London Borough of Hackney Pension Fund

Q3 2022 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 negative returns over the quarter with an absolute return of -0.6%, marginally outperforming 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.

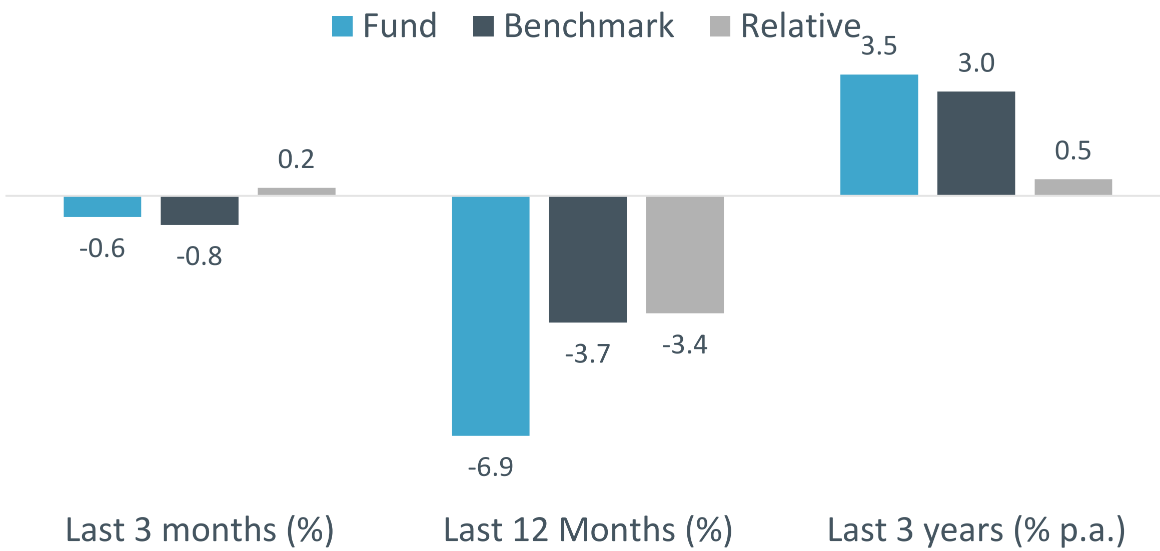
Definitions

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	58.9%	55.0%	3.9%
Income	25.3%	28.4%	-3.1%
Protection	15.9%	17.0%	-1.1%

Asset Allocation

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

This page includes;

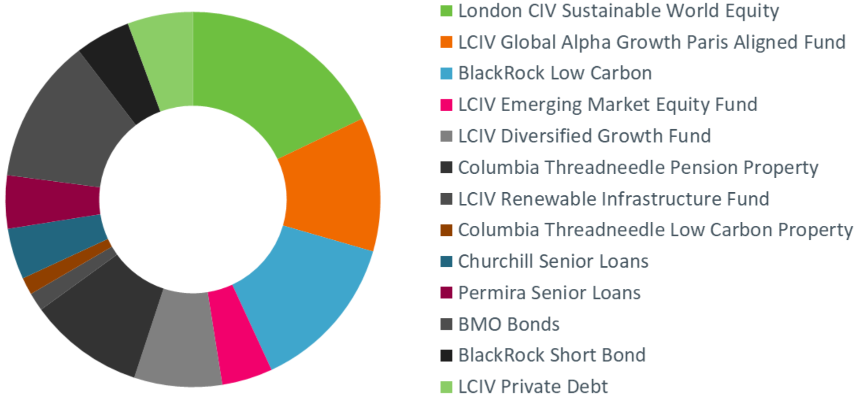
- Start and end quarter mandate valuations.
- Asset allocation breakdown relative to benchmark for rebalancing purposes.
- Asset allocation breakdown pie chart.

The LCIV Renewable Infrastructure mandate valuation, and the LCIV Private Debt mandate valuation as at 30 September 2022 were not available at the time this report was drafted, the figures used are the Q2 2022 values.

Asset allocation

Mandate	Active/Passive	Valuation (£m)		Actual Proportion	Benchmark	Relative
		Q2 2022	Q3 2022			
London CIV Sustainable World Equity	Active	288.9	293.4	16.4%	13.0%	3.4%
LCIV Global Alpha Growth Paris Aligned Fund	Active	186.4	189.4	10.6%	13.0%	-2.4%
BlackRock World Equity	Passive	154.7	147.9	8.3%	7.0%	1.3%
BlackRock Low Carbon	Passive	215.2	223.5	12.5%	10.0%	2.5%
LCIV Emerging Market Equity Fund	Active	70.8	71.8	4.0%	4.5%	-0.5%
LCIV Diversified Growth Fund	Active	128.4	124.1	7.0%	7.5%	-0.5%
Total Growth		**1,044.4**	**1,050.0**	**58.9%**	**55.0%**	**3.9%**
LCIV Renewable Infrastructure Fund	Active	26.3	26.0	1.5%	5.0%	-3.5%
Columbia Threadneedle Pension Property	Active	171.2	163.0	9.1%	7.5%	1.6%
Columbia Threadneedle Low Carbon Property	Active	24.5	22.2	1.2%	2.5%	-1.3%
Churchill Senior Loans	Active	66.2	72.0	4.0%	4.0%	0.0%
Permira Senior Loans	Active	74.0	75.0	4.2%	4.0%	0.2%
LCIV Private Debt	Active	76.9	92.4	5.2%	5.0%	0.2%
Total Income		**439.1**	**450.6**	**25.3%**	**28.0%**	**-2.7%**
BMO Bonds	Active	229.3	204.7	11.5%	17.0%	-5.5%
BlackRock Short Bond	Passive	90.2	78.4	4.4%	0.0%	4.4%
Total Protection		**319.5**	**283.1**	**15.9%**	**17.0%**	**-1.1%**
Total Scheme		**1,803.0**	**1,783.8**	**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.

<u>Comments</u>

- 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 September 2022 has been as follows:
  - 3m: 8.8%
  - 6m: 17.9%
  - 12m: 21.3%

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	1.5	2.6	-1.0	3.1	-1.5	-9.7	-1.9	-7.9	0.1	-9.7	9.1	8.4	0.6	0.0	9.1
LCIV Global Alpha Growth Paris Aligned Fund	1.6	2.6	-0.9	3.1	-1.4	-23.0	-3.1	-20.6	-1.1	-22.1	-	-	-	-	-
LCIV Emerging Market Equity Fund	1.4	-3.2	4.7	-3.2	4.7	-15.4	-12.1	-3.7	-9.8	-6.2	-	-	-	-	-
BlackRock World Equity	-4.5	-4.5	0.1	-4.5	0.1	-15.4	-15.8	0.5	-15.8	0.5	5.1	4.9	0.2	-15.8	24.8
BlackRock Low Carbon	3.9	2.8	1.0	2.8	1.0	-3.7	-4.2	0.5	-4.2	0.5	8.5	8.1	0.4	-3.3	12.2
LCIV Diversified Growth Fund	-3.3	1.4	-4.6	1.4	-4.6	-13.2	4.5	-16.9	4.5	-16.9	-	-	-	-	-
Income															
Columbia Threadneedle Pension Property	-5.2	-4.0	-1.3	-3.8	-1.5	12.6	13.2	-0.5	14.2	-1.4	7.2	7.6	-0.4	8.6	-1.3
Columbia Threadneedle Low Carbon Property	-8.8	-2.7	-6.3	-2.5	-6.5	-7.7	8.5	-14.9	9.5	-15.7	-0.8	0.1	-1.0	1.1	-2.0
Churchill Senior Loans	10.2	10.7	-0.5	1.6	8.5	22.3	19.6	2.3	6.3	15.1	5.8	9.2	-3.1	6.4	-0.6
Permira Senior Loans	9.5	1.4	8.0	1.8	7.6	22.8	5.0	17.0	7.0	14.8	-	-	-	7.2	-
Protection															
BMO Bonds	-10.7	-11.8	1.3	-11.6	1.0	-23.8	-24.3	0.8	-23.3	-0.5	-8.0	-8.8	0.9	-7.8	-0.2
BlackRock Short Bond	0.3	0.4	-0.1	0.4	-0.1	0.5	0.7	-0.2	0.7	-0.2	0.5	0.4	0.1	0.7	-0.2
Total	-0.6	-0.8	0.2			-7.0	-3.7	-3.4			3.5	3.0	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.*

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

The LCIV Diversified Growth Fund is managed by Baillie Gifford.

As at Q3 2022, we rated the Baillie Gifford DGF as 'Preferred', however, following a further review in Q4 2022 the fund has has been downgraded to 'Positive – On watch'. This is in part due to the below:

- A lessening of conviction in reference to some of our preferred manager characteristics, some reflecting changes on the strategy over recent years (people and philosophy & process) and some reflecting a fresh look at the strategy relative to peers (ownership & focus).
- Poor risk-adjusted performance over the last 5 years and poor risk management, particularly around drawdowns on an absolute and relative basis. This is particularly driven by implementation within equities, listed alternatives and absolute return.
- Declines in AUM

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		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

Higher current and forecast inflation, and subsequent expectations of tighter monetary policy, are weighing heavily on consumer and business sentiment, with growth forecasts continuing to see downwards revisions. Recessions are now forecasts in several key European economies and the US economy also expected to slow substantially, increasing global recession risks.

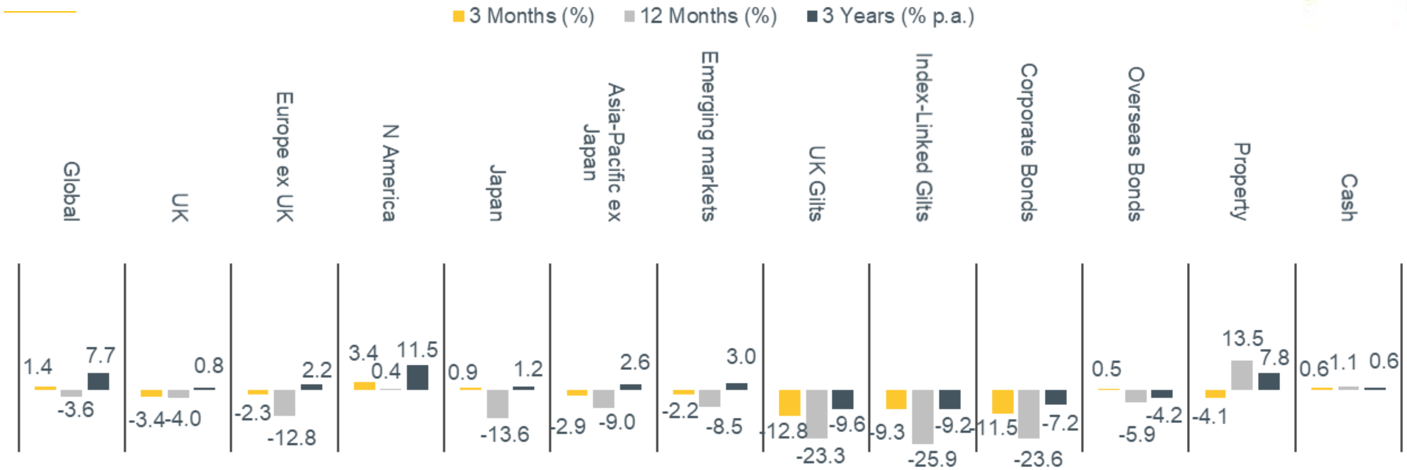
Year-on-year headline CPI inflation is running at 9.9%, 8.3%, and 9.1%, in the UK, eurozone, and US, respectively. Of more concern to central bankers, core inflation, which excludes food and energy prices, is also well above target, at 6.5%, 6.6%, and 4.8% in the UK, US, and eurozone, respectively.

Growing concerns about sustained high inflation were met with more aggressive messaging and action by central banks. The Fed raised interest rates by a cumulative 1.5% p.a. in Q3, while the Bank of England and the ECB raised rates by a total of 1% p.a. and 1.25% p.a., respectively.

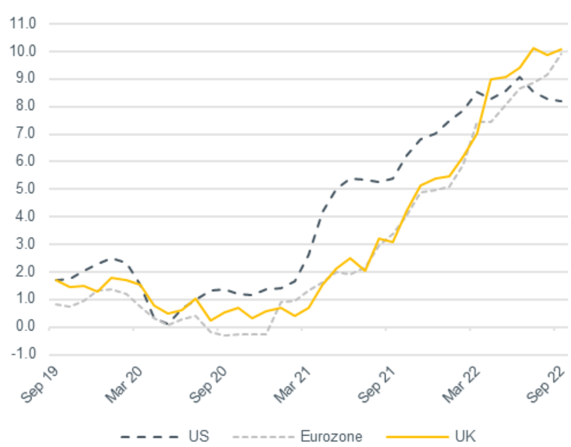
Against a global backdrop of high inflation and rising interest rate expectations, increases in UK government bond yields accelerated as the government unveiled a substantial unfunded fiscal package in late September. 10-year gilt yields ended the quarter at 4.1% p.a., 1.9% p.a. above end-June levels, while equivalent US and German yields both rose 0.8% p.a. over the same period, to 3.8% p.a. and 2.1% p.a., respectively.

UK 10-year implied inflation, as measured by the difference between conventional and inflation-linked bonds of the same maturity, rose 0.4% p.a. to 4.0% p.a. Equivalent US implied inflation fell 0.2% p.a., to 2.2% p.a.

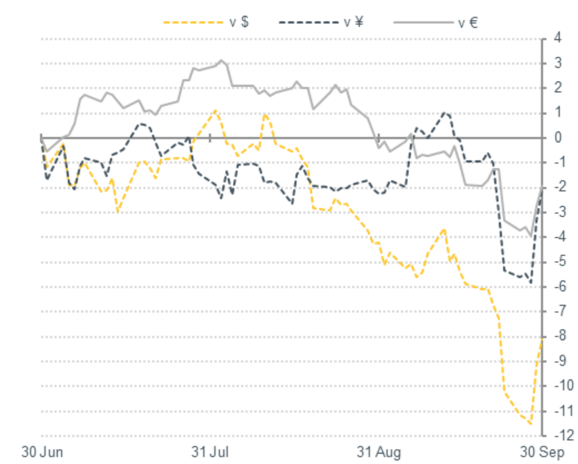
Historic returns for world markets [1]



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, ICE BofA Global Government Index, MSCI UK Monthly Property; UK Interbank 7 Day

Market Background

Global investment-grade spreads ended the quarter slightly wider, while UK investment-grade credit spreads rose 0.4% p.a., to 2.4% p.a., as rising government bond yields saw pension schemes liquidate liquid assets to meet collateral calls on their interest-rate hedging programmes. US and European speculative grade credit spreads ended the quarter 0.4% p.a. and 0.2% p.a. below end June levels, at 5.4% p.a. and 6.3% p.a., respectively.

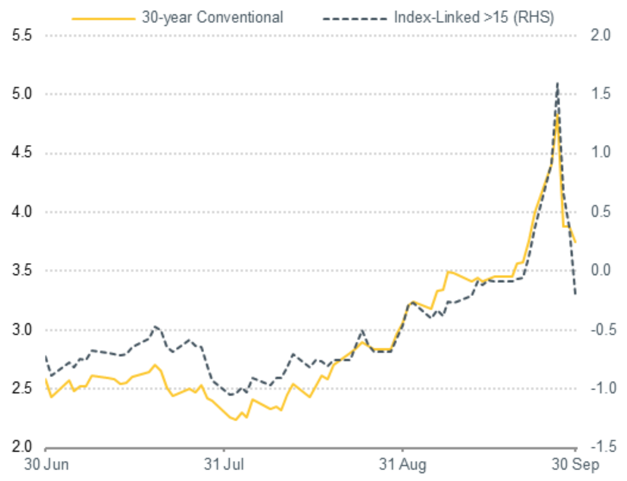
Despite a rally in July, global equities fell sharply in the second half of the quarter as high inflation, and subsequent higher interest rate expectations, weighed on both equity valuations and the fundamental outlook. The FTSE All World Index fell 4.8% (in local terms). Depreciation of sterling over the period resulted in a 1.4% return to unhedged UK investors. Performance was varied between cyclicals and defensives with telecoms, technology, and healthcare underperforming, while the energy and consumer discretionary sectors notably outperformed.

Regionally, Japanese and UK markets outperformed, both supported by currency weakness flattering the international earnings profile of their markets, and the UK also benefitting from an above-average exposure to the energy sector. Emerging and Asian markets once again underperformed.

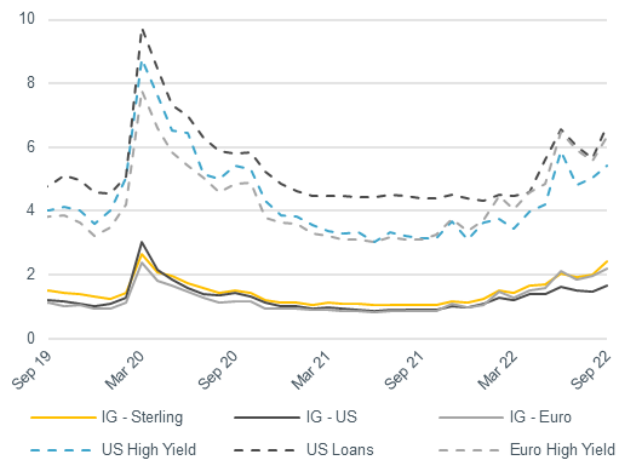
Global growth concerns were reflected in commodity markets, where energy and industrial metals prices led declines.

The MSCI UK Monthly Property Index has returned 13.5% in the 12 months to the end of September, although monthly returns entered negative territory in the third quarter. Capital value declines have been observed across the three main commercial sectors but have been more pronounced in the industrial sector.

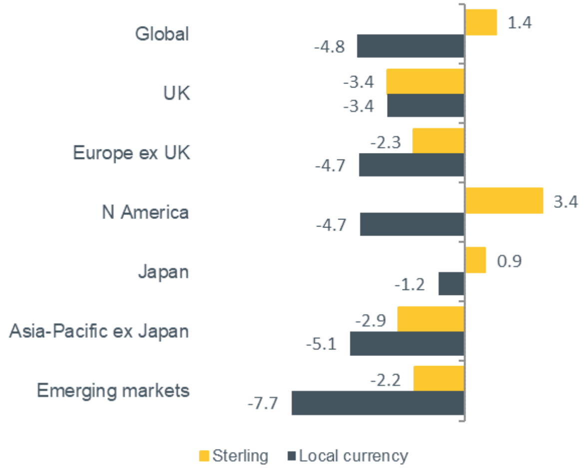
Gilt yields chart (% p.a.)



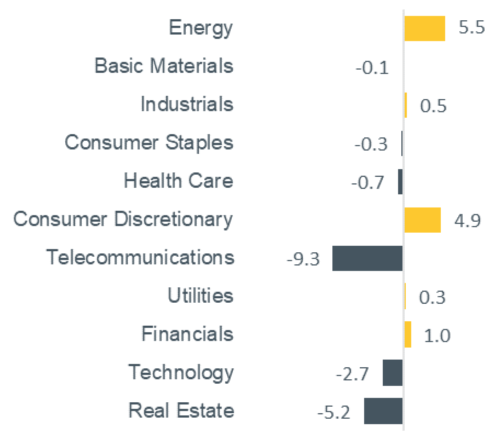
Investment and speculative grade credit spreads (% p.a.)



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.

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.