London Borough of Hackney Pension Fund

Q2 2021 Investment Monitoring Report

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HYMANS ROBERTSON

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 with an approximate absolute return of 4.9% broadly in line with it's benchmark performance.

Growth forecasts were buoyed by the continued deployment and effectiveness of the vaccine along with the economic resilience to the recent waves of COVID-19. Return seeking assets performed positively as a result.

Additionally, the fall in interest rates along with continued narrowing of credit spreads over the quarter resulted in positive returns for the corporate bond mandates.

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.

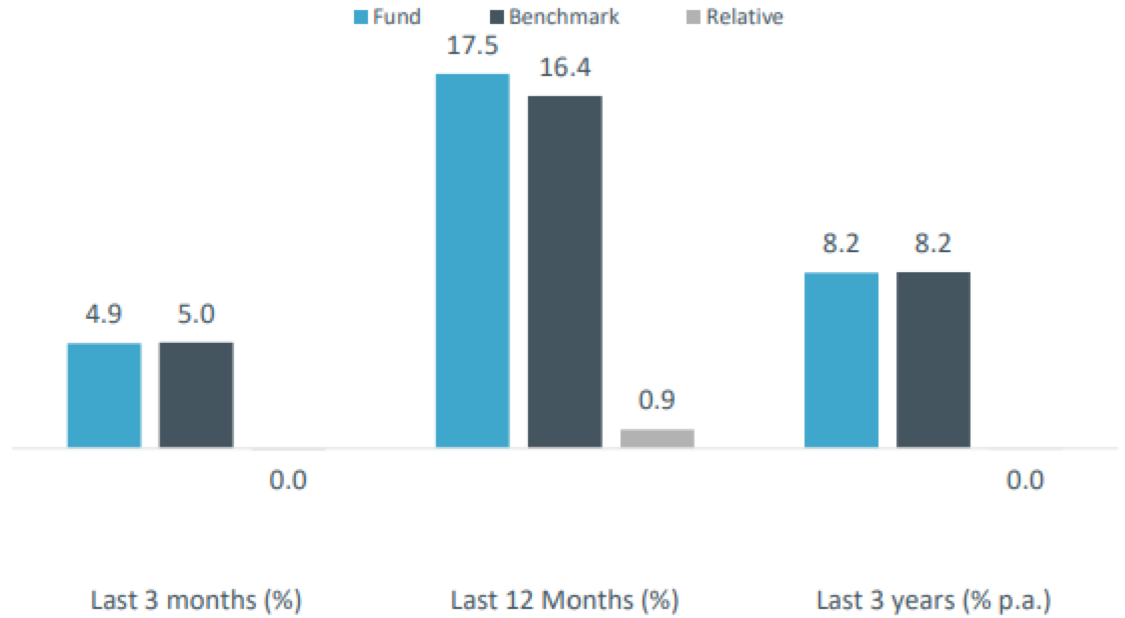
Income

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	69.0%	65.3%	3.7%
Income	14.0%	15.3%	-1.4%
Protection	17.0%	19.3%	-2.3%

Asset Allocation

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

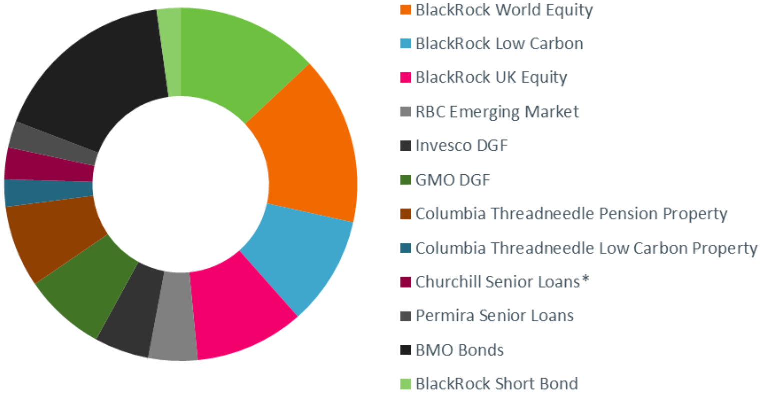
This page includes;

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

Asset allocation

Mandate	Active/Passive	Valuation (£m)		Actual Proportion	Benchmark	Relative
		Q1 2021	Q2 2021			
London CIV Sustainable World Equity	Active	290.4	316.3	16.7%	13.0%	3.7%
BlackRock World Equity	Passive	310.5	334.5	17.6%	15.3%	2.3%
BlackRock Low Carbon	Passive	208.1	223.4	11.8%	10.0%	1.8%
BlackRock UK Equity	Passive	152.9	161.5	8.5%	10.0%	-1.5%
RBC Emerging Market	Active	97.1	100.6	5.3%	4.5%	0.8%
Invesco DGF	Active	66.6	66.8	3.5%	5.0%	-1.5%
GMO DGF	Active	104.4	104.9	5.5%	7.5%	-2.0%
Total Growth		**1,230.0**	**1,308.0**	**69.0%**	**65.3%**	**3.7%**
Columbia Threadneedle Pension Property	Active	130.7	138.3	7.3%	7.5%	-0.2%
Columbia Threadneedle Low Carbon Property	Active	25.0	24.9	1.3%	2.5%	-1.2%
Churchill Senior Loans	Active	54.0	55.2	2.9%	2.9%	0.0%
Permira Senior Loans	Active	47.2	46.1	2.4%	2.4%	0.0%
Total Income		**257.0**	**264.6**	**14.0%**	**15.3%**	**-1.4%**
BMO Bonds	Active	263.4	269.2	14.2%	17.0%	-2.8%
BlackRock Short Bond	Passive	89.0	53.5	2.8%	2.3%	0.5%
Total Protection		**352.3**	**322.7**	**17.0%**	**19.3%**	**-2.3%**
Total Scheme		**1,839.4**	**1,895.3**	**100%**	**100%**	**0%**

Asset class exposures



- 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.

Comments

- The estimated Churchill returns are below its strategic benchmark and target over a 12 month period.
- The mandate is USD denominated and so exposed to currency risk, and has been impacted by the weakening of USD to GBP over recent quarters. This has reduced the GBP return numbers shown in the table.
- Performance of USD to GBP as at 30 June 2021 has been as follows:
  - 3m: -0.1%
  - 6m: -1.1%
  - 12m: -9.8%

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	8.9	7.6	1.2	8.1	0.8	29.6	24.4	4.3	26.4	2.6	17.0	13.3	3.3	n/a	n/a
BlackRock World Equity	7.7	7.7	0.1	7.7	0.1	35.8	35.3	0.4	35.3	0.4	13.6	13.4	0.2	n/a	n/a
BlackRock Low Carbon	7.3	7.2	0.1	7.2	0.1	24.7	24.3	0.3	24.3	0.3	13.7	13.3	0.3	n/a	n/a
BlackRock UK Equity	5.7	5.6	0.1	5.6	0.1	21.6	21.4	0.1	21.4	0.1	2.1	2.0	0.1	n/a	n/a
RBC Emerging Market	3.6	4.9	-1.3	n/a	n/a	30.3	26.0	3.4	n/a	n/a	9.6	9.6	0.0	n/a	n/a
Invesco DGF	0.1	0.0	0.1	1.3	-1.2	-0.9	-0.9	0.0	4.1	-4.8	-0.6	0.2	-0.8	5.2	-5.5
GMO DGF	0.5	1.2	-0.7	2.5	-1.9	12.6	3.1	9.2	8.1	4.1	2.1	1.8	0.3	6.8	-4.5
Income															
Columbia Threadneedle Pension Property	4.3	3.8	0.5	4.1	0.2	8.2	8.5	-0.3	9.5	-1.2	2.7	3.0	-0.3	4.0	-1.3
Columbia Threadneedle Low Carbon Property	1.1	1.6	-0.5	1.9	-0.7	2.1	1.6	0.5	2.6	-0.5	1.9	-2.5	4.6	-1.5	3.5
Churchill Senior Loans	1.4	1.0	0.4	1.6	-0.2	-5.9	4.1	-9.6	6.3	-11.4	n/a	n/a	n/a	n/a	n/a
Permira Senior Loans	0.0	1.0	-1.0	1.8	-1.7	9.1	4.1	4.8	7.0	2.0	n/a	n/a	n/a	n/a	n/a
Protection															
BMO Bonds	2.2	2.3	0.0	2.5	-0.3	-1.6	-2.8	1.3	-1.8	0.3	5.0	4.3	0.7	5.3	-0.3
BlackRock Short Bond	0.1	0.0	0.1	0.0	0.1	0.4	0.0	0.4	0.9	-0.5	n/a	n/a	n/a	n/a	n/a
Total	4.9	5.0	0.0			17.5	16.4	0.9			8.2	8.2	0.0		

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 reported these mandates against the Fund's agreed Cash +4% strategic benchmark for it allocation to private debt. The absolute target performance set by Churchill and Permira are 5.5%-7% and 6%-8% respectively and we have reported against the mid target range for each.*

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.

Manager Ratings

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

Invesco
David Millar is stepping back as a fund manager for the Invesco Global Targeted Returns mandate, although he will remain Head of Multi-Asset. Georgina Taylor, who has experience running the income variant of GTR and been part of the wider multi-asset team, has joined the team as an additional fund manager.

BMO/Columbia Threadneedle
Following from last quarters announcement, Threadneedle (via their global asset management business of Ameriprise) will be acquiring BMO's asset management business in EMEA and Asia.
The main benefit of the transaction for Threadneedle is leveraging BMO's capabilities in LDI/solutions, responsible investment, investment trusts and real estate. BMO are selling the business in order to refocus on their core North American business.
The acquisition will result in some overlap between the two firms fixed income business. Threadneedle consider this a growth transaction therefore the expectation is that vast majority of staff will be transferred. Our Research team shall continue to monitor any developments going forward.

Columbia Threadneedle
Threadneedle announced that Colin Moore, Global CIO, is to retire. William Davies, the current EMEA CIO and Global Head of Equities will assume the Global CIO role in January 2022.

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	Adequate
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	Adequate
Threadneedle LCW	Low Carbon Property	May-16	MSCI UK Quarterly All Balanced Property Index +1%	Not Rated	Not Rated
Churchill	Senior Loans	Feb-19	LIBOR 3m + 4%	Not Rated	Not Rated
Permira	Senior Loans	Dec-19	LIBOR 3m + 4%	Preferred	Adequate
BMO	Bonds	Sep-03	Bond Composite + 1%	Positive	Not Rated
BlackRock SDB	Bonds	Feb-19	3m GBP LIBID	Positive	Not Rated

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

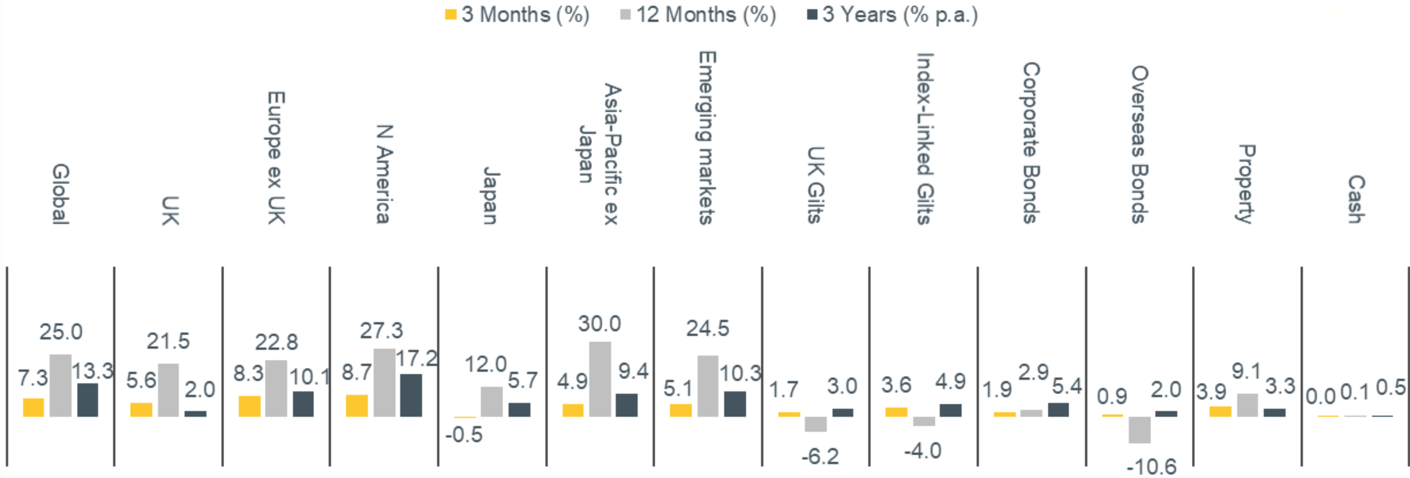
Amid accumulating evidence of the effectiveness of vaccines, the deployment of large US fiscal stimulus, and greater economic resilience to the latest waves of COVID-19, growth forecasts continued to see upwards revisions. A very sharp rebound in global GDP growth is expected to have been recorded in Q2 as restrictions eased in the major advanced economies. Leading indicators, such as PMI business surveys, have reached multi-year highs and suggest growth momentum remains strong.

Global equities have risen 7.1% (Local Currency) in Q2. Cyclical, shorter-duration sectors, such as financials, industrials and basic materials, and styles, such as value and small-cap, have underperformed, having outperformed significantly since the initial positive vaccine news in November last year. Conversely, technology, with its longer-duration growth characteristics, outperformed during Q2.

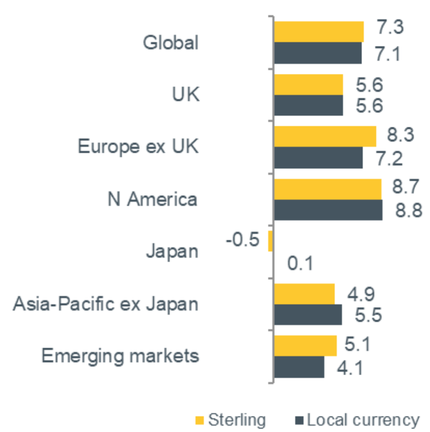
From a regional perspective, Japan has materially underperformed as a resurgence in new COVID-19 cases led to new restrictions. Outperformance by the technology sector helped North America to outperform.

Supply and demand imbalances, largely due to pandemic-induced shortages, and a weak base of comparison in 2020 suggest UK headline CPI will increase above May's 2.1% year-on-year rise. June's 5.0% year-on-year increase in US headline CPI exceeded expectations. However, most forecasters and central bankers expect the inflationary spike will prove temporary.

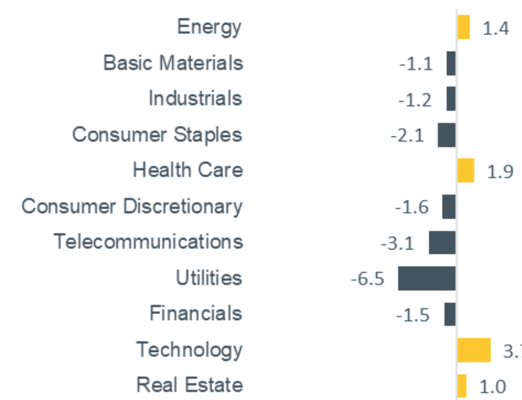
Historic returns for world markets [1]



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 in Sterling terms and relative to FTSE All World. FTSE indices migrated to a new ICB structure in Q1 2021.

On news that the Fed expects to increase its policy rate twice in 2023, short-term yields rose, and longer-term yields fell. Despite upside inflation surprises, US 10-year treasury yields fell 0.3% p.a. to 1.5% p.a. and UK yields fell 0.1% p.a. to 0.7% p.a. The gathering pace of vaccine roll out in the eurozone helped equivalent German yields rise 0.1% p.a.

UK 10-year Implied inflation, as measured by the difference between conventional and inflation-linked bonds of the same maturity, fell from 3.7% p.a. to 3.5% p.a. as nominal yields fell relative to real yields.

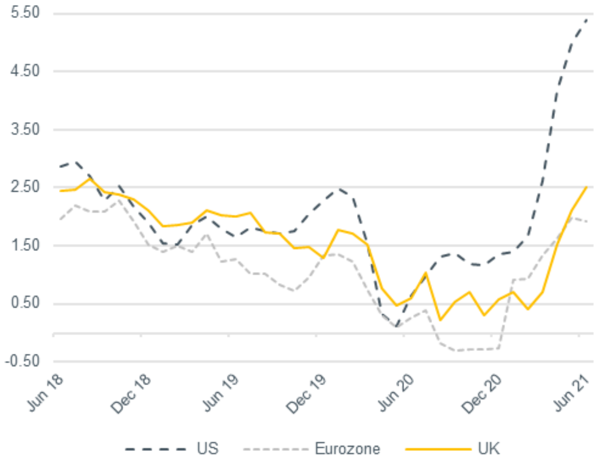
Despite rising 1.4% in June on the back higher near-term rate expectations, the trade-weighted dollar has weakened 1.6% since the end of March, as the global economic recovery became broader based. Sterling has weakened marginally in trade-weighted terms, down 0.5% since the end of March.

Despite slipping 7% in the wake of the Fed meeting in June, gold prices were still up 3.6% over the quarter while oil prices rose strongly .

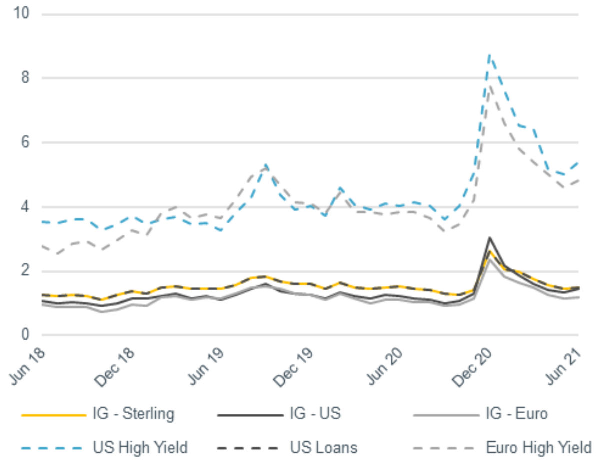
Global credit spreads continued to trend lower in-line with declining default rates and improving credit fundamentals.

Rolling 12-month UK Monthly Property Index metrics have improved as March 2020 values fell out of the comparison. The rolling 12-month total return on the index was 9.1% to end-June, with monthly returns positive since July 2020. Capital values, in aggregate, have risen 3.4% over the last 12 months, with values rising month-on-month since November 2020: Industrial capital values are responsible for the rise, having risen 17.9% over the last 12 months, while retail and office values have fallen, by 5.4% and 3.4%, respectively. The office sector has been experiencing the largest capital declines in recent months.

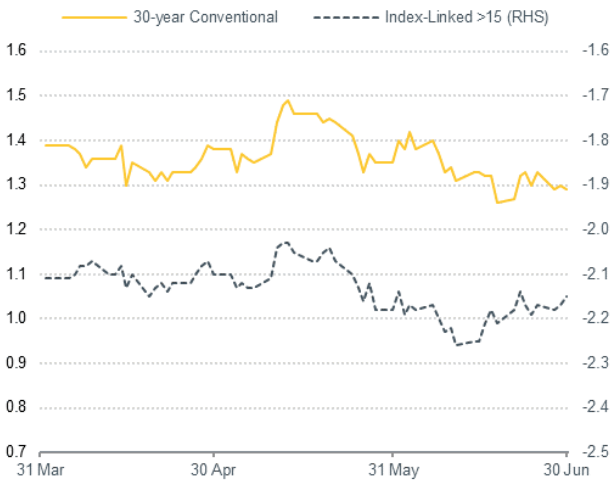
Annual CPI Inflation (% p.a.)



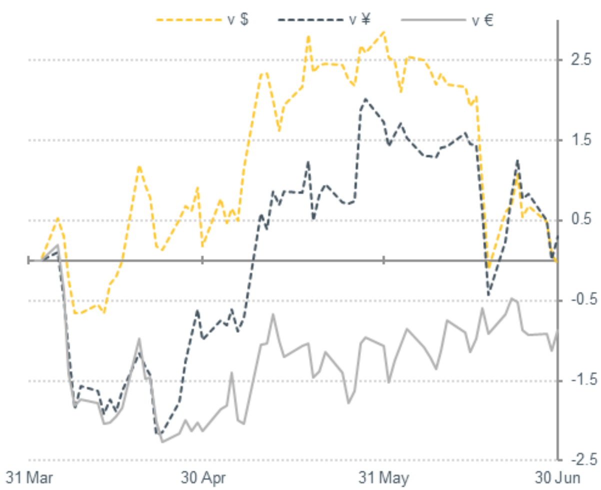
Investment and speculative grade credit spreads (% p.a.)



Gilt yields chart (% p.a.)



Sterling trend chart (% change)



Source: DataStream, Barings and ICE

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.