Transition report summary

Introduction

This paper is addressed to the Pensions Committee ("the Committee") and the Pensions Officers ("the Officers") of the London Borough of Hackney Pension Fund ("the Fund"). It provides a summary of the recent transitions completed by the Fund and should be read in conjunction with MJ Hudson's detailed post-trade report.

The paper should not be released or otherwise disclosed to any third party except as required by law or regulatory obligation or without our prior written consent. We accept no liability where the report is used by, or released or otherwise disclosed to, a third party unless we have expressly accepted such liability in writing. Where this is permitted, the paper may only be released or otherwise disclosed in a complete form which fully discloses our advice and the basis on which it is given.

Background

Following an in-depth review of the Fund's investment strategy in 2020, the Committee approved a number of changes. The agreed changes significantly increased the proportion of assets invested through the London CIV, and therefore the timing of implementing these changes was dependent on these offerings being available through the London CIV. The changes were therefore split into two phases, based on the London CIV's product launch plans at the time of planning. These changes are set out below, split into phases 1 and 2.

Mandate	LCIV Pooled/Non-Pooled	Active/Passive	Current target Benchmark	Phase 1	Phase 2
London CIV Sustainable World Equity	Pooled	Active	13.0%	13.0%	13.0%
BlackRock World Equity	Pooled	Passive	13.0%		
BlackRock Low Carbon	Pooled	Passive	10.0%	10.0%	10.0%
BlackRock UK Equity	Pooled	Passive	10.0%		
RBC Emerging Markets	Non-Pooled	Active	4.5%		
LCIV Emerging Markets	Pooled	Active		4.5%	4.5%
LCIV Equity/Carbon Focused Mandate	Pooled	Active/passive		13.0%	13.0%
Invesco DGF	Non-Pooled	Active	5.0%		
GMO DGF	Non-Pooled	Active	7.5%		
LCIV Multi Asset	Pooled	Active		7.5%	7.5%
Total Growth			**63.0%**	**48.0%**	**48.0%**
Columbia Threadneedle Pension Property	Non-Pooled	Active	7.5%	7.5%	7.5%
Columbia Threadneedle Low Carbon Property	Non-Pooled	Active	2.5%	2.5%	2.5%
Churchill Senior Loans	Non-Pooled	Active	4.0%	4.0%	4.0%
Permira Senior Loans	Non-Pooled	Active	6.0%	6.0%	6.0%
Opportunities Pot (Infrastructure)	Pooled	Active		5.0%	5.0%
Opportunities Pot/Alternative Credit	Pooled	Active		10.0%	10.0%
Total Income			**20.0%**	**35.0%**	**35.0%**
BMO Bonds	Non-Pooled	Active	17.0%	17.0%	
LCIV Bonds	Pooled	Active			17.0%
BlackRock Short Bond	Pooled	Passive			
Total Protection			**17.0%**	**17.0%**	**17.0%**
Total Scheme			**100.0%**	**100.0%**	**100.0%**

The Fund has completed the vast majority of the work in order to bring its asset allocation in line with the agreed allocation set out in “Phase 1” of the table. This began by commitments being made to the London CIV Renewable Infrastructure and Private Credit sub-funds in June 2021. However, as these types of mandates take a number of years for the commitment to be drawn down, these will take some time to reach their target allocations and for the sources of their funding to be reduced.

More recently, during September and October, the Fund implemented a number of other changes to complete the move to the “Phase 1” asset allocation. These included:

- Fully disinvesting from the RBC Emerging Markets fund and switching it to the London CIV Emerging Markets fund.
- Moving the BlackRock World Equity and UK Equity funds to the London CIV Paris Aligned fund. Some assets remain in the World Equity fund and will be used to source further drawdowns for the Renewable Infrastructure and Private Credit investments.
- Fully disinvesting from the GMO DGF to invest in the London CIV DGF managed by Baillie Gifford. The Invesco DGF will also be sold down as part of the funding of the Renewable Infrastructure and Private Credit investments.

Transition

The three separate parts of the transition were completed across late-September and early October. We provide a summary of the explicit transitions and costs below.

Fund(s) sold	Fund invested in	Assets moved	Explicit costs
RBC Emerging Markets	London CIV Emerging Markets	£95.8m	£238k (0.25%)
BlackRock World Equity and UK Equity	London CIV Paris Aligned Global Equity	£250.3m	£286k (0.11%)
GMO DGF	London CIV Baillie Gifford DGF	£143.0m	£531k (0.37%)
Total		**£489.1m**	**£1,055k (0.22%)**

From our experience of these types of transitions, these costs appear reasonable and were within MJ Hudson’s pre-transition estimates.

Implicit costs result from movements in the market value of the target and legacy mandates during the transition. The implicit costs across the transition were -£3.8m (i.e. a gain for the Fund) primarily due to the LCIV Paris Aligned mandate falling in value by c2% in the day prior to the Fund investing. Whilst this was comfortably within the estimated implicit costs set out in advance of trading and beneficial for the Fund, this highlights the potential risks associated with asset transitions and reinforces the requirement for robust governance during implementation.

Next steps

After the completion of the above transitions, the Fund has a number of future actions to continue the progression of the investment strategy implementation:

- Monitor the Fund's asset allocation on a quarterly basis to ensure it remains in line with target
- Continue the funding of the Renewable Infrastructure and Private Credit mandates from the remaining overweight positions in the BlackRock World Equity fund and Invesco DGF
- Continue to keep abreast of the London CIV's future fund launches for:
    - A suitable replacement for the BMO bonds assets so that Phase 2 of the transition plan can be implemented
    - Property solutions that are suitable for the Fund. The London CIV plan to begin work on a potential property solution in 2022
    - The LCIV's Passive Equity Progressive Paris Aligned ("PEPPA") fund. This is an ESG and low carbon-focussed passive equity fund that may be a suitable replacement for the Fund's BlackRock Low Carbon Fund. This is planned to launch before the end of the year and should be considered by the Fund.

We look forward to discussing this paper with the Committee at the 23 November meeting.

Prepared by:-

Andrew Johnston, Partner

Iain Campbell, Investment Consultant

For and on behalf of Hymans Robertson LLP