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Hackney

HOW ARE YOUR MANAGERS PERFORMING FOR YOU?

Q4 2022

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WHAT HAS HAPPENED IN THE MARKETS?

Philip Rose
(CIO, Strategy & Risk)

Market Summary

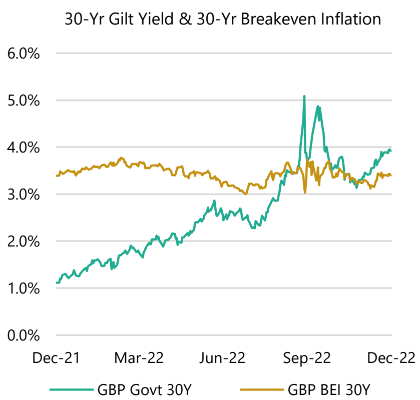
In Q4, markets started to price in a "goldilocks scenario" of both inflation being brought under control by existing central bank rate hikes and the economy avoiding recession. This resulted in a rally in risk assets, such as equities, while long-dated interest rates moved slightly higher.

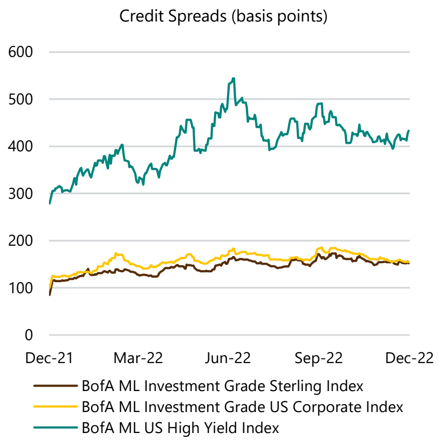
There remains significant risk that bringing inflation back to target may require more rate increases than are priced in, or that by subduing inflation the economy will be pushed into recession, reducing corporate earnings and equity prices. Neither of these scenarios are fully priced into current market prices.

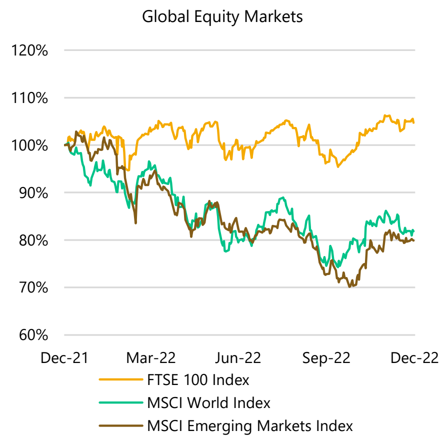
Markets are also pricing in continued US asset and economic outperformance, although historically this did happen in the global financial crisis and the pandemic.

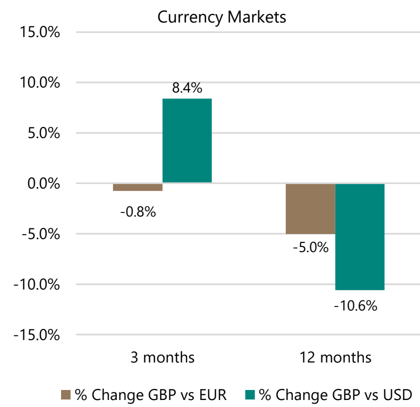
Responsible Investment Update

The COP 27 climate change conference made ground-breaking progress on an agreement to compensate vulnerable nations for 'loss and damage' from climate-induced disasters, and some progress was made on climate adaptation via new pledges to the Adaptation Fund. However, there was little progress made on climate mitigation efforts, with no significant steps made to reduce emissions or fossil fuel dependency. COP 27's biodiversity-focused sister conference, COP 15, resulted in a historic agreement to conserve and manage at least 30% of the world's lands and oceans by 2030.









VIEWS FROM THE ASSET CLASS SPECIALISTS

 **Kate Mijakowska** **LDI and Overlay**	In Q4 2022, at the 30-year tenor point, nominal gilts rose by 13bps while breakeven inflation fell by 38bps, leaving UK 30-year real yields 51bps up on the quarter. In October, markets saw extreme levels of volatility, with the 30-year index-linked gilt trading between -10bps and +155bps. Despite the initial nominal bond buying intervention by the Bank of England on 28th September, gilt yields started rising sharply again in October. On 10th October, the Bank of England announced it would extend the emergency bond buying programme to index-linked gilts, which led to real gilt yields falling dramatically again. That emergency measure was subsequently reversed, with the central bank selling its temporary £19.3bn holdings. During the quarter, the Bank of England hiked policy rates twice – by 75bps in November and another 50bps in December. Year-on-year UK CPI inflation prints started decreasing, with October, November and December readings at 11.1%, 10.7% and 10.5% respectively.
 **Oliver Wayne** **Liquid Markets (Equities)**	Over Q4, global developed markets ('DM') and emerging markets ('EM') both delivered positive absolute returns as investors lowered their expectations of future inflation, with Europe being the best performing region. The pound strengthened following a weak first 3 quarters, which meant that the equity rally was less pronounced in GBP terms. Energy was the best performing sector during the quarter and the only sector to deliver positive absolute returns during 2022. EM shares were supported by a weaker US dollar and China's relaxation of its zero-Covid policy. From a factor perspective, DM saw Value and Momentum perform positively and Quality/Growth factors underperform, with a similar picture in EM. During the calendar year there was high factor dispersion across DM and EM, with Value factors performing strongly and Quality/Growth factors performing poorly.
 **Tom Wake-Walker** **Liquid Markets (Multi-Asset)**	After a tough Q3, most liquid markets staged some form of recovery in Q4 as China started to re-emerge and inflation pressures eased slightly. This was good news for most long-biased multi-asset strategies, as they enjoyed the tailwind of rising markets. Any change in market direction is a challenge for trend-following strategies, and after a stellar Q3 it was not a surprise to see these funds struggle in Q4. Value as a style factor continues to outperform, however, and this was the driver of returns for most risk premia funds that had a stellar quarter. In fact, all the classic style factors were in positive territory for the period, so most quantitative funds ended 2022 on a high. It was a very strong quarter for merger arbitrage strategies as spreads started to normalise and the prospect of more M&A in 2023 appeared to improve.

VIEWS FROM THE ASSET CLASS SPECIALISTS

 **Chris Bikos** **Liquid & Semi-Liquid Credit**	Q4 2022 got off to a slow start, with the main themes of inflation, tighter monetary policy and geopolitical uncertainty continuing. However, from mid-October investor sentiment changed as inflationary pressures moderated. Credit spreads across the risk spectrum moved tighter, with European high yield leading the retrace by 127bps across developed markets. Duration (sensitivity to interest rate movements) continued to be the main source of volatility, although the relative impact by quarter-end was positive. Emerging market (“EM”) debt in the final quarter of 2022 delivered overall positive returns. China’s shift away from its zero-Covid policy, political developments in Latin America and easing US dollar strength were the main catalysts behind EM credit and local currency markets’ strong performance in November and December. Despite the relief rally in Q4, 2022 will mainly be remembered as the year where investors felt the unpleasant consequences of higher inflation and interest rates.
 **Tricia Ward** **Illiquid Credit**	All private lenders signpost this period as the most attractive since 2008, while we are also seeing increased interest in shorter-duration private credit (sub 1-year). Private equity (“PE”) sponsors remain challenged when trying to raise debt at scale with the material slowdown in capital markets. The purported $1.6tn 2023-24 US debt refinancing requirement and continued decline in PE exits (67% lower in Q3 2022 vs Q3 2021) also increase demand for private credit. Managers continue to focus on senior-secured lending to higher-quality, defensive companies with good cashflow. In existing portfolios, defaults have risen by around one-third to 1.6% in Q3, the largest increase since 2020's 8.1% peak. Whilst elevated in companies with <$50MM EBITDA, smaller borrowers are typically subject to more covenants than larger companies. Although not necessarily reflective of true distress, this offers early indications as we await Q4 numbers. As yet, return dispersion is not obvious, but this is a realistic expectation in the coming months.
 **Sarah Miller** **Illiquid Markets**	In 2022, power prices and inflation were front of mind. Unclear revenue caps, volatile energy prices and higher interest rates made gauging the progress of infrastructure investments more challenging. In Q4, governments stepped in to help address high energy prices, including emergency regulation of energy caps in the EU. After peak uptake in corporate power purchase agreement (‘PPA’) volumes in 2021, 2022 saw an 18% drop following a doubling in the cost of corporate PPAs in H1 2022. Since the introduction of the caps, prices have fallen. Following the UK mini-budget in September, to generate increased liquidity amidst market uncertainty many corporate DB pension schemes submitted redemption requests from property fund investments at a time when underlying asset liquidity also evaporated, as asset owners re-assessed asset valuations. Subsequently, many funds deferred or gated redemptions. It is a buyer’s market at fund and asset level, with transactions in Q4 at their lowest since the Global Financial Crisis. Many bidders believe sellers, rather than assets, may be in distress.

HOW HAVE YOUR MANAGERS PERFORMED FOR YOU?

Long Term (Since Inception and 3 Year Returns)

Fund	Benchmark	Inception Date	Current Holdings £m	Since Inception Return (Annualised if >12m)			3 Year Return (Annualised)		
				Fund	Bmk	Excess	Fund	Bmk	Excess
Liquid Markets: Equities									
LCIV Global Alpha Growth Paris Aligned Fund	MSCI All Country World Gross Index (GBP)	September 2021	191.6	-18.3%	-2.2%	-16.0%	-	-	-
LCIV Emerging Market Equity Fund	MSCI Emerging Market Index (TR Net)	September 2021	73.4	-11.2%	-9.6%	-1.6%	-	-	-
LCIV Sustainable Equity Fund	MSCI World (GBP)(TR Net)	June 2018	291.8	8.5%	8.6%	-0.0%	7.9%	8.4%	-0.5%
LCIV Diversified Growth Fund	SONIA + 3.5%	October 2021	126.0	-9.7%	4.9%	-14.6%	-	-	-
BlackRock World Equity	MSCI World Net Total Return 95% hedged to GBP	June 2018	157.8	7.7%	-	-	5.0%	4.9%	0.1%
BlackRock Low Carbon	MSCI World Low Carbon Target Reduced Fossil Fuel Select Index	June 2018	224.7	8.9%	8.5%	0.4%	8.2%	7.7%	0.5%
Liquid and Semi-Liquid Credit									
BMO Bonds	Bond Composite	September 2003	208.4	4.4%	3.9%	0.4%	-6.3%	-7.2%	0.9%
BlackRock Short Bond	3-month SONIA	February 2019	63.7	1.8%	1.6%	0.2%	0.8%	0.6%	0.2%
Illiquid Credit									
Churchill Senior Loans	IRR (net of fees) of 6-7%	December 2018	66.2	5.1%	6.0%	-1.0%	-	-	-
Permira Senior Loans	IRR (net of fees) of 6-8%	December 2019	79.7	7.8%	7.0%	0.8%	-	-	-
LCIV Private Debt Fund	IRR (net of fees) of 6-8%	March 2021	120.2	-	-	-	-	-	-
Illiquid Markets									
LCIV Renewable Infrastructure Fund	IRR (net of fees) of 7-10%	March 2021	34.6	-	-	-	-	-	-
Columbia Threadneedle Pension Property	MSCI/AREF UK 'All Balanced Open-Ended' Property Fund Index	March 2004	141.1	5.8%	5.1%	0.6%	2.1%	2.2%	-0.1%
Columbia Threadneedle Low Carbon Property	-	May 2016	20.6	0.2%	-	-	-4.7%	-	-

Source: Fund Managers

The information above describes the past performance of the investment. Past performance is not a reliable indicator of the future results or performance of any investment. If the investment described above is not denominated in pounds sterling, the return generated by the investment may increase or decrease as a result of fluctuations in exchange rates between currencies.

HOW HAVE YOUR MANAGERS PERFORMED FOR YOU?

Short Term (12 Month and 3 Month Returns)

Fund	Benchmark	Inception Date	Current Holdings £m	Previous Holdings £m	12 Month Return			3 Month Return		
					Fund	Bmk	Excess	Fund	Bmk	Excess
Liquid Markets: Equities										
LCIV Global Alpha Growth Paris Aligned Fund	MSCI All Country World Gross Index (GBP)	September 2021	191.6	189.4	-22.0%	-8.2%	-13.8%	1.2%	1.1%	0.1%
LCIV Emerging Market Equity Fund	MSCI Emerging Market Index (TR Net)	September 2021	73.4	71.8	-9.5%	-10.0%	0.5%	2.3%	1.8%	0.5%
LCIV Sustainable Equity Fund	MSCI World (GBP)(TR Net)	June 2018	291.8	293.4	-15.6%	-7.8%	-7.8%	-0.5%	1.9%	-2.3%
LCIV Diversified Growth Fund	SONIA + 3.5%	October 2021	126.0	124.1	-15.9%	5.1%	-21.0%	1.5%	1.6%	-0.1%
BlackRock World Equity	MSCI World Net Total Return 95% hedged to GBP	June 2018	157.8	147.9	-16.4%	-16.7%	0.3%	6.8%	6.8%	0.0%
BlackRock Low Carbon	MSCI World Low Carbon Target Reduced Fossil Fuel Select Index	June 2018	224.7	223.5	-9.4%	-9.9%	0.5%	0.5%	0.4%	0.1%
Liquid and Semi-Liquid Credit										
BMO Bonds	Bond Composite	September 2003	208.4	204.7	-24.0%	-25.4%	1.8%	1.8%	1.0%	0.8%
BlackRock Short Bond	3-month SONIA	February 2019	63.7	78.4	1.3%	1.4%	-0.1%	0.9%	0.7%	0.2%
Illiquid Credit										
Churchill Senior Loans	IRR (net of fees) of 6-7%	December 2018	66.2	72.0	-	-	-	-	-	-
Permira Senior Loans	IRR (net of fees) of 6-8%	December 2019	79.7	75.0	-	-	-	-	-	-
LCIV Private Debt Fund	IRR (net of fees) of 6-8%	March 2021	120.2	103.1	-	-	-	-	-	-
Illiquid Markets										
LCIV Renewable Infrastructure Fund	IRR (net of fees) of 7-10%	March 2021	34.6	32.4	-	-	-	-	-	-
Columbia Threadneedle Pension Property	MSCI/AREF UK 'All Balanced Open-Ended' Property Fund Index	March 2004	141.1	163.0	-10.7%	-9.5%	-1.2%	-13.5%	-14.1%	0.6%
Columbia Threadneedle Low Carbon Property	-	May 2016	20.6	22.2	-16.7%	-	-	-8.9%	-	-

Source: Fund Managers

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YOUR FUND DETAILS AND COMMENTS

Fund	Inception Date	Commentary on the Quarter
Liquid Markets: Equities		
LCIV Global Alpha Growth Paris Aligned Fund	September 2021	The fund delivered a return of 1.2% over Q4 2022, outperforming the benchmark by 0.1%. This was a marginally positive quarter as performance continued to stabilise in the fund following sizeable drawdowns earlier in 2022. These drawdowns continue to take a toll on longer term performance but the gradual shift of the portfolio away from the most aggressively valued holdings, and into less volatile but still growth oriented companies is starting to reap benefits.
LCIV Emerging Market Equity Fund	September 2021	The fund delivered a return of 2.3% over Q4 2022, outperforming the benchmark by 0.5%. The fund extended its outperformance in Q4 as risk assets rallied in the first two months of the quarter on the back of optimism related to milder policy tightening from major central banks. The fund also benefitted from the easing of the zero-Covid policy in China and a weaker outlook for the U.S. Dollar.
LCIV Sustainable Equity Fund	June 2018	The fund delivered a return of -0.5% over Q4 2022, underperforming the benchmark by 2.3%. Equity markets rebounded over Q4 however the Fund did not benefit from this primarily due to stock selection issues within the Financials sector and specific Consumer and Health Care stock selections. Relative to the benchmark, the largest overweight exposures as at quarter-end were to Consumer Staples and Health Care, with Information Technology the largest underweight.
LCIV Diversified Growth Fund	October 2021	The fund delivered a return of 1.5% over Q4 2022. The top performing segment in the fourth quarter was 'High Yield Credit' which added 0.9%. This was mainly due to holdings in Asian debt. In China, a relaxation of strict Covid-19 rules, along with targeted support for struggling sectors, including the property industry, has improved the outlook for the local economy. The 'Absolute Return' segment was the main negative contributor with -1.4%. This segment fell in value mainly due to futures contracts which track the volatility of the S&P 500 Index ('VIX').
BlackRock World Equity	June 2018	The fund delivered a return of 6.8% over Q4 2022, performing roughly in line with the benchmark, as expected for a passive fund.
BlackRock Low Carbon	June 2018	The fund delivered a return of 0.5% over Q4 2022, performing roughly in line with the benchmark, as expected for a passive fund.
Liquid and Semi-Liquid Credit		
BMO Bonds	September 2003	The fund delivered a return of 1.8% over Q4 2022, outperforming the benchmark by 0.8%. An underweight duration position late in the quarter, tactical cross market positioning in the UK, curve steepening exposure in the UK and underweight breakeven positions added to performance, whereas underweights in Italy subtracted from performance. The fund overall maintains an overweight credit risk position relative to its benchmark. This overweight position contributed positively to relative returns as credit assets outperformed government bonds over the quarter.
BlackRock Short Bond	February 2019	The fund delivered a return of 0.9% over Q4 2022, performing roughly in line with the benchmark, as expected for a passive fund.

YOUR FUND DETAILS AND COMMENTS

Fund	Inception Date	Commentary on the Quarter
Illiquid Credit		
Churchill Senior Loans	December 2018	The net internal rate of return of the fund was 5.1% over Q4 2022, with the fund having drawn 94% of its commitments as at 31 December 2022.
Permira Senior Loans	December 2019	The net internal rate of return of the fund was 7.8% over Q4 2022, with the fund having drawn 83% of its commitments as at 31 December 2022.
LCIV Private Debt Fund	March 2021	Overall, the Fund was drawn 51.9% as at 30 September 2022, an increase of 11.7% from last quarter end. The £99.7m called from underlying investments over the quarter shows a continued pleasing pace in deploying capital. In accordance with the trust deed, the performance of the Fund is not formally assessed against its objective until after the fourth year of the investment period.
Illiquid Markets		
LCIV Renewable Infrastructure Fund	March 2021	As of 30th September 2022, the fund had drawn 30% of its commitments. In accordance with the trust deed, the performance of the Fund is not formally assessed against its objective until after the fourth year of the investment period.
Columbia Threadneedle Pension Property	March 2004	The fund delivered a return of -13.5% over Q4 2022, outperforming the benchmark by 0.6%.
Columbia Threadneedle Low Carbon Property	May 2016	The fund delivered a return of -8.9% over Q4 2022.

APPENDICES

ASSET CLASS GROUPINGS

Government Bonds & LDI

- Manage unrewarded interest rate and inflation risk through efficient use of entire universe of hedging instruments.
- Examples: gilt portfolios, swap overlay strategies, LDI pooled funds.

Liquid Markets

- Highly marketable asset classes that generate returns through market risk premia.
- Examples: equities, commodities, liquid multi-asset strategies.

Liquid & Semi-Liquid Credit

- Steady income via regular coupon payments.
- Bulk of excess returns are compensation for credit risk.
- Examples: investment grade and high yield corporate bonds, "go-anywhere" credit.

Illiquid Credit

- Long-dated, hold-to-maturity instruments that pay an illiquidity premium.
- Potential for inflation-linked cashflows.
- Examples: infrastructure debt, secured leases, direct lending.

Illiquid Markets

- High potential returns but often difficult to access and relatively complex.
- Generally aim to take advantage of market dislocation and more exotic risk premia.
- Examples: private equity, property, infrastructure equity.

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2021 FINANCIAL NEWS **INVESTMENT CONSULTANT OF THE YEAR**

2021 PIPA AWARDS **INVESTMENT CONSULTANT OF THE YEAR**

2020 PROFESSIONAL PENSIONS UK PENSIONS AWARDS **DC INNOVATION OF THE YEAR**

2018 CEO MONTHLY MAGAZINE **CEO OF THE YEAR: LONDON**

2017 PENSION INSIGHT DC AWARDS **BEST INNOVATION IN DC**

2017 EUROPEAN PENSIONS AWARDS **RISK MANAGEMENT FIRM OF THE YEAR**

2017 FINANCIAL NEWS AWARDS FOR EXCELLENCE **INVESTMENT CONSULTANT OF THE YEAR**

2017 INVESTMENT WEEK WOMEN IN INVESTMENT AWARDS **YOUNG INVESTMENT WOMAN OF THE YEAR**

2016 LONDON STOCK EXCHANGE **1000 COMPANIES TO INSPIRE BRITAIN**

2016 EUROPEAN PENSIONS AWARDS **CONSULTANCY OF THE YEAR**

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