London Borough of Hackney Pension Fund

Q1 2022 Investment Monitoring Report

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HYMANS ROBERTSON

Dashboard

Executive Summary

The objective of this page is to set out some key metrics on the Fund.

The Fund generated negative returns over the quarter with an absolute return of -4.3%, underperforming its benchmark by 2.4%.

Concerns about central bank tightening, slowing earnings momentum, and the geopolitical situation all contributed to global equities falling 2.4% in Q1.

In bond markets, Sovereign bond yields rose significantly to reflect increased rate rise expectations. Credit spreads widened, as rising input and living costs, alongside less accommodative central bank messaging, weighed on the outlook.

Inflation forecasts reached new highs in March, reflecting the expected stagflationary impact of the commodity price shock emanating from the Russia-Ukraine conflict.

Definitions

Growth

Growth assets are designed to provide returns 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.

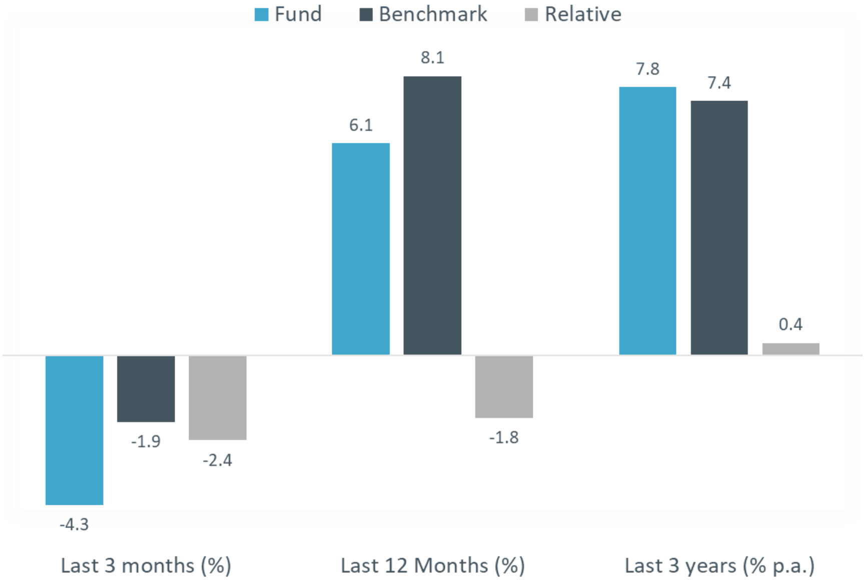
Income

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	62.9%	58.0%	4.9%
Income	18.3%	21.9%	-3.6%
Protection	18.8%	20.1%	-1.2%

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.

The LCIV Renewable Infrastructure mandate and the LCIV Private Debt mandate valuations as at 31 March 2022 have been provided using the custodian valuation statement.

Asset allocation

Mandate	Active/Passive	Valuation (£m) Q4 2021	Valuation (£m) Q1 2022	Actual Proportion	Benchmark	Relative
London CIV Sustainable World Equity	Active	346.1	316.6	16.4%	13.0%	3.4%
LCIV Global Alpha Growth Paris Aligned Fund	Active	245.6	211.8	11.0%	13.0%	-2.0%
BlackRock World Equity	Passive	188.7	180.6	9.3%	8.1%	1.2%
BlackRock Low Carbon	Passive	248.0	241.5	12.5%	10.0%	2.5%
LCIV Emerging Market Equity Fund	Active	81.4	76.4	4.0%	4.5%	-0.5%
LCIV Diversified Growth Fund	Active	149.8	140.7	7.3%	7.5%	-0.2%
Total Growth		**1,259.6**	**1,167.7**	**60.4%**	**56.1%**	**4.3%**
LCIV Renewable Infrastructure Fund	Active	23.2	24.9	1.3%	5.0%	-3.7%
Columbia Threadneedle Pension Property	Active	156.5	163.1	8.4%	7.5%	0.9%
Columbia Threadneedle Low Carbon Property	Active	25.0	24.7	1.3%	2.5%	-1.2%
Churchill Senior Loans	Active	52.2	58.4	3.0%	3.0%	0.0%
Permira Senior Loans	Active	69.8	70.0	3.6%	3.6%	0.0%
LCIV Private Debt	Active	51.8	73.2	3.8%	3.8%	0.0%
Total Income		**378.4**	**414.3**	**21.4%**	**25.4%**	**-4.0%**
BMO Bonds	Active	274.2	256.2	13.3%	17.0%	-3.7%
BlackRock Short Bond	Passive	114.5	93.5	4.8%	1.5%	3.4%
Total Protection		**388.8**	**349.7**	**18.1%**	**18.5%**	**-0.4%**
Total Scheme		**2,026.8**	**1,931.7**	**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
- Performance figures for the LCIV Renewable Infrastructure mandate are not yet available.
- 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, with recent volatility impacting returns experienced by the Fund.
- Performance of USD to GBP as at 31 March 2022 has been as follows:
  - 3m: 2.9%
  - 6m: 2.4%
  - 12m: 5.0%

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	-8.5	-2.4	-6.2	-1.9	-6.7	9.0	16.0	-6.0	18.0	-7.6	15.1	14.8	0.3	18.2	-2.7
LCIV Global Alpha Growth Paris Aligned Fund	-13.7	-2.4	-11.6	-1.9	-12.0	-	-	-	-	-	-	-	-	-	-
LCIV Emerging Market Equity Fund	-6.1	-4.3	-1.9	-4.3	-1.9	-	-	-	-	-	-	-	-	-	-
BlackRock World Equity	-4.3	-4.4	0.2	-4.4	0.2	12.1	11.7	0.4	23.9	-9.5	14.2	14.0	0.2	11.7	2.2
BlackRock Low Carbon	-2.5	-2.6	0.1	-2.6	0.1	16.1	15.7	0.3	23.1	-5.7	15.8	15.4	0.4	15.7	0.1
LCIV Diversified Growth Fund	-6.1	1.0	-7.0	1.0	-7.0	-	-	-	-	-	-	-	-	-	-
Income															
Columbia Threadneedle Pension Property	4.1	5.6	-1.4	5.9	-1.7	23.7	23.1	0.4	24.1	-0.4	7.7	8.1	-0.3	9.1	-1.2
Columbia Threadneedle Low Carbon Property	-0.2	1.7	-1.9	2.0	-2.1	3.7	13.4	-8.6	14.4	-9.4	2.1	0.2	2.0	1.2	1.0
Churchill Senior Loans	1.5	2.9	-1.4	1.6	-0.1	7.5	6.8	0.7	6.3	1.2	2.5	5.3	-2.7	6.4	-3.7
Permira Senior Loans	10.7	1.1	9.5	1.8	8.8	15.1	4.2	10.4	7.0	7.6	-	-	n/a	7.2	-
Protection															
BMO Bonds	-6.6	-6.6	0.0	-6.4	-0.3	-2.7	-2.6	-0.1	-1.6	-1.1	1.8	1.1	0.7	2.1	-0.3
BlackRock Short Bond	-0.1	0.1	-0.2	0.1	-0.2	0.0	0.1	0.0	0.9	-0.9	0.5	0.3	0.2	1.0	-0.5
Total	-4.3	-1.9	-2.4			6.1	8.1	-1.8			7.8	7.4	0.4		

Source: Fund performance provided by Investment Managers and is net of fees except for the BlackRock, Permira, BMO and the Low Carbon Property funds which are gross of fees. Benchmark performance provided by Investment Managers ,DataStream and Bloomberg.

- *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 has not provided performance figures for their Fund as the fund is 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 this fund has sufficient track records.*
- *Please also note that we have reported the Permira & Churchill 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.

Hymans research team have assigned a rating of 'suitable' for the LCIV Sustainable Equity mandate and the LCIV Renewable Infrastructure mandate. These were previously not rated by our research team.

Manager ratings

Mandate	Mandate	Date Appointed	Benchmark Description	Hymans Rating	RI
LCIV Sustainable	World Equity	Jun-18	MSCI World Index Total Return +2%	Suitable	Strong
LCIV Paris Aligned	World Equity	Sep-21	MSCI All Country World Gross Index (in GBP) + 2-3%	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 +2.5%	Suitable	Adequate
LCIV DGF	DGF	Oct-21	Sonia +3.5%	Preferred	Good
LCIV Renewable Infrastructure	Infrastructure	Sep-21	IRR of 7-10% in local currency terms (net of fees), with a target yield of 3-5% p.a.	Suitable	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
LCIV Private Debt	Private Debt	Mar-21	Target return of 6-8% p.a.	Suitable	Not Rated
BMO	Bonds	Sep-03	Bond Composite + 1%	Positive	Good
BlackRock SDB	Bonds	Feb-19	3m GBP LIBID	Positive	Good

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.

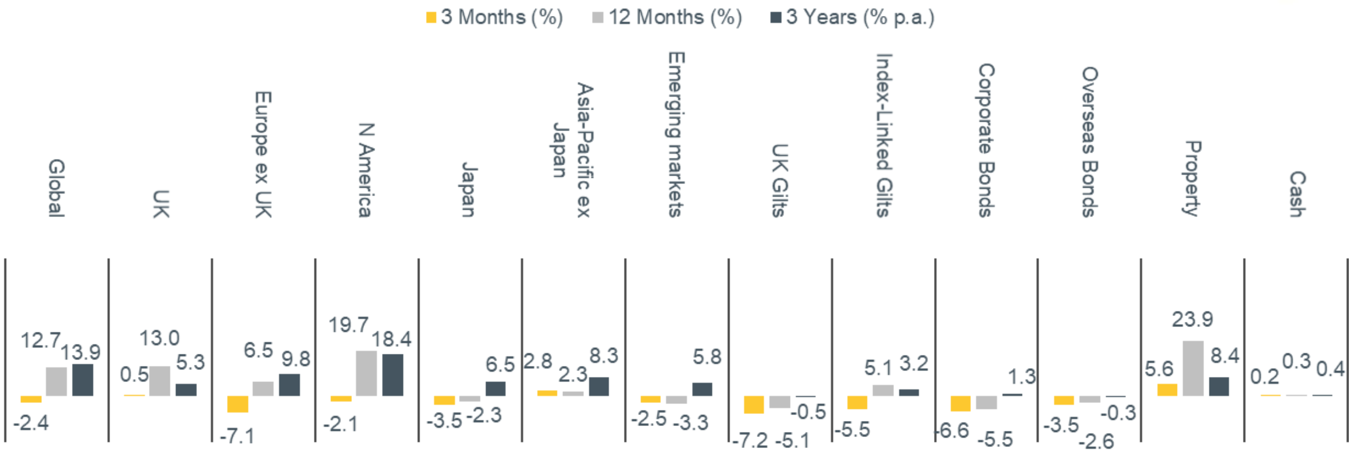
Source: Investment Managers

Physical disruptions and sanctions caused by the Russia-Ukraine conflict have triggered broad commodity price rises which, alongside existing inflationary pressures, are increasing input costs and weighing on consumer's real incomes. As a result, CPI forecasts have reached new highs while consensus forecasts for global growth have been revised downwards, but still point to a relatively robust pace of growth over 2022 and 2023 by post-Global Financial Crisis standards.

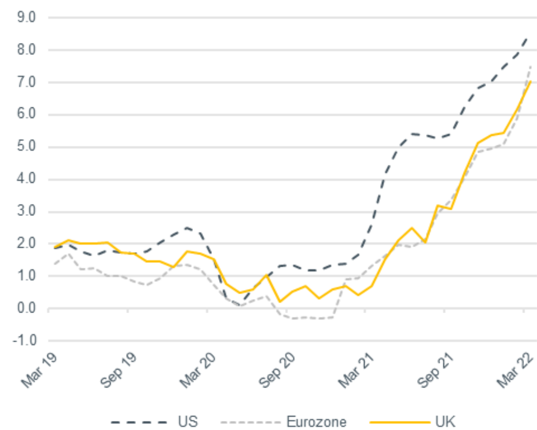
The inflation backdrop has seen central banks turn more hawkish this year, despite the potential downside risks to growth from higher commodity prices. After a first hike in December, the Bank of England raised rates twice in Q1, to 0.75% p.a., and, as expected, the US Federal Reserve raised rates by 0.25% p.a. in March, with the median voting member now expecting seven rate rises in 2022 and four in 2023. The European Central Bank confirmed its asset purchases will end this year, leaving the door open to an interest rate rise, while the Fed noted plans to reduce the size of its balance sheet.

Global sovereign bond yields rose significantly to reflect increased rate rise expectations with UK 10-year gilt yields rising 0.7% p.a., to 1.6% p.a. UK 10-year implied inflation, as measured by the difference between conventional and inflation-linked bonds of the same maturity, rose 0.5% p.a., to 4.4% p.a., as real yields rose to a lesser extent then their nominal counterparts.

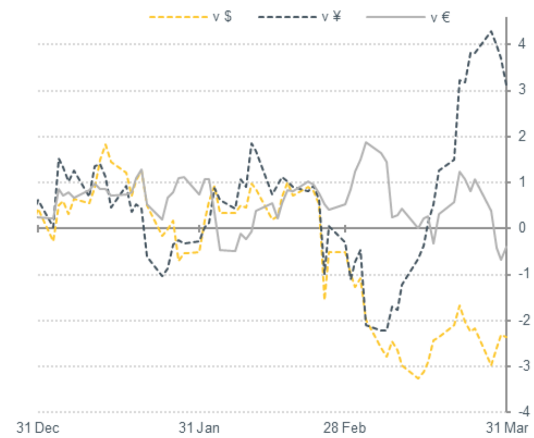
Historic returns for world markets [1]



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 0.3% p.a., while US and European speculative-grade spreads increased 0.3% p.a. and 0.7% p.a., respectively. Larger increases in European spreads perhaps allude to the greater exposure of European corporates and consumers to higher energy prices.

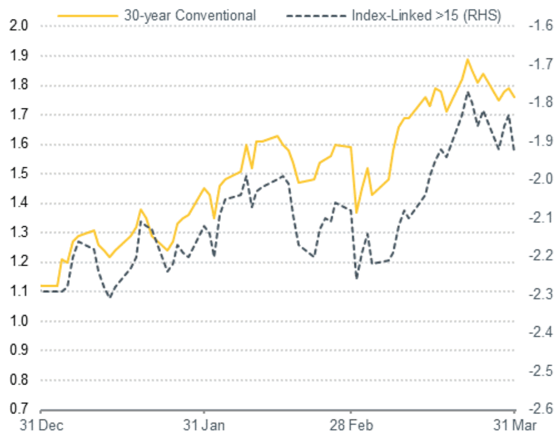
Commodity prices surged to extreme levels and faster expected monetary tightening in the US contributed to a rally in the dollar, whilst safe-haven appeal drove gold prices higher.

Concerns about central bank tightening, slowing earnings momentum, and the geopolitical situation have all contributed to global equities falling 2.4% this year, despite a bounce back in March. Value stocks notably outperformed growth stocks as rising yields weighed most heavily on the valuations of stocks with earnings growth further in the future, such as those in the technology sector. The consumer discretionary sector also underperformed as markets considered the impact of inflation on real consumer incomes. Surging oil and gas prices sees the energy sector lead the year-to-date performance rankings.

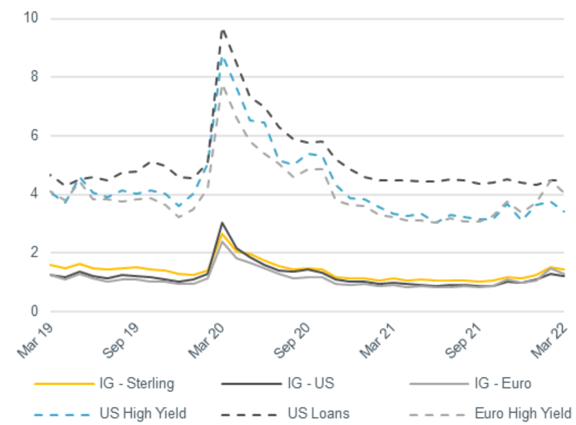
The UK AND Asia – Pacific ex Japan were the only regions to deliver a positive return, benefiting from above-average exposure to energy, metals, and miners. Europe fell to the bottom of the performance rankings, whilst Emerging Markets fell further as new COVID-19 lockdowns and broader geopolitical concerns weighed on Chinese markets.

A 18.0% rise in the MSCI UK AREF capital value index over the 12 months to the end of March is largely attributable to a 36.8% rise in industrial capital values. Return on the All-Property Index, including income, was 23.9% in the 12 months to end-March.

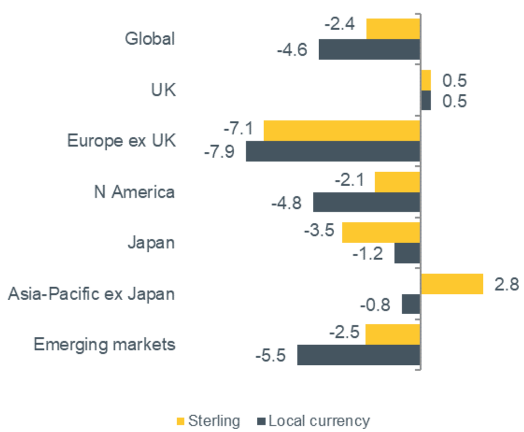
Gilt yields chart (% p.a.)



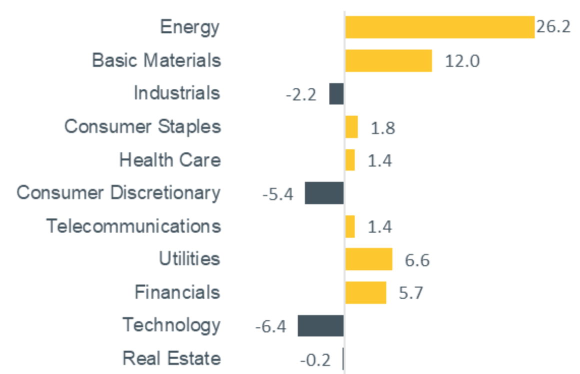
Investment and speculative grade credit spreads (% p.a.)



Regional equity returns [1]



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.

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:

$$\frac{(1 + Fund\ Performance)}{(1 + Benchmark\ Performance)} - 1$$

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.