London Borough of Hackney Pension Fund

Q2 2022 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 negative returns over the quarter with an absolute return of -6.3%, matching the returns of the benchmark.

The Growth allocation performed negatively over the quarter as equity markets continued to fall due to concerns around central bank policy tightening, slowing earnings momentum, and geopolitical uncertainty.

In bond markets, Government bond yields rose as markets moved to price in significant further increases in interest rates. Credit spreads have risen considerably since the start of the year and are well above long-term median levels. Property was a relative bright spot.

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.

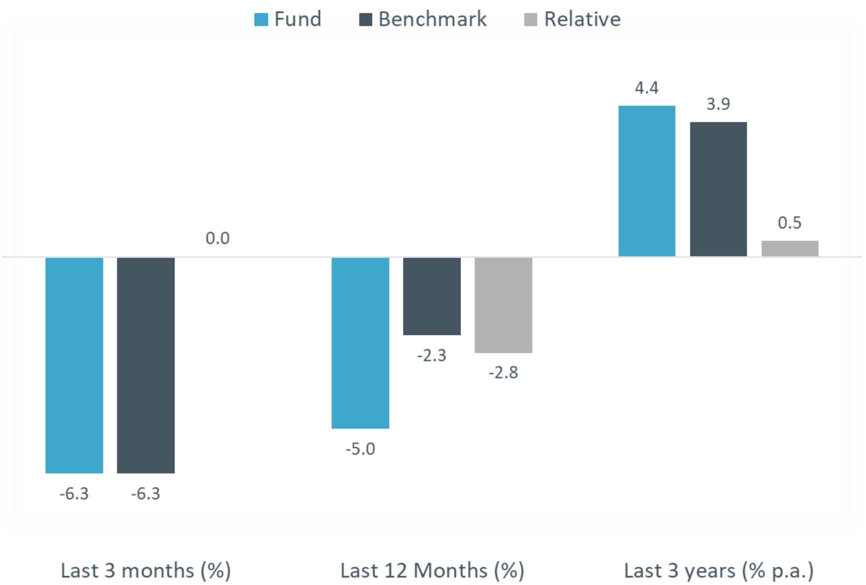
Income

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	57.9%	55.9%	2.1%
Income	24.4%	27.0%	-2.7%
Protection	17.7%	17.1%	0.6%

Asset Allocation

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

This page includes;

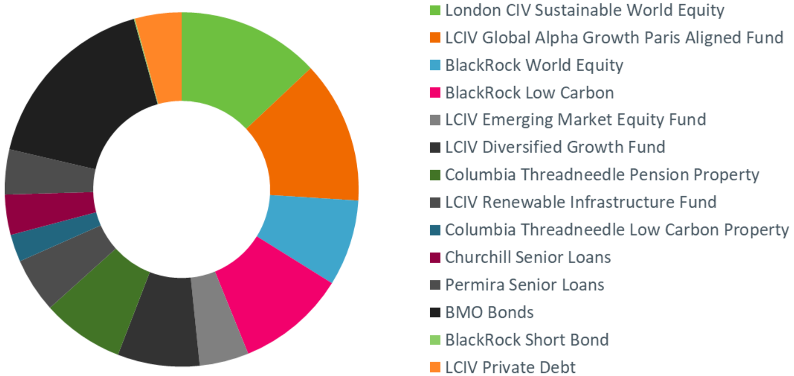
- Start and end quarter mandate valuations.
- Asset allocation breakdown relative to benchmark for rebalancing purposes.
- Asset allocation breakdown pie chart.

The LCIV Renewable Infrastructure mandate valuation, and the LCIV Private Debt mandate valuation as at 30 June 2022 were not available at the time this report was drafted, the figures used are the Q1 2022 values.

Asset allocation

Mandate	Active/Passive	Valuation (£m) Q1 2022	Valuation (£m) Q2 2022	Actual Proportion	Benchmark	Relative
London CIV Sustainable World Equity	Active	316.6	288.9	16.0%	13.0%	3.0%
LCIV Global Alpha Growth Paris Aligned Fund	Active	211.8	186.4	10.3%	13.0%	-2.7%
BlackRock World Equity	Passive	180.6	154.7	8.6%	7.9%	0.7%
BlackRock Low Carbon	Passive	241.5	215.2	11.9%	10.0%	1.9%
LCIV Emerging Market Equity Fund	Active	76.4	70.8	3.9%	4.5%	-0.6%
LCIV Diversified Growth Fund	Active	140.7	128.4	7.1%	7.5%	-0.4%
Total Growth		**1,167.7**	**1,044.4**	**57.9%**	**55.9%**	**2.1%**
LCIV Renewable Infrastructure Fund	Active	24.9	26.3	1.5%	5.0%	-3.5%
Columbia Threadneedle Pension Property	Active	163.1	171.2	9.5%	7.5%	2.0%
Columbia Threadneedle Low Carbon Property	Active	24.7	24.5	1.4%	2.5%	-1.1%
Churchill Senior Loans	Active	58.4	66.2	3.7%	3.7%	0.0%
Permira Senior Loans	Active	70.0	74.0	4.1%	4.1%	0.0%
LCIV Private Debt	Active	73.2	76.9	4.3%	4.3%	0.0%
Total Income		**414.3**	**439.1**	**24.4%**	**27.0%**	**-2.7%**
BMO Bonds	Active	256.2	229.3	12.7%	17.0%	-4.3%
BlackRock Short Bond	Passive	93.5	90.2	5.0%	0.1%	4.9%
Total Protection		**349.7**	**319.5**	**17.7%**	**17.1%**	**0.6%**
Total Scheme		**1,931.7**	**1,803.0**	**100%**	**100%**	**0%**

Asset class exposures



Manager Performance

- 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 and LCIV Private Debt mandate are not yet available.
- The Churchill 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 30 June 2022 has been as follows:
    - 3m: 8.4%
    - 6m: 11.5%
    - 12m: 11.0%

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	-8.8	-9.1	0.4	-8.6	-0.2	-8.7	-2.1	-6.8	-0.1	-8.7	9.0	8.9	0.1	-0.1	9.1
LCIV Global Alpha Growth Paris Aligned Fund	-12.0	-8.9	-3.5	-8.4	-4.0	-	-	-	-	-	-	-	-	-	-
LCIV Emerging Market Equity Fund	-7.0	-4.0	-3.1	-4.0	-3.1	-	-	-	-	-	-	-	-	-	-
BlackRock World Equity	-14.3	-14.5	0.2	-14.5	0.2	-10.8	-11.3	0.5	-11.3	0.5	7.2	7.0	0.2	-11.3	20.9
BlackRock Low Carbon	-11.0	-10.4	-0.7	-10.4	-0.7	-3.7	-3.3	-0.5	-3.3	-0.5	8.6	8.5	0.1	-3.3	12.3
LCIV Diversified Growth Fund	-8.8	1.1	-9.8	1.1	-9.8	-	-	-	-	-	-	-	-	-	-
Income															
Columbia Threadneedle Pension Property	4.6	3.9	0.7	4.2	0.4	24.0	23.3	0.6	24.3	-0.2	9.3	9.2	0.0	10.2	-0.9
Columbia Threadneedle Low Carbon Property	0.3	1.4	-1.1	1.7	-1.3	2.9	13.1	-9.1	14.1	-9.9	2.3	0.4	1.9	1.4	0.9
Churchill Senior Loans	5.9	-3.1	9.3	1.6	4.3	15.1	2.5	12.3	6.3	8.3	3.8	3.8	0.1	6.4	-2.4
Permira Senior Loans	1.3	1.2	0.1	1.8	-0.4	16.7	4.4	11.7	7.0	9.0	-	-	-	7.2	-
Protection															
BMO Bonds	-10.5	-10.4	-0.2	-10.1	-0.5	-14.8	-14.6	-0.3	-13.6	-1.4	-2.6	-3.1	0.5	-2.1	-0.5
BlackRock Short Bond	0.3	0.2	0.1	0.2	0.1	0.2	0.3	0.0	0.3	0.0	0.5	0.3	0.2	0.3	0.2
Total	-6.3	-6.3	0.0			-5.0	-2.3	-2.8			4.4	3.9	0.5		

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.*

Market Background

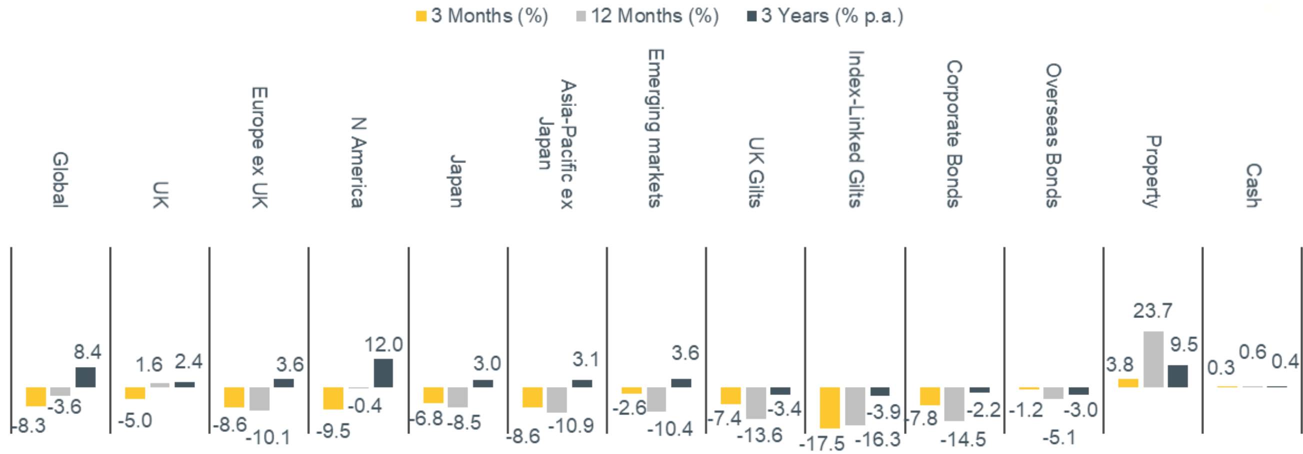
Soaring inflation and higher borrowing costs have continued to squeeze consumer's real incomes, with consumer confidence surveys plunging as a result. The persistence of these inflationary pressures, coupled with the prospect of tighter financial conditions, has given rise to fears of recession, and has resulted in revised consensus forecasts for global growth of 2.9% in 2022 and 2.8% in 2023 (down from 4.1% and 3.2%, respectively, at the start of the year.)

While headline inflation continues to rise across developed markets, year-on-year US and UK core inflation, which excludes volatile energy and food prices, eased slightly, but remained elevated, at 6.0% and 5.9%, respectively. While US and UK inflation pressures look more broad-based, a large proportion of eurozone inflation still owes to volatile energy and food prices, with Eurozone core CPI increasing to 3.8% year-on-year.

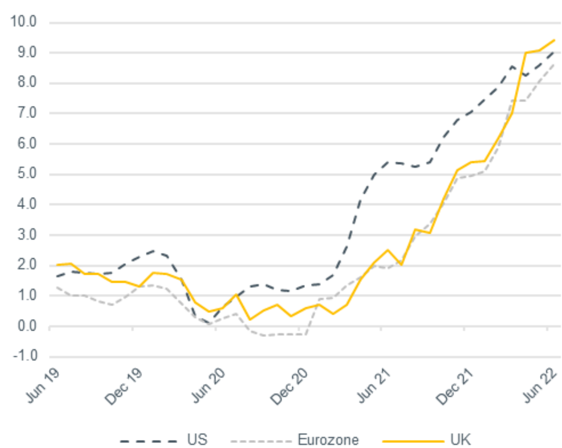
Despite severe supply side issues and risks to growth, central banks appear determined to bring down inflation. The Bank of England rose rates for the fifth consecutive time and the Fed delivered a bumper 0.75% p.a. increase, taking their base rates to 1.25% p.a. and 1.75% p.a., respectively. The European Central Bank have indicated a first rate hike is likely in July, and the end to negative rates by the end of Q3 2022.

Government bond yields rose as markets moved to price in significant further increases in interest rates, with UK 10-year gilt yields increasing 0.6% p.a. to 2.2% p.a. UK 10-year implied inflation, as measured by the difference between conventional and inflation-linked bonds of the same maturity, fell 0.8% p.a., from 4.4% p.a. to 3.6% p.a. as real yields rose more than their nominal counterparts.

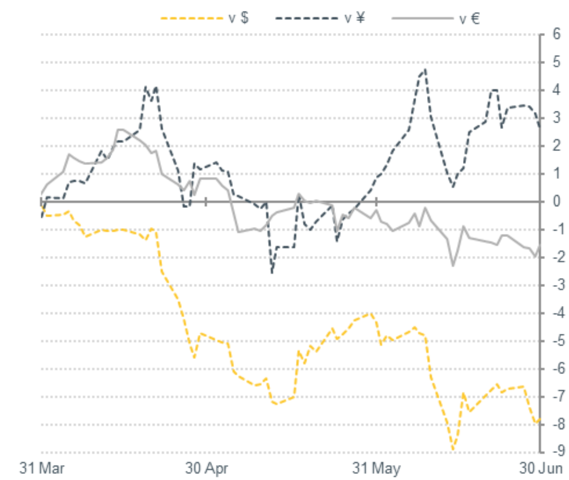
Historic returns for world markets [1]



Annual CPI Inflation (% p.a.)



Sterling trend chart (% change)



Market Background

With both inflation and growth concerns weighing on credit markets, global investment-grade credit spreads rose 0.5% p.a., to 1.8% p.a.; while US and European speculative-grade spreads both rose 2.4% p.a., to 5.9% p.a. and 6.4% p.a., respectively.

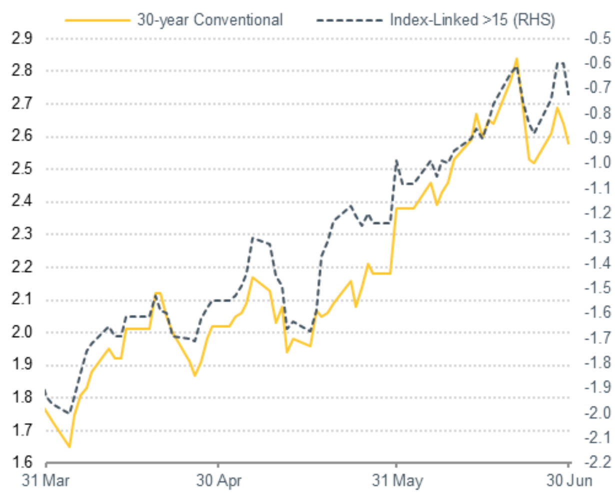
Commodity prices fell over the quarter, with expectations of lower demand leading to a fall in industrial metals prices as rising real yields weighed on precious metal prices.

Despite ongoing upwards revisions to consensus analyst earnings forecasts, global equities fell 8.3% over the quarter, as increases in expectations for the path of interest rates extended the recent decline in equity market valuations. The technology sector notably underperformed on the back of rising rates while returns within the consumer discretionary sector were impacted by a weakening consumer outlook. In contrast, consumer staples outperformed, as investors perhaps placed a premium on the sector's inherent pricing power.

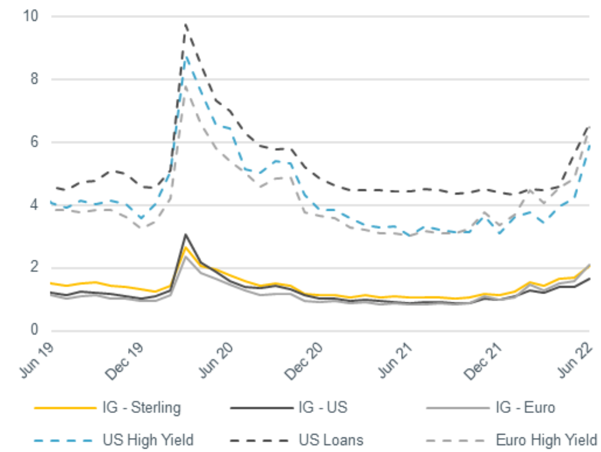
North America underperformed, owing to its large exposure to the technology sector. Meanwhile, above-average exposure to energy, metals, and miners, saw the UK continue its recent outperformance. The easing of lockdown restrictions in China provided some relative support to Emerging and Asian markets equities.

Property remained a relative bright spot, with the MSCI UK IPD total return index rising 9.6% year-to-date; largely owing to a 11.9% rise in industrial capital values. Return on the all-property index, including income, was 23.7% in the 12 months to end-June.

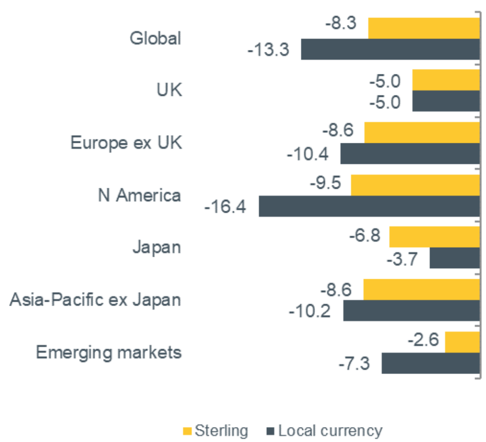
Gilt yields chart (% p.a.)



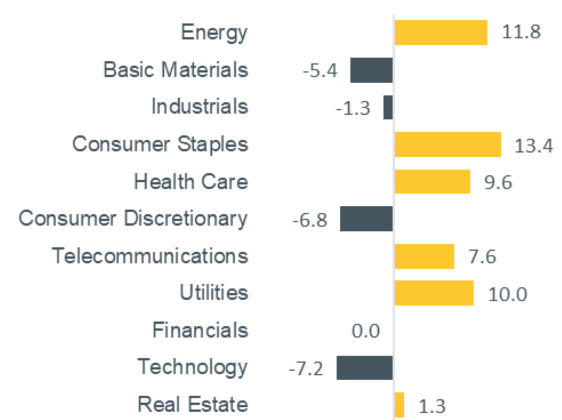
Investment and speculative grade credit spreads (% p.a.)



Regional equity returns [1]



Global equity sector returns (%) [2]



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:

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

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.