

**London Borough of Hammersmith
& Fulham Pension Fund**

Investment Performance Report to 31
December 2019

Deloitte Total Reward and Benefits Limited
January 2019

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1 Market Background

1.1 Three months and twelve months to 31 December 2019

Global equity markets delivered strong positive returns in the fourth quarter, buoyed by the agreement of an interim US-China trade deal, relatively robust economic data in challenging conditions and accommodating monetary policy by the Fed (which cut rates in October) and other central banks. Gains were shared across all global regions, with emerging markets, which are particularly sensitive to global trade disruptions, delivering the strongest returns.

UK equities also made gains over the quarter to 31 December 2019, with the FTSE All Share Index returning 4.2%. The UK market was dominated by domestic politics proving volatile for much of the quarter as a result of heightened Brexit uncertainty before rallying in December in response to the decisive Conservative victory in the general election on 12 December which lessened investors' fears of an imminent 'no deal' exit and raised expectations of an orderly Brexit transition period and future trade deal.

The FTSE 100 Index gained 2.7% while the FTSE 250 returned 10.4%, as smaller UK-centric companies received a significant boost from the reduction in political and Brexit uncertainty, outperforming larger multinational companies where return were dampened by sterling appreciation. Technology was the best performing sector returning 14.5%, while Oil & Gas was the poorest performing sector falling 7.6% in the fourth quarter.

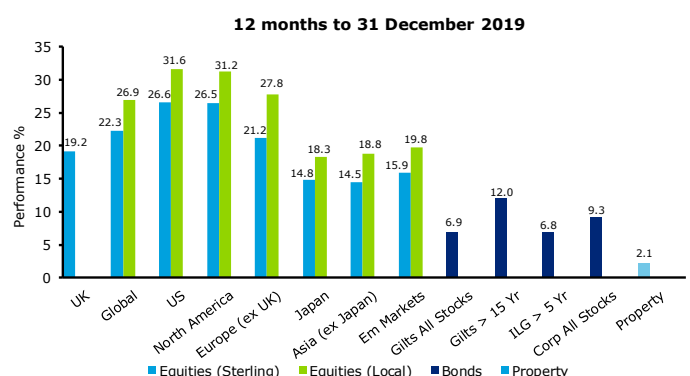
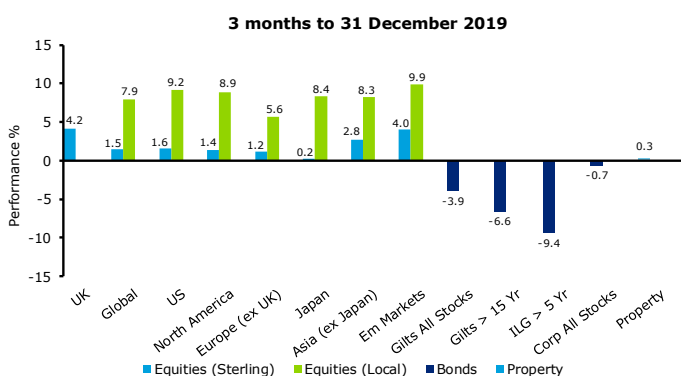
Global markets outperformed UK equities in local currency terms (7.9%) but underperformed in sterling terms (1.5%) as sterling appreciated following the general election. Consequently, currency hedging contributed positively to the returns over the quarter. All global regions performed strongly in local currency terms, with Emerging Markets the best performer, returning 9.9%, having benefited strongly from the prospect of a 'Phase one' US-China trade deal. Europe (ex UK) was the poorest performing overseas market, as Germany continues to struggle, but still returned a positive return of 5.6% over the quarter.

Government bond yields rebounded over the quarter in response to the improving global economic outlook as the US and China agreed an interim trade deal. In the UK, gilt yields also increased in response to an apparent reduction in Brexit-related uncertainty. Nominal gilt yields increased sharply, rising by c. 30-40 bps across the curve to partially offset significant yield falls in the previous quarter. The All Stocks Gilts Index subsequently delivered a negative return of -3.9% over the quarter with the Over 15 Year Index falling by 6.6%. Real yields also increased with the Over 5 Year Index-Linked Gilts Index delivering a negative return of -8.5% over the same period. Credit spreads tightened over the quarter in response to renewed risk appetite late in the period. Corporate bonds therefore outperformed equivalent gilts, with the iBoxx All Stocks Non Gilt Index experienced a more modest fall of 0.7%.

Over the 12 months to 31 December 2019, the FTSE All Share Index delivered a positive return of 19.2% as the uncertainty surrounding the global economy appeared to ease over the final 3 months of the year. There was a wide dispersion in returns at a sector level with Technology the best performer, returning 29.6%, whilst Telecommunications was the poorest performing sector falling by 6.3%. Global markets outperformed UK equities in both local currency terms (26.9%) and sterling terms (22.3%), with sterling appreciating over the year against a basket of global currencies. It is worth noting that returns over the calendar year are somewhat inflated by the sharp falls in the final quarter of 2018.

UK nominal gilts achieved strong returns over the 12 months to 31 December 2019 as nominal gilt yields fell sharply across the curve (mostly over the third quarter), despite the rebound in the fourth quarter. The All Stocks Gilts Index returned 6.9% and the Over 15 Year Gilts Index returned 12.0% over the year to 31 December 2019. UK index-linked gilts delivered positive returns as real yields also fell across the curve. The Over 5 Year Index-Linked Gilts Index returned 6.8%. The iBoxx All Stocks Non Gilt Index returned 9.3% outperforming equivalent gilts as credit spreads tightened slightly over the year.

The MSCI UK All Property Index returned 0.3% over the 3 months to 31 December 2019 and 2.1% over the 12 months to 31 December 2019. The UK property market has continued to cool following the recent period of domestic political uncertainty and the slowing UK economy.



2 Performance Overview

2.1 Investment Performance to 31 December 2019

Breakdown of Fund Performance by Manager as at 31 Dec 2019		3	1	2 year	3 year	5 year
Fund	Manager	month	year	p.a.	p.a.	p.a.
Equity Mandate						
	LCIV UK Equity Fund ³	-1.7	6.8	-1.5	0.6	4.4
FTSE All Share		1.1	15.6	2.3	5.7	6.8
<i>Difference</i>		-2.8	-8.9	-3.8	-5.2	-2.4
	LGIM Low Carbon Mandate	1.2	24.1	n/a	n/a	n/a
MSCI World Low Carbon Target		1.2	24.3	n/a	n/a	n/a
<i>Difference</i>		0.0	-0.2	n/a	n/a	n/a
Dynamic Asset Allocation						
	LCIV Absolute Return Fund	1.0	8.9	1.2	1.0	3.4
3 Month Sterling LIBOR + 4%		1.2	4.8	4.8	4.6	4.6
<i>Difference</i>		-0.2	4.1	-3.6	-3.7	-1.2
Global Bonds						
	LCIV Global Bond Fund	-0.2	n/a	n/a	n/a	n/a
Barclays Credit Index (Hedged)		0.2	n/a	n/a	n/a	n/a
<i>Difference</i>		-0.4	n/a	n/a	n/a	n/a
Private Equity						
	Invesco	-15.7	-3.4	10.7	6.5	12.9
	Uniqestion	-4.2	-15.4	-3.0	0.5	4.4
Secure Income						
	Partners Group MAC	-2.1	-1.0	1.8	2.6	n/a
3 Month Sterling LIBOR + 4%		1.2	4.8	4.8	4.6	n/a
<i>Difference</i>		-3.3	-5.8	-3.0	-2.0	n/a
	Oak Hill Advisors	2.1	8.1	2.3	2.8	n/a
3 Month Sterling LIBOR + 4%		1.2	4.8	4.8	4.6	n/a
<i>Difference</i>		0.9	3.3	-2.5	-1.9	n/a
	Partners Group Infra	-2.0	3.7	7.0	2.8	n/a
	Aviva Infra Income ²	3.4	-0.7	n/a	n/a	n/a
Inflation Protection						
	M&G	-3.8	7.7	5.9	6.4	n/a
RPI + 2.5% p.a.		0.9	4.7	4.9	5.5	n/a
<i>Difference</i>		-4.7	3.0	1.0	0.9	n/a
	Aberdeen Standard	1.5	4.9	5.9	7.6	n/a
FT British Government All Stocks		-3.4	8.9	5.7	5.1	n/a
<i>Difference</i>		4.9	-4.0	0.2	2.5	n/a
Total Fund		0.2	11.9	4.1	4.9	6.7
Benchmark¹		0.9	12.6	6.6	7.2	7.6
<i>Difference</i>		-0.7	-0.7	-2.5	-2.3	-0.9

Source: Northern Trust (Custodian). Figures are quoted net of fees and estimated by Deloitte. Differences may not tie due to rounding.

¹ The Total Assets benchmark is the weighted average performance of the target asset allocation.

² Performance figures provided by Aviva. Aviva Infrastructure Income Fund NAV has been restated, dating back to 30 September 2018, in respect of accounting treatment of a legal dispute.

³ Performance and benchmark figures for the LCIV UK Equity Fund are to 30 November 2019 and not 31 December 2019, as the assets were disinvested during December 2019.

3 Total Fund

3.1 Investment Performance to 31 December 2019

	Last Quarter	One Year	Two Years	Three Years	Five Years
	(%)	(%)	(% p.a.)	(% p.a.)	(% p.a.)
Total Fund – Gross of fees	0.3	12.3	4.5	5.3	7.2
Net of fees ⁽¹⁾	0.2	11.9	4.1	4.9	6.7
Benchmark ⁽²⁾	0.9	12.6	6.6	7.2	7.6
Net performance relative to benchmark	-0.7	-0.7	-2.5	-2.3	-0.9

Source: Northern Trust. Relative performance may not sum due to rounding.

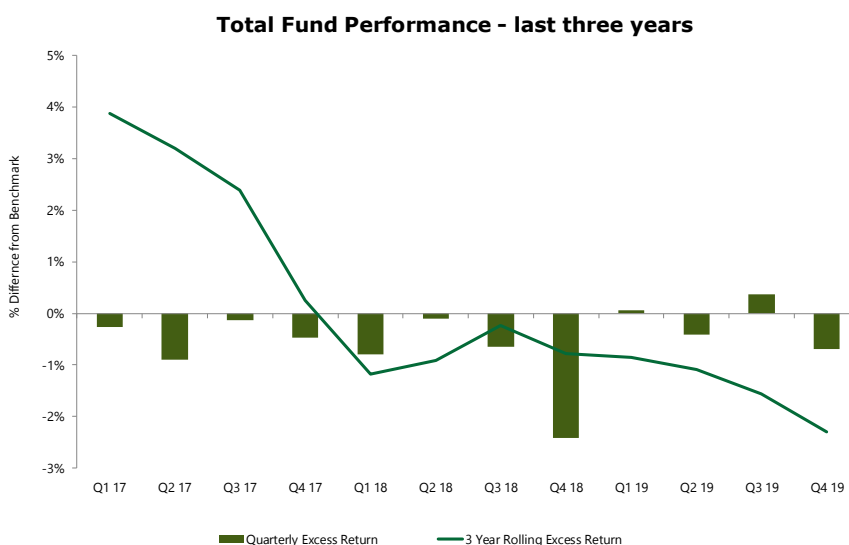
(1) Estimated by Deloitte

(2) Average weighted benchmark

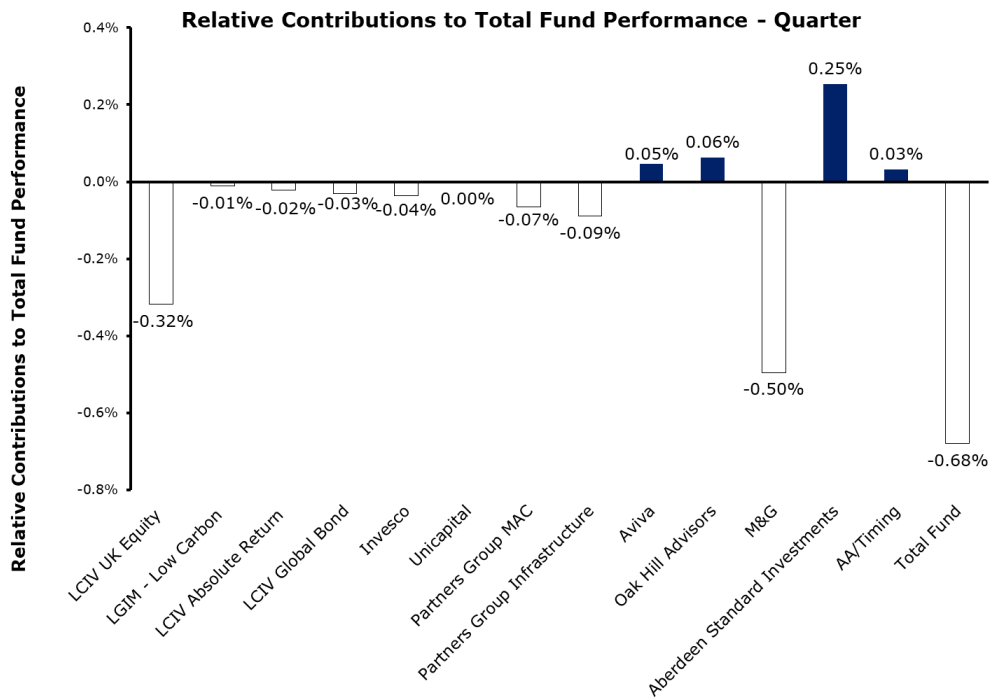
The Total Fund delivered a return of 0.2% on a net of fees basis over the quarter to 31 December 2019, underperforming the fixed weight benchmark by 0.7%.

Over the one-year period, the Fund delivered a return of 12.3% net of fees, underperforming its fixed weight benchmark by 0.7%. Over the longer three and five year periods the Fund delivered positive total returns on a net of fees basis of 4.9% p.a. and 6.7% p.a. respectively, underperforming the benchmark by 2.3% p.a. and 0.9% p.a. for each period.

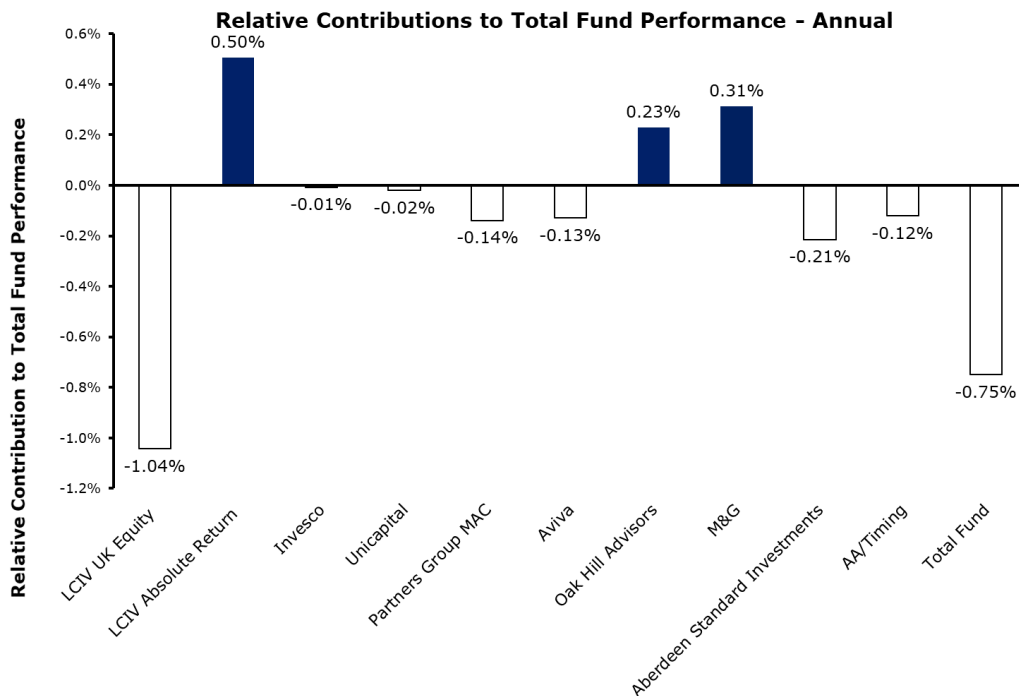
The chart below compares the net performance of the Fund relative to the fixed weight benchmark over the three years to 31 December 2019. The 3-year rolling excess return fell and remained negative over the quarter.



3.2 Attribution of Performance to 31 December 2019



Over the quarter, The Fund underperformed its benchmark with underperformance from M&G and the LCIV UK Equity Fund accounting for a large proportion of this. Positive performance from Aberdeen Standard Investments, Oak Hill Advisors and Aviva partially offset underperformance from all other managers relative to respective benchmarks.



The Fund underperformed the composite benchmark by 0.7% over the year to 31 December 2019. Underperformance from the LCIV UK Equity Fund relative to its benchmark largely contributed, with further underperformance by Partners MAC, Aviva and Aberdeen Standard Investments also impacting performance detrimentally. The negative contribution provided by the "AA/Timing" bar represents the impact of the Fund having an overweight allocation to Aviva and Aberdeen Standard Investments during a period of negative performance.

3.3 Asset Allocation

The table below shows the value of assets held by each manager as at 31 December 2019 alongside the Target Benchmark Allocation.

Manager	Asset Class	Actual Asset Allocation				Benchmark Allocation (%)
		30 Sep 2019 (£m)	31 Dec 2019 (£m)	30 Sep 2019 (%)	31 Dec 2019 (%)	
LCIV	UK Equity (Active)	124.4	0.0	11.3	0.0	0.0
LGIM	Low Carbon Equity (passive)	417.2	546.2	38.0	49.3	45.0
	Total Equity	541.6	546.2	49.3	49.3	45.0
LCIV	Absolute Return	131.6	132.9	12.0	12.0	10.0
LCIV	Global Bond	88.8	108.8	8.1	9.8	10.0
	Total Dynamic Asset Allocation	220.4	241.7	20.1	21.8	20.0
Invesco	Private Equity	2.6	1.7	0.2	0.1	0.0
Unicapital	Private Equity	1.1	1.1	0.1	0.1	0.0
	Total Private Equity	3.7	2.8	0.3	0.2	0.0
Partners Group	Multi Asset Credit	22.1	20.9	2.0	1.9	5.0
Oak Hill Advisors	Diversified Credit Strategy	74.9	76.6	6.8	6.9	7.5
Partners Group	Direct Infrastructure	23.5	23.1	2.1	2.1	5.0
Aviva	Infrastructure Income	28.7	28.1	2.6	2.5	2.5
	Secure Income	149.2	148.6	13.6	13.4	20.0
M&G	Inflation Opportunities	115.6	111.3	10.5	10.0	10.0
Aberdeen Standard Investments	Long Lease Property	57.0	57.9	5.2	5.2	5.0
	Total Inflation Protection	172.6	169.2	15.7	15.3	15.0
LGIM	Liquidity Fund	11.1	0.2	1.0	0.0	0.0
	Total	1,098.6	1,108.7	100.0	100.0	100.0

Source: Northern Trust (Custodian) and have not been independently verified
Figures may not sum to total due to rounding

At 31 December 2019, the Fund was 4.3% overweight to equities whilst continuing to be underweight to secure income by 6.6%. This is a result of the Partners Group Multi Asset Credit Fund continuing to distribute funds back to investors and the Partners Group Direct Infrastructure Fund being in the process of drawing funds into its portfolio.

During October 2019, the Fund invested £20m into the LCIV Global Bond Fund with £10m from the LGIM Sterling Liquidity Fund and £10m from the Fund's bank account. This brought the allocation to the LCIV Global Bond Fund to c. 10% in line with the strategic benchmark allocation.

During December 2019, the disinvestment from the LCIV UK Equity Fund and subsequent transfer to the LGIM World Low Carbon Equity Fund was completed with the benchmark allocation to the LGIM Fund also increased as a result.

In addition, during December 2019, the Sub-Committee committed to allocate £55m to the Aberdeen Standard Investments Multi-Sector Private Credit Fund with the first close set to take place in Q1 2020. This allocation is to be funded from a combination of cash, the remaining holdings in Partners MAC as funds are re-distributed, and equities.

3.4 Yield Analysis as at 31 December 2019

The following table shows the running yield on the Fund's investments:

Manager	Asset Class	Yield as at 31 Dec 2019
LGIM	Low Carbon Equity	N/A ¹
LCIV	Absolute Return	1.50%
LCIV	Global Bond	3.36%
Partners Group	Multi-Asset Credit	3.58% ²
Oak Hill Advisors	Diversified Credit Strategy	6.50%
Aviva Investors	Infrastructure	8.00% ³
M&G	Inflation Opportunities	2.29%
Aberdeen Standard Investments	Long Lease Property	4.20%
	Total	1.70%

¹The LGIM MSCI World Low Carbon Target Index Fund is not currently eligible for NDIP payments and so there is no yield available for the fund.

²Represents yield to 30 June 2019.

³Represents yield to 30 September 2019.

Appendix 1 – Fund and Manager Benchmarks

The tables in this Appendix detail the benchmarks and outperformance targets, for the Total Fund and each individual manager.

Total Fund

Inception: 31 December 1999.

Manager	Asset Class	Allocation	Benchmark	Inception Date
Majedie	UK Equity	15.0%	FTSE All-Share Index +2% p.a. over three year rolling periods	31/08/05
LGIM	Low Carbon Target	30.0%	MSCI World Low Carbon Target Index	18/12/18
Ruffer	Dynamic Asset Allocation	10.0%	3 Month Sterling LIBOR +4% p.a.	31/07/08
PIMCO	Global Bond	10.0%	Barclays Global Aggregate – Credit Index Hedged (GBP)	09/05/19
Invesco	Private Equity	0.0%	n/a	30/09/09
Unigestion	Private Equity	0.0%	n/a	30/09/09
Partners Group	Multi Asset Credit	5.0%	3 Month Sterling LIBOR +4% p.a.	28/01/15
Oak Hill Advisors	Multi Asset Credit	7.5%	3 Month Sterling LIBOR +4% p.a.	01/05/15
Partners Group	Infrastructure Fund	5.0%	3 Month Sterling LIBOR +8% p.a.	31/08/15
Aviva Investors	Infrastructure Income Fund	2.5%	3 Month Sterling LIBOR +6% p.a.	23/05/18
M&G	Inflation Opportunities	10.0%	RPI +2.5%	01/05/15
Aberdeen Standard Investments	Long Lease Property	5.0%	FT British Government All Stocks Index +2.0%	09/04/15
	Total	100.0%		

Appendix 2 – Risk warnings & Disclosures

- Past performance is not necessarily a guide to the future.
- The value of investments may fall as well as rise and you may not get back the amount invested.
- Income from investments may fluctuate in value.
- Where charges are deducted from capital, the capital may be eroded or future growth constrained.
- Investors should be aware that changing investment strategy will incur some costs.
- Any recommendation in this report should not be viewed as a guarantee regarding the future performance of the products or strategy.

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