	0.1	0.6	-0.5	0.9	-0.5	0.4	-1.5	1.9	-0.5	1.9	3.1	-2.4	5.6	-1.4	5.6
Churchill Senior Loans	1.1	n/a	n/a	n/a	n/a	-6.9	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Permira Senior Loans	1.4	n/a	n/a	n/a	n/a	11.3	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Protection															
BMO Bonds	-5.8	-6.0	0.2	-5.8	0.2	4.1	1.1	3.0	2.1	3.0	4.1	3.4	0.7	4.4	0.7
BlackRock Short Bond	0.0	0.0	0.1	0.0	0.1	0.7	0.1	0.6	0.1	0.6	n/a	n/a	n/a	n/a	n/a
Total	1.8	1.9	-0.1			24.7	22.2	2.0			7.6	7.8	-0.2		

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 and distributions 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.
- Over the quarter it was announced that Threadneedle would be acquiring BMO'S EMEA business. The acquisition will involve some overlap with the fixed income businesses of the two firms. Our Research team have not identified any concerns so far with the acquisition but shall continue to monitor any developments going forward.

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%	Suitable	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.

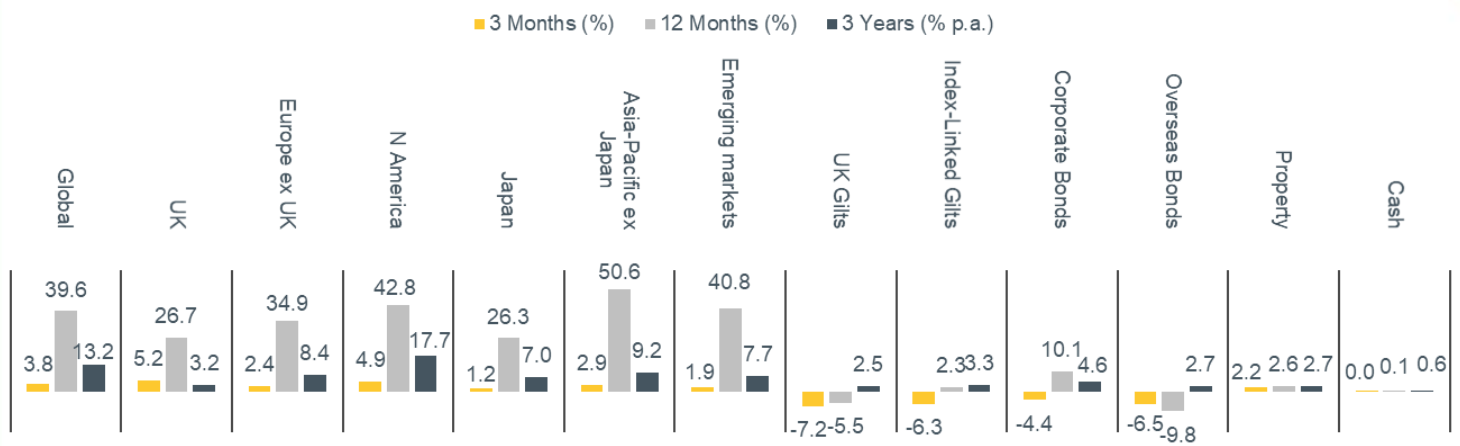
Source: Investment Managers

Consensus forecasts for global GDP growth have continued to improve, to 5.6% in 2021, following a 3.6% contraction in 2020. Recent data confirms that although the quarterly pace of global growth slowed in Q1 after a robust H2 2020, the hit to activity from tighter restrictions has been less than initially feared. Expectations of a re-acceleration of growth beyond Q2 seem well-founded amid significant progress in vaccine rollouts and massive fiscal support in the US. Indeed, March's global composite PMI rose to its highest level in over 6 years.

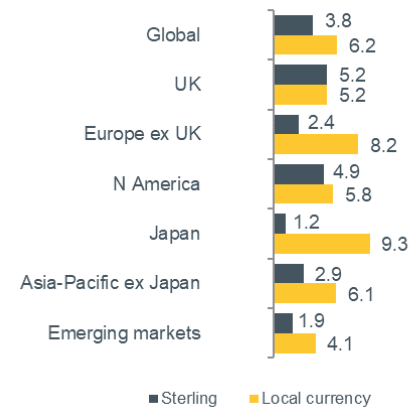
Global equity markets gained 6.2% during the quarter. The improving economic outlook was supportive for more cyclical sectors with energy, financials, basic materials, and industrials the top performing sectors year-to-date, in that order.

Sectoral performance helps explain regional equity performance: Japan and Europe ex-UK, with their above average exposures to industrials, lead the regional performance rankings year-to-date. Emerging markets underperformed markedly, weighed on by a stronger dollar and a Chinese equity market sell-off in February. Despite a higher than average exposure to oil & gas and financials, the UK market underperformed, perhaps weighed down by sterling strength given the high proportion of overseas earnings in the index.

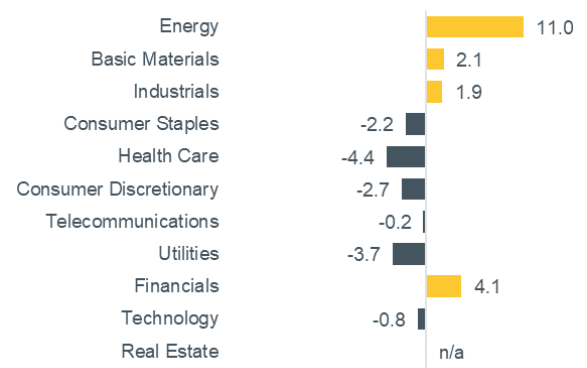
Historic returns for world markets [1]



Regional equity returns [2]



Global equity sector returns (%) [3]



Source: DataStream. [1] Returns shown in Sterling terms. Indices shown (from left to right) are: FTSE All World, FTSE All Share, FTSE AW Developed Europe ex-UK, FTSE North America, FTSE Japan, FTSE AW Developed Asia Pacific ex-Japan, FTSE Emerging, 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; UK Interbank 7 Day. [2] FTSE All World Indices. Commentary compares regional equity returns in local currency. [3] Returns shown relative to FTSE All World. FTSE indices migrated to a new ICB structure in Q1 2021 – returns for Real Estate will be included when there is a sufficient track record.

While realised inflation has remained subdued, UK headline CPI inflation rose to 0.7% year-on-year in March, a resumption of activity and deferred consumption alongside rising oil prices are expected to lead to higher inflation in the short-term.

Reflecting the improvement in economic outlook, government bond yields rose significantly: UK 10-year government bond yields rose 0.7% p.a. to 0.8% p.a. Real yields rose less, with 10-year implied inflation, based on the difference in yield on conventional and index-linked gilts, rising 0.4% p.a. to 3.7% p.a.

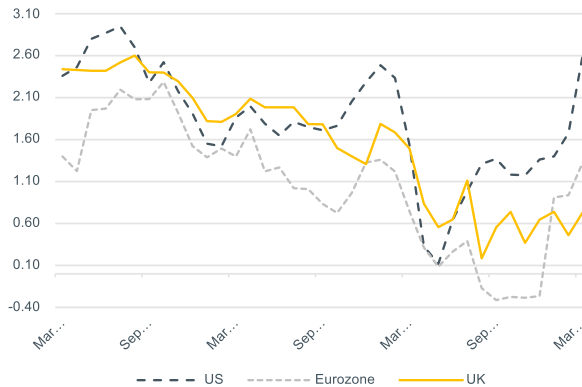
Rising sovereign bond yields weighed on total returns in fixed interest credit markets, which are negative year-to-date for investment-grade markets. Global investment-grade spreads fell 0.1% p.a. to 1.0% p.a. and speculative-grade spreads fell 0.4% p.a. to 3.7% p.a.

Sterling continued to move higher, rising 4.1% in trade-weighted terms. Relative improvement in the economic outlook and increased market-implied odds of rate rises saw the US dollar rise 2.5%, in trade-weighted terms, while the Euro and Japanese Yen fell 1.7% and 4.4%, respectively.

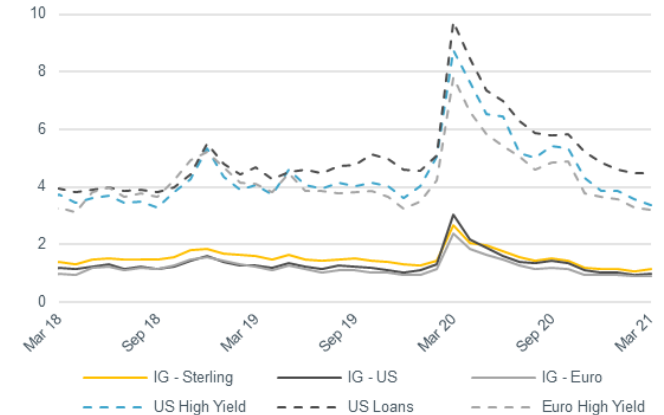
Despite slipping towards the end of the period, oil prices rose 22.4% in the first quarter to \$64 per barrel, while the dollar spot price of gold slipped 10.2% as bond yields rose.

The rolling 12-month total return on the MSCI UK Monthly Property Index was 2.6% to the end of March. Capital values, in aggregate, fell 2.9% over the period (driven by a 12.4% decline in retail sector), however aggregate monthly capital value growth has been positive since November.

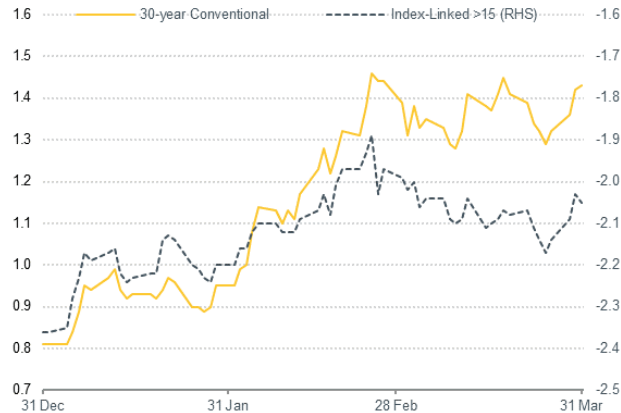
Annual CPI Inflation (% p.a.)



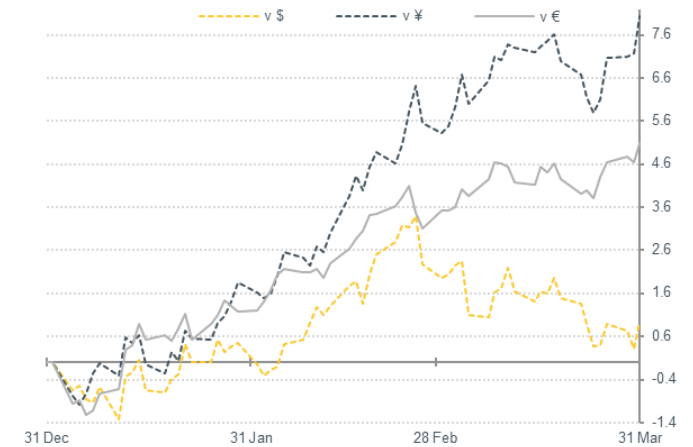
Investment and speculative grade credit spreads (% p.a.)



Gilt yields chart (% p.a.)



Sterling trend chart (% change)



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.