London Borough of Hackney Pension Fund

Q3 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 absolute return of 1.4%, slightly outperforming its benchmark.

Growth assets performed strongly as the success of the vaccine rollout and economic recovery continued.

Credit spreads were little changed over the quarter and continue to trade in a tight range. The Fund's fixed income mandate delivered relatively flat returns.

UK headline CPI inflation rose to 2.8% year-on-year in September and continued to rise to 4.2% in October. Although these recent numbers have exceeded expectations, most forecasters expect the inflationary spike to prove temporary, and pressures to ease in 2022.

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.

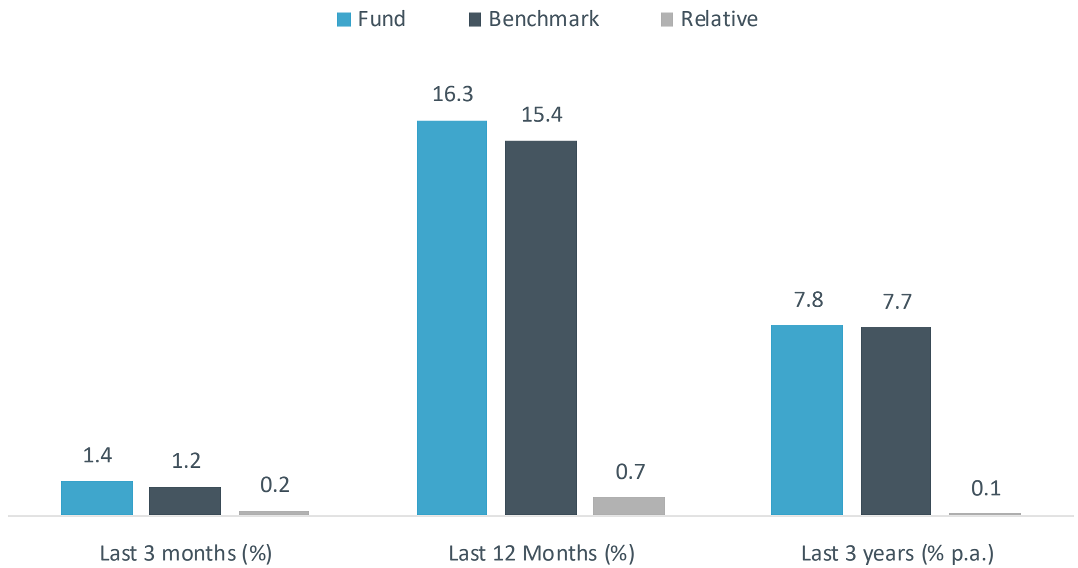
Income

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%	64.8%	2.8%
Income	15.4%	16.4%	-1.0%
Protection	16.9%	18.8%	-1.9%

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.

Towards the end of the quarter the Fund began implementation of its Phase 1 strategy transition by switching a number of Growth mandates to strategies within the LCIV. In summary this included:

- A full redemption of the BlackRock UK Equity and a partial redemption from the BR World Equity to subscribe to LCIV's Global Alpha Growth Paris Aligned mandate.
- Full redemption of RBC Emerging Market to LCIV Emerging Market.

Shortly after the quarter end the following transitions were also completed:

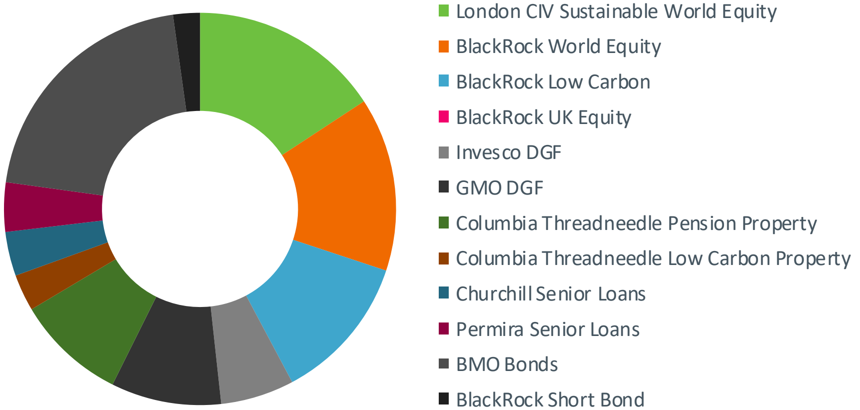
- Full redemption from GMO DGF and partial redemption from the BlackRock Short Bond to the LCIV DGF

As at the end of the quarter the Fund also has a c£6.8m investment to the LCIV Renewables Infrastructure mandate in transit, which is not included in this asset allocation analysis.

Asset allocation

Mandate	Active/Passive	Valuation (£m)		Actual Proportion	Benchmark	Relative
		Q2 2021	Q3 2021			
London CIV Sustainable World Equity	Active	316.3	324.7	17.3%	13.0%	4.3%
LCIV Global Alpha Growth Paris Aligned Fund	Active	0.0	246.1	13.1%	13.0%	0.1%
BlackRock World Equity	Passive	334.5	214.8	11.4%	11.8%	-0.4%
BlackRock Low Carbon	Passive	223.4	232.1	12.3%	10.0%	2.3%
BlackRock UK Equity	Passive	161.5	0.0	0.0%	0.0%	0.0%
LCIV Emerging Market Equity Fund	Active	0.0	85.0	4.5%	4.5%	0.0%
RBC Emerging Market	Active	100.6	0.0	0.0%	0.0%	0.0%
Invesco DGF	Active	66.8	67.3	3.6%	5.0%	-1.4%
GMO DGF	Active	104.9	102.8	5.5%	7.5%	-2.0%
Total Growth		**1,308.0**	**1,272.8**	**67.7%**	**64.8%**	**2.8%**
Columbia Threadneedle Pension Property	Active	138.3	144.8	7.7%	7.5%	0.2%
Columbia Threadneedle Low Carbon Property	Active	24.9	25.3	1.3%	2.5%	-1.2%
Churchill Senior Loans	Active	55.2	56.5	3.0%	3.0%	0.0%
Permira Senior Loans	Active	46.1	63.0	3.3%	3.3%	0.0%
Total Income		**264.6**	**289.5**	**15.4%**	**16.4%**	**-1.0%**
BMO Bonds	Active	269.2	268.5	14.3%	17.0%	-2.7%
BlackRock Short Bond	Passive	53.5	50.0	2.7%	1.8%	0.8%
Total Protection		**322.7**	**318.5**	**16.9%**	**18.8%**	**-1.9%**
Total Scheme		**1,895.3**	**1,880.9**	**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 September 2021 has been as follows:
    - 3m: +2.5%
    - 6m: +2.3%
    - 12m: -4.1%

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	2.6	2.5	0.2	3.0	-0.3	25.3	23.5	1.5	25.5	-0.2	16.0	11.9	3.7	n/a	n/a
BlackRock World Equity	0.7	0.6	0.1	0.6	0.1	28.8	28.4	0.4	28.4	0.4	11.9	11.7	0.2	n/a	n/a
BlackRock Low Carbon	3.9	3.8	0.1	3.8	0.1	24.6	24.1	0.3	24.1	0.3	12.9	12.6	0.3	n/a	n/a
BlackRock UK Equity*	2.2	2.2	0.0	2.2	0.0	28.0	27.9	0.1	27.9	0.1	3.2	3.1	0.1	n/a	n/a
RBC Emerging Market**	-5.0	-6.3	1.5	n/a	n/a	18.2	12.7	4.8	n/a	n/a	7.7	7.2	0.5	n/a	n/a
Invesco DGF	0.6	0.0	0.6	1.3	-0.7	1.0	-0.9	1.9	4.1	-3.0	-0.2	0.1	-0.3	5.1	-5.0
GMO DGF	-2.0	0.7	-2.7	1.9	-3.9	8.3	4.0	4.1	9.0	-0.7	1.4	2.1	-0.7	7.1	-5.3
Income															
Columbia Threadneedle Pension Property	4.4	4.5	-0.1	4.8	-0.3	12.6	13.2	-0.5	14.2	-1.4	3.7	4.0	-0.3	5.0	-1.2
Columbia Threadneedle Low Carbon Property	1.6	1.5	0.1	1.8	-0.2	3.3	2.9	0.4	3.9	-0.6	2.1	-2.6	4.8	-1.6	3.8
Churchill Senior Loans	3.7	1.0	2.7	1.6	2.1	2.4	4.1	-1.6	6.3	-3.6	n/a	n/a	n/a	n/a	n/a
Permira Senior Loans	1.9	1.0	0.8	1.8	0.1	5.9	4.9	1.7	7.0	-1.0	n/a	n/a	n/a	n/a	n/a
Protection															
BMO Bonds	-0.3	-0.5	0.2	-0.2	-0.1	-1.6	-2.7	1.1	-1.7	0.1	5.3	4.5	0.7	5.5	-0.2
BlackRock Short Bond	0.0	0.0	0.1	0.0	0.1	0.3	-0.1	0.4	0.9	-0.6	n/a	n/a	n/a	n/a	n/a
Total	1.4	1.2	0.2			16.3	15.4	0.7			7.8	7.7	0.1		

*Please note: The BlackRock UK Equity and RBC Emerging Market mandates were fully divested on the 27 September 2021. *The return shown for the BlackRock UK is as at the 30 September 2021 **The return shown for the RBC Emerging Market is at 27 September*

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.

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

BlackRock Short Dated Bond
BlackRock announced that from 26th November 2021 the Fund benchmark will change from 3 Month LIBID to 3 Month SONIA compounded in arrears, in preparation for the cessation of LIBOR

Invesco GTR
Our research team have downgraded the Invesco GTR mandate from "Suitable" to "Negative" as a result of ongoing underperformance, multiple team changes and concerns that the funds AUM will continue to deplete. The Fund is due to fully switch from this mandate to LCIV DGF as per the agreed strategy plan.

BMO/Columbia Threadneedle
Columbia Threadneedle's acquisition of BMO's EMEA asset management business is expected to complete in the fourth quarter of this year. Columbia Threadneedle announced that Richard Watts, Stewart Bennett and David Logan will be appointed to the expanded leadership team following the completion.

Manager ratings

Mandate	Mandate	Date Appointed	Benchmark Description	Hymans Rating	RI
LCIV Sustainable	World Equity	Jun-18	MSCI World Index Total Return +2%	Not Rated	Strong
LCIV Paris Aligned	World Equity	Sep-21	MSCI All Country World Gross Index (in GBP)	Preferred	Good
BlackRock	World Equity	Jun-18	MSCI World Net Total Return 95% hedged	Preferred	Adequate/Good
BlackRock LC	Low Carbon	Jun-18	MSCI World Low Carbon Index	Preferred	Adequate
BlackRock UK	UK Equity	Jun-18	FTSE All-Share	Preferred	Adequate
LCIV EM	Emerging Markets	Sep-21	MSCI Emerging Market Index (TR) Net	Suitable	Adequate
RBC	Emerging Markets	Dec-15	MSCI Emerging Markets	Preferred	Strong
Invesco	DGF	Dec-15	LIBOR 3m + 5%	Negative	Adequate
GMO	DGF	Sep-12	OECD CPI G7 (GBP) + 5%	Positive	Weak
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	Good
BlackRock SDB	Bonds	Feb-19	3m GBP LIBID	Positive	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

Market Background

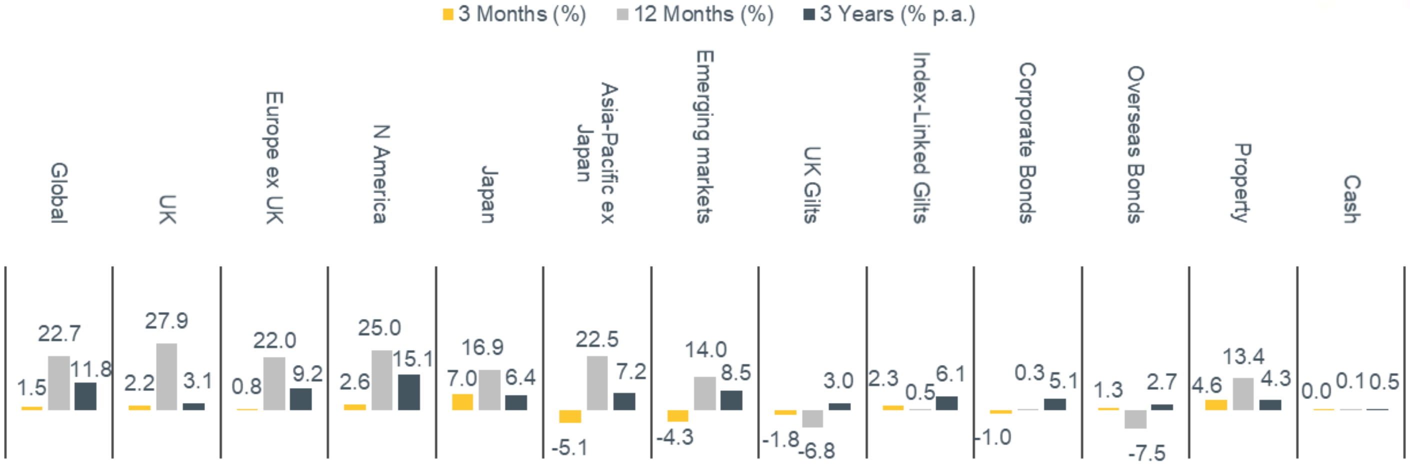
Growth momentum continued to ease as the initial impact of re-opening late last year fades. However, the pace of growth in the major advanced economies is forecast to remain strong over the next couple of years, with consensus forecasts global growth of 5.7% in 2021 and 4.4% in 2022.

Global equities gave up earlier gains as strong earnings growth was offset by easing economic momentum and the prospect of fading monetary support. Strong rises in energy prices lifted the energy sector, while the prospect of higher interest rates buoyed the financial sector. The defensive growth characteristics of the technology and healthcare sectors saw them outperform, while consumer discretionary, basic materials and industrials all underperformed in Q3.

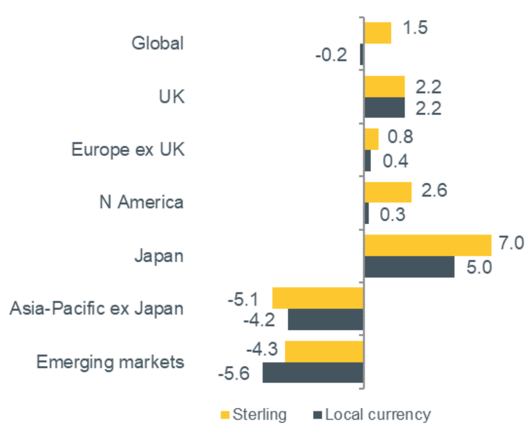
Japanese markets materially outperformed, rallying on expectations of further stimulus and economic reopening as COVID cases declined. UK markets also outperformed, driven primarily by their above average exposure to the energy sector, while emerging markets were pulled lower by weak performance from China, where announcements of tighter regulation have been compounded by a slowdown in the Chinese property and manufacturing sectors, and high energy prices

The total return on the MSCI Monthly Property index was 13.4% in the year to September, which includes a 5.5% income return. A 7.5% rise in capital values over the 12 months to end of September is attributable to buoyant industrial sector where capital values have risen 24%.

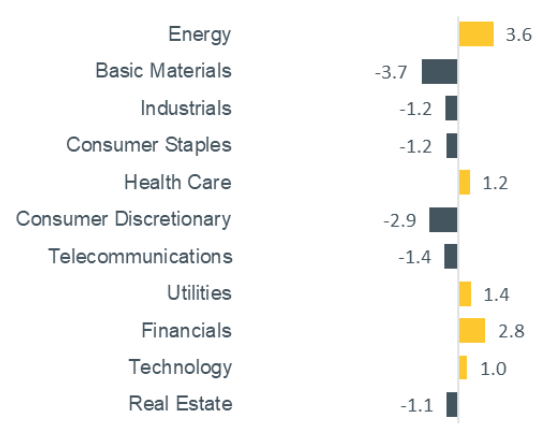
Historic returns for world markets [1]



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.

Market Background

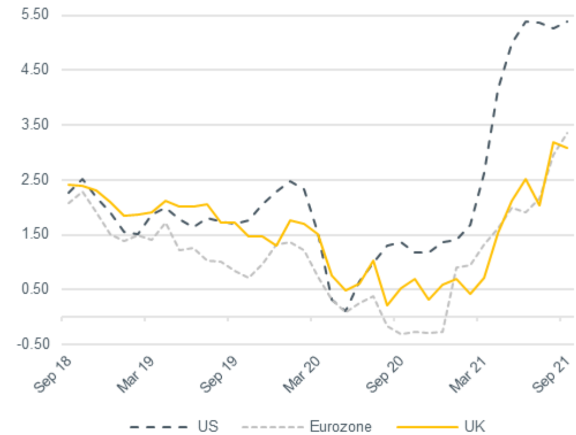
Global investment-grade spreads were little changed in Q3 and global developed market speculative-grade spreads rose 0.3% p.a. Defaults and leverage levels continue to fall, interest coverage is rising, and liquidity remains plentiful. Fears surrounding the potential default of Evergrande, a heavily indebted Chinese property developer, seem to have been contained within Chinese and Asian credit markets for now.

UK 10-year gilt yields rose 0.3% p.a., with steep rises coming in the wake of the Bank of England's September meeting. Having fallen earlier in the quarter, on the back of easing economic momentum, equivalent US and German yields rose back to end-June levels in September.

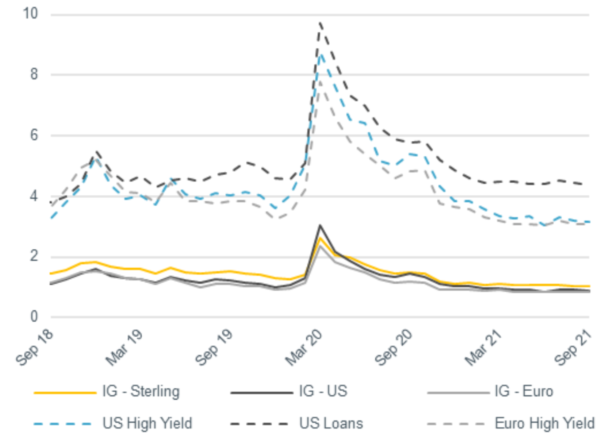
UK 10-year implied inflation, as measured by the difference between conventional and inflation-linked bonds of the same maturity, rose from 3.5% p.a. to 3.9% p.a. as real yields fell and nominal yields rose. 10-year US implied inflation was little changed over Q3.

The trade-weighted dollar has risen around 1.5% while equivalent measures for the sterling and euro eased 0.9% and 0.4% respectively.

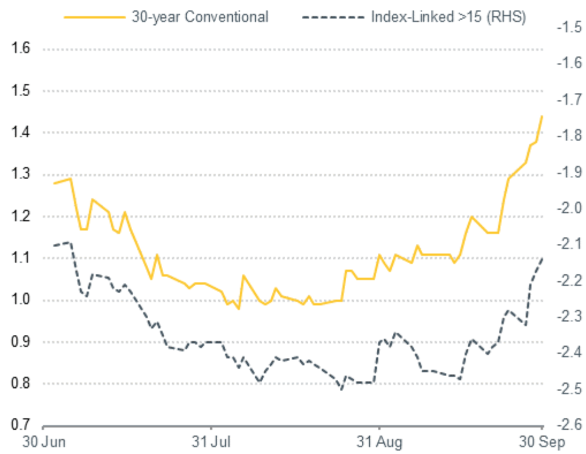
Annual CPI Inflation (% p.a.)



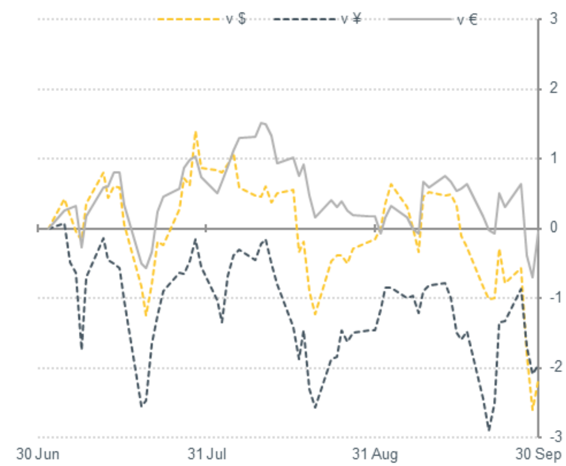
Investment and speculative grade credit spreads (% p.a.)



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.