

London Borough of Hackney Pension Fund

Q4 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 with an absolute return of 4.2%, slightly underperforming its benchmark.

Growth assets performed well over the quarter as strong corporate profits and economic resilience offset worries over the new Omicron variant

In bond markets, government bonds outperformed corporate bonds. Markets were impacted over Q4 by persistent, elevated inflation, hawkish central bank policy shifts and the emergence of the Omicron Covid-19 variant.

UK headline CPI inflation rose to 5.1% year-on-year in November although most forecasters expect the inflationary spike to prove temporary, and pressures to ease in 2022.

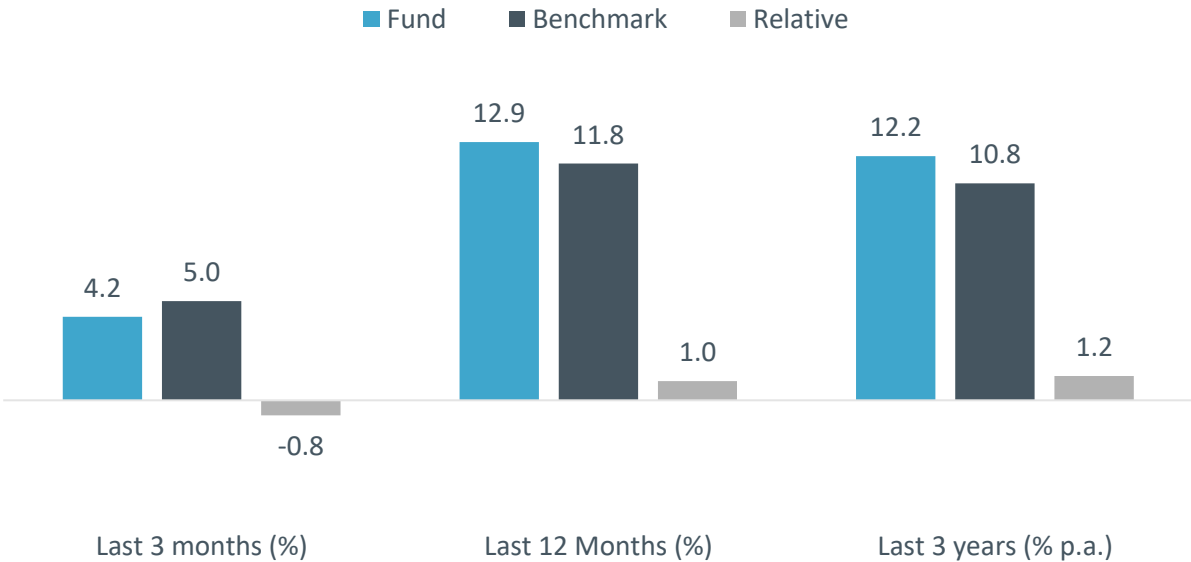
Definitions

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	63.8%	58.0%	5.8%
Income	16.5%	21.2%	-4.6%
Protection	19.7%	20.8%	-1.1%

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.

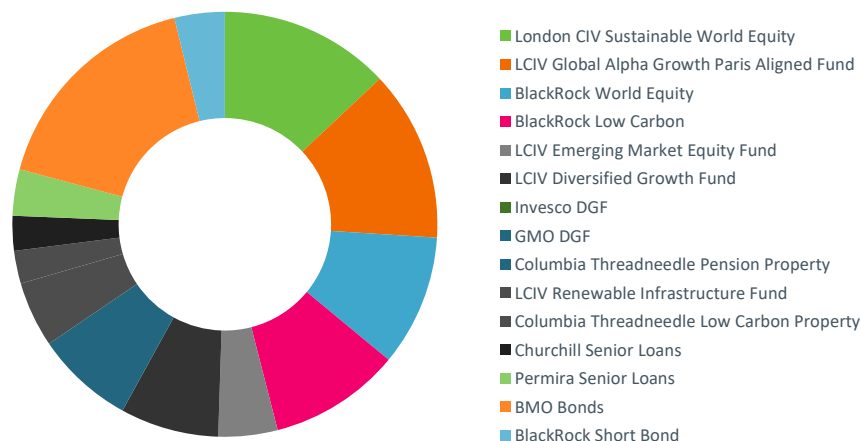
Towards the end of the quarter the Fund accelerated its planned disinvestment from the Invesco GTR mandate following a downgrade in the mandate's overall rating. The proceed were invested in the LCIV Diversified Growth Fund.

Over the reporting period the LCIV Renewable Infrastructure mandate began drawing investment capital from the Fund. Further capital call will be made in the future to meet the Fund's long term asset allocation to the mandate.

Asset allocation

Mandate	Active/Passive	Valuation (£m)		Actual Proportion	Benchmark	Relative
		Q3 2021	Q4 2021			
London CIV Sustainable World Equity	Active	324.7	346.1	17.5%	13.0%	4.5%
LCIV Global Alpha Growth Paris Aligned Fund	Active	246.1	245.6	12.4%	13.0%	-0.6%
BlackRock World Equity	Passive	214.8	188.7	9.6%	10.0%	-0.4%
BlackRock Low Carbon	Passive	232.1	248.0	12.6%	10.0%	2.6%
LCIV Emerging Market Equity Fund	Active	85.0	81.4	4.1%	4.5%	-0.4%
LCIV Diversified Growth Fund	Active	0.0	149.8	7.6%	7.5%	0.1%
Invesco DGF	Active	67.3	0.0	0.0%	0.0%	0.0%
GMO DGF	Active	102.8	0.0	0.0%	0.0%	0.0%
Total Growth		1,272.8	1,259.6	63.8%	58.0%	5.8%
LCIV Renewable Infrastructure Fund	Active	0.0	23.2	1.2%	5.0%	-3.8%
Columbia Threadneedle Pension Property	Active	144.8	156.5	7.9%	7.5%	0.4%
Columbia Threadneedle Low Carbon Property	Active	25.3	25.0	1.3%	2.5%	-1.2%
Churchill Senior Loans	Active	56.5	52.2	2.6%	2.6%	0.0%
Permira Senior Loans	Active	64.0	69.8	3.5%	3.5%	0.0%
Total Income		290.5	326.6	16.5%	21.2%	-4.6%
BMO Bonds	Active	268.5	274.2	13.9%	17.0%	-3.1%
BlackRock Short Bond	Passive	50.0	114.5	5.8%	3.8%	2.0%
Total Protection		318.5	388.8	19.7%	20.8%	-1.1%
Total Scheme		1,881.9	1,975.0	100%	100%	0%

Asset class exposures



Manager Performance

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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	6.6	7.8	-1.2	8.3	-1.6	19.3	23.6	-3.4	25.6	-5.0	23.6	19.4	3.5	-	-
LCIV Global Alpha Growth Paris Aligned Fund	-0.2	6.2	-6.0	6.7	-6.4	n/a	n/a	n/a	0.0	n/a	n/a	n/a	n/a	-	-
LCIV Emerging Market Equity Fund	-4.4	-1.1	-3.3	-1.1	-3.3	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-	-
BlackRock World Equity	7.9	7.9	0.1	7.9	0.1	24.3	23.9	0.4	23.9	0.4	20.4	20.2	0.2	-	-
BlackRock Low Carbon	6.8	6.7	0.1	6.7	0.1	23.5	23.1	0.3	23.1	0.3	20.4	20.1	0.3	-	-
LCIV Diversified Growth Fund**	4.7	0.9	3.8	0.9	3.8	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	-	-
Invesco DGF*	-0.3	0.0	-0.3	1.3	-1.5	-0.6	-0.9	0.3	4.1	-4.5	0.7	0.1	0.6	5.1	-4.2
Income															
Columbia Threadneedle Pension Property	9.1	7.5	1.5	7.8	1.3	21.4	19.2	1.9	20.2	1.0	6.5	6.2	0.2	7.2	-0.7
Columbia Threadneedle Low Carbon Property	1.1	8.1	-6.5	8.4	-6.7	4.0	12.1	-7.3	13.1	-8.1	2.2	-0.3	2.5	0.7	1.5
Churchill Senior Loans	0.8	1.7	-0.9	1.6	-0.7	7.2	4.8	2.2	6.3	0.9	n/a	n/a	-	-	-
Permira Senior Loans	0.0	1.0	-1.0	1.8	-1.7	5.5	4.1	1.3	7.0	-1.4	n/a	n/a	-	-	-
Protection															
BMO Bonds	2.1	2.5	-0.3	2.7	-0.6	-1.9	-2.0	0.1	-1.0	-1.0	5.7	4.9	0.7	5.9	-0.2
BlackRock Short Bond	0.0	0.0	0.0	0.0	0.0	0.2	-0.1	0.2	0.9	-0.7	n/a	-	-	-	-
Total	4.2	5.0	-0.8			12.9	11.8	1.0			12.2	10.8	1.2		

Please note: *The Invesco DGF mandate was fully divested over the reporting period. The returns quoted for the Invesco mandate have been approximated as at the 13 December 2021 (the date of disinvestment). **The proceeds from Invesco were switched to the LCIV DGF therefore the performance provided is as at inception to end of quarter.

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 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 its 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 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 31 December 2021 has been as follows:
 - 3m: +0.45%
 - 6m: -1.95%
 - 12m: -0.91%

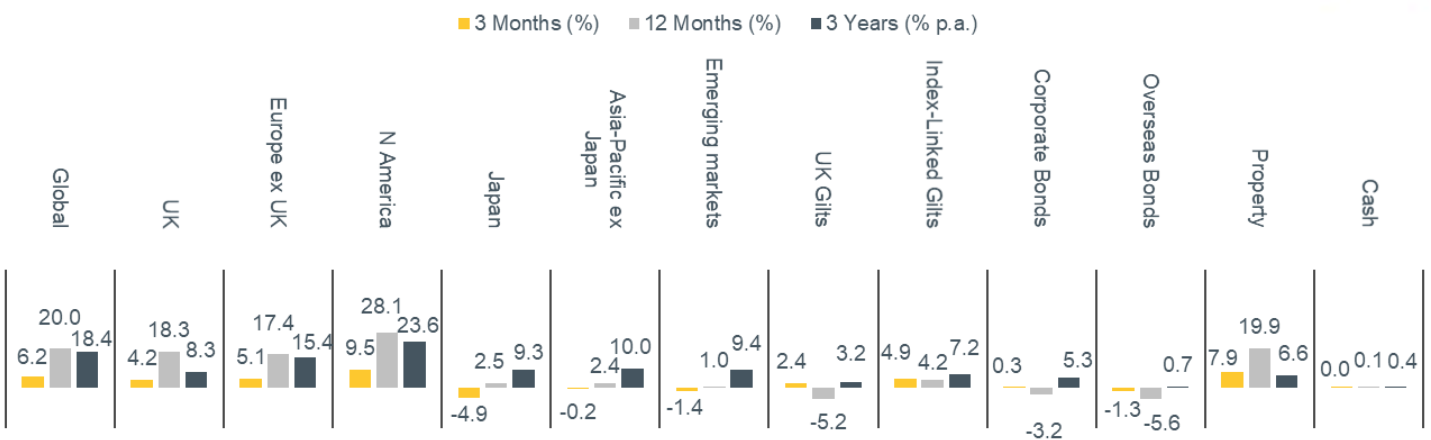
Economic momentum has slowed as rising COVID cases have led to a modest re-imposition of restrictions and increasing social distancing. This is expected to weigh on growth in Q4 2021 and Q1 2022, but we still anticipate above-trend growth in 2022.

There are signs that the strain on supply chains is easing, though the overall rate of price increases remains high. UK headline CPI inflation rose to 5.1% year-on-year in November whilst the equivalent US and eurozone measures rose to 6.8% and 4.9% respectively. In response, the Federal Open Markets Committee (FOMC) announced plans to accelerate the tapering of asset purchases, with the median FOMC member forecasting three rate hikes next year. The Bank of England raised rates to 0.25% p.a., with further rate hikes expected in 2022.

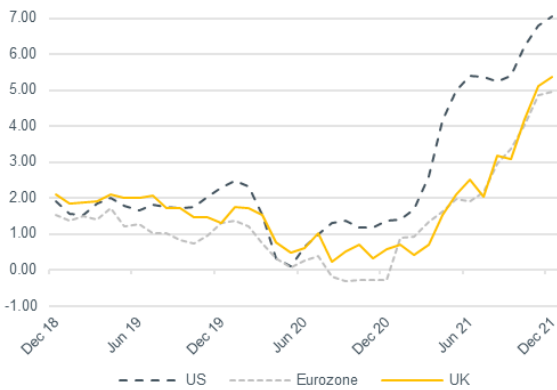
Trade-weighted sterling rose 1.7% through the quarter as markets adjusted for the earlier than expected rate rises. The US dollar rose 0.6% in trade-weighted terms, perhaps reflecting both safe haven appeal and slightly more hawkish messaging from the Federal Reserve.

US and UK bond yield curves flattened with short-term yields rising to reflect expectations of further interest rate hikes. Long-term yields remained largely unchanged. UK 10-year implied inflation, as measured by the difference between conventional and inflation-linked bonds of the same maturity, ended the quarter a little higher at 3.9% p.a. whilst longer term implied inflation fell. US 10-year implied inflation rose 0.2% p.a. to 2.6% p.a.

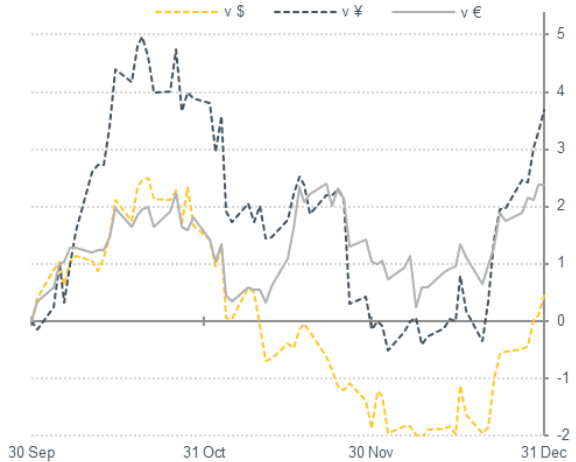
Historic returns for world markets [1]



Annual CPI Inflation (% p.a.)



Sterling trend chart (% change)



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.

Market Background

Global investment-grade spreads increased by 0.1% p.a. to 1.0% p.a., whilst speculative-grade spreads ended the quarter broadly in line with end-September levels at 3.7% p.a.

Despite falling in November over Omicron variant concerns, global equities produced a total return of 7.0% in Q4, propelled higher by strong earnings growth. Sterling strength weighed on returns to unhedged UK investors delivering a 6.2% return in sterling terms. All sectors produced positive returns except telecoms, on an absolute basis. Outside telecoms, energy and financials were the main underperformers, weighed on by demand expectations and flatter yield curves, respectively. Technology was the notable outperformer, bolstered by strong earnings releases and the prospect of further lockdowns spurring demand for tech.

North America posted double digit returns on the back of tech outperformance. Japan, which reintroduced strict border restrictions shortly after the Omicron variant was made public, is at the bottom of the regional performance rankings over the quarter. Asian and emerging markets also continued their underperformance versus developed markets.

UK Monthly Property capital value index rose 13.9% over the 12 months to end December due to a buoyant industrial sector, where capital values have risen 32.5%. Retail capital values have risen by 6.9% over 12 months. There has been a flattening of the declines experienced in the office sector, delivering marginally positive capital growth of 0.1% over 2021. Total return on the index, including income, was 19.9% in the 12 months to end December.

Dashboard

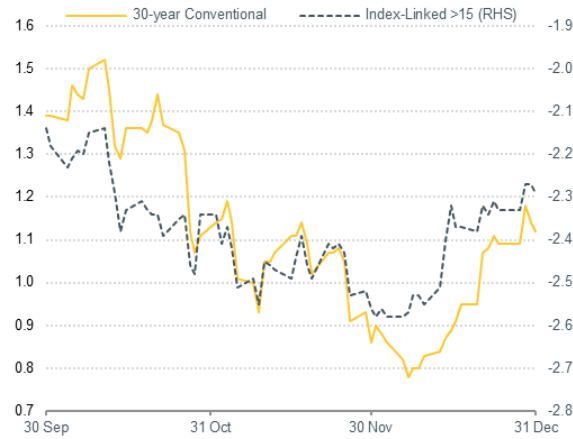
Strategy/Risk

Performance

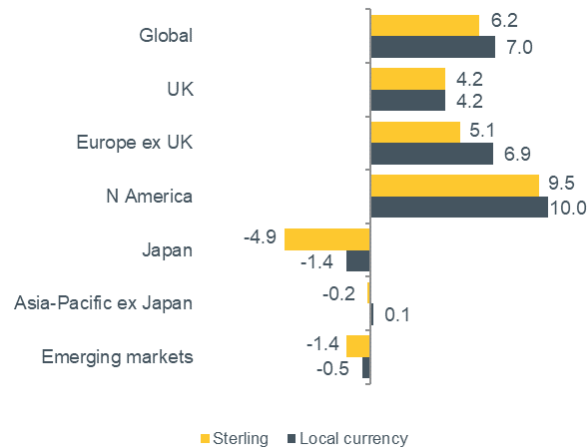
Background

Appendix

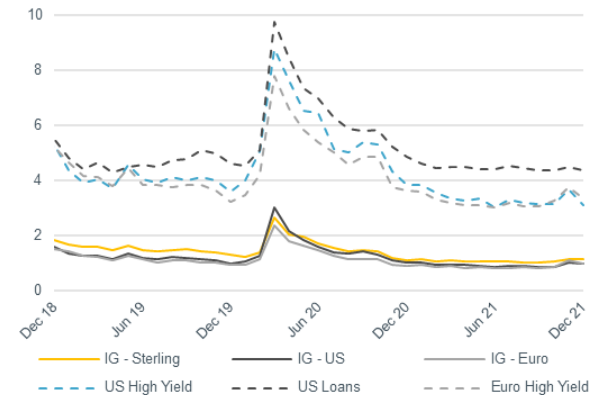
Gilt yields chart (% p.a.)



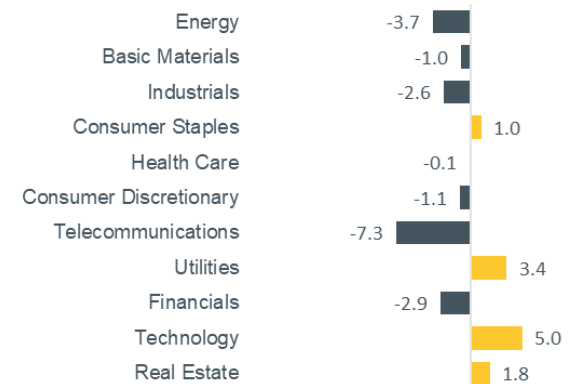
Regional equity returns ^[1]



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



Global equity sector returns (%) ^[2]



Source: DataStream, Barings, ICE ^[1] FTSE All World Indices. Commentary compares regional equity returns in local currency. ^[2] Returns shown in Sterling terms and relative to FTSE All World. FTSE indices migrated to a new ICB structure in Q1 2021.

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.

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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.