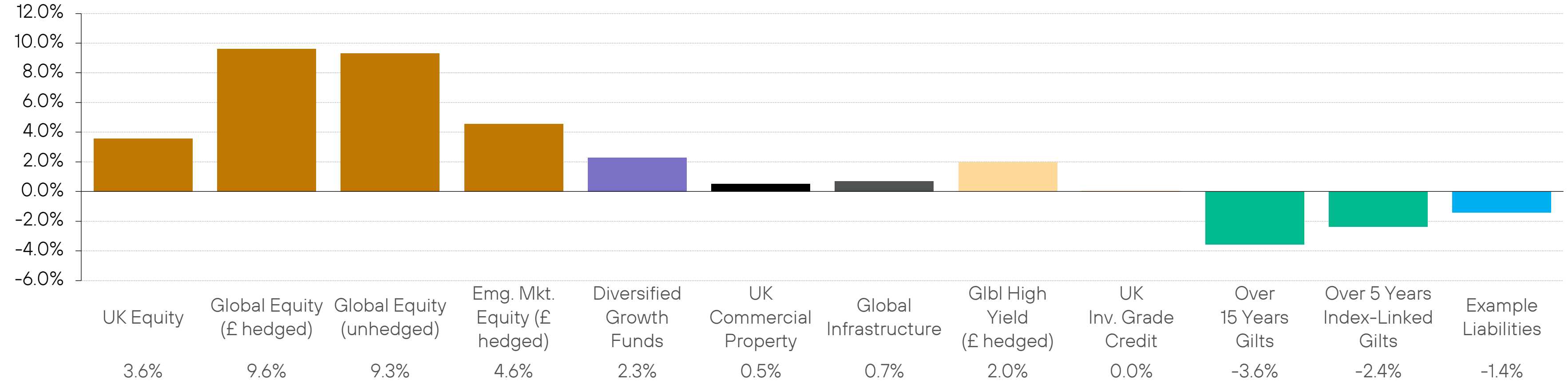
London Borough of Hammersmith & Fulham Pension Fund

Investment Performance Report to 31 March 2024 - Summary

isio.

Market Background – Overview Q1 2024

Returns by Asset Class – Q1 2024



Key Upcoming Events

Q2 2024 Base rate publications

- UK: The dates for the Bank of England's Monetary Policy Committee ("MPC") announcements are 9 May and 20 June.
- US: The dates for the US Federal Reserve's Federal Open Market Committee ("FOMC") meetings are 1 May and 12 June.

Q2 2024 Inflation publications

- UK Inflation data publications: 16 April, 21 May, 18 June.
- US Inflation data publications: 10 April, 15 May, 12 June.

Commentary

- Market expectations around the pathway for interest rate cuts were heavily revised over Q1, as markets priced in fewer expected rate cuts for 2024 due to resilient growth, sticky inflation and low unemployment figures. These data points indicated a stronger economic picture, especially in the US.
- US and Japanese equities delivered strong returns – the former was supported by strong earnings growth, particularly from the 'magnificent seven' and Japan was driven by an improving economic outlook as the BoJ began to normalise monetary policy.
- In credit markets, with the expected pace of rate cuts slowing, gilts and index linked gilt returns were negative. Corporate debt benefitted from the tightening credit spreads, as such, high yield bonds outperformed US and UK investment grade.
- Due to increasing gilt yields over the period, pension scheme liabilities are expected to have fallen. The extent to which this led to a funding gain will depend on the level of liability hedging employed to manage interest rate and inflation risk.

Summary

Global economic resilience continued with US GDP data showing that the US economy grew faster than expected - this contributed to a continued rally in risk assets like equities and high yield bonds.

Over Q1 the market outlook changed substantially regarding anticipated interest rate cuts ahead, following stronger than expected economic and inflation data.

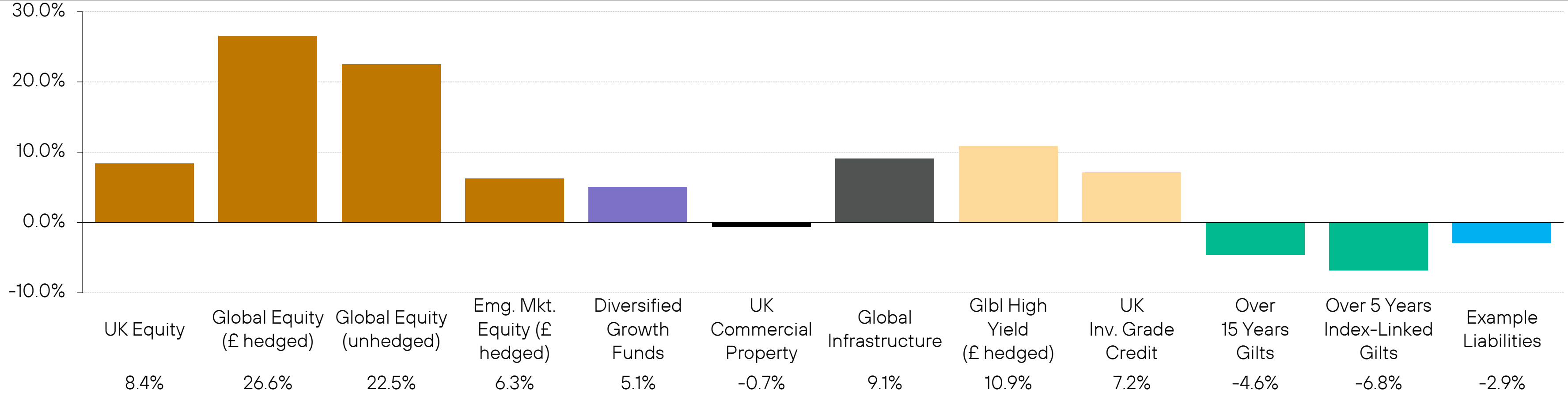
Equities benefitted from strong earnings and economic data tailwinds, hitting new highs in the US and Japan. Whereas credit performance was more varied. Gilts and index-linked gilts were negative. Investment grade credit was flat/negative in US and UK. EM Debt, global high yield and Euro investment grade were positive.

Due to a rise in long-dated gilt yields, pension scheme liabilities are expected to have fallen over the period.

Sources: Refinitiv, DGF investment managers, Isio calculations.

Market Background – Overview 12 Months to Q1 2024

Returns by Asset Class – Q1 2024



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Q2 2024 Inflation publications

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Commentary

- 12-month performance was positive across most growth asset classes, as investor sentiment remained positive despite central bank indications of preferring to hold interest rates steady rather than drastically cutting them over the year ahead.
- Global equites delivered strong returns over the 12-month period. In the US, positive earnings growth has been sustained, largely stemming from large cap technology companies, particularly those involved in AI related themes. In Japan, positive momentum continued with the Topix forging higher again in the recent Q1 period - the country is shifting to an inflationary economy after years of deflation.
- Fixed income experience was more mixed, with nominal and index-linked gilts generating negative returns over the trailing 12-month period, whereas UK IG and Global High Yield delivered positive returns as credit spreads continued to taper due to improved confidence that corporate debt levels would withstand higher interest rates.

Summary

Global markets delivered largely positive returns over the 12-month period to 31 March 2024 and global economic resilience continued despite lingering inflation, periods of volatility and the outbreak of war in the middle east.

Global equities performed strongly, driven by constant, strong earnings growth in the US and improving business conditions. Outside of the US, Eurozone inflation cooled, while Japanese GDP growth was revised higher and the BoJ formally ended negative interest rate policy, reflecting strong economic momentum there.

Credit market performance was mixed as nominal and index-linked gilt returns were negative over the period, whereas Global high yield and UK IG Credit delivered positive returns. Credit spreads continued to narrow, as higher all-in yields attracted investor inflows, and economic data improved.

Example liabilities for pension schemes have fallen over the 12-month period.

Sources: Refinitiv, DGF investment managers, Isio calculations.

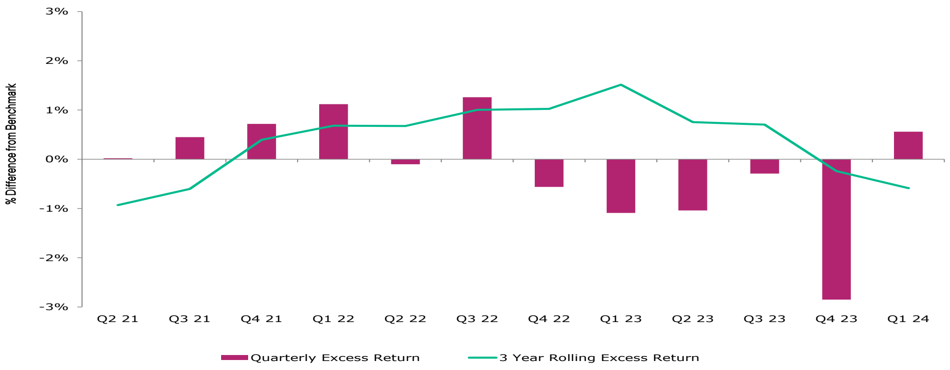
Executive Summary – Q1 2024

Fund Performance to 31 March 2024		3 months (%)			1 year (%)			3 years (% p.a.)		
		Fund	Benchmark	Relative	Fund	Benchmark	Relative	Fund	Benchmark	Relative
Equity	LCIV Global Equity Quality	7.0	9.2	(2.2)	17.9	20.6	(2.7)	9.2	10.2	(0.9)
	LGIM Low Carbon Mandate	9.9	10.0	(0.0)	23.1	23.2	(0.1)	11.9	12.0	(0.1)
Dynamic Asset Allocation	LCIV Absolute Return Fund	(0.8)	2.3	(3.1)	(7.2)	9.2	(16.4)	(0.1)	6.5	(6.6)
	LCIV Long Duration B&M	(0.7)	(1.1)	0.4	n/a	n/a	n/a	n/a	n/a	n/a
	LCIV Short Duration B&M	0.9	1.0	(0.1)	n/a	n/a	n/a	n/a	n/a	n/a
	Allspring Climate Transition Global B&M	4.9	(1.3)	6.2	n/a	n/a	n/a	n/a	n/a	n/a
Secure Income	Partners Group MAC[2]	(0.7)	2.3	(3.0)	(1.2)	9.2	(10.3)	11.5	6.5	4.9
	Oak Hill Advisors	2.6	2.3	0.3	12.9	9.2	3.7	4.5	6.5	(2.0)
	abrdn MSPC Fund[3]	6.9	0.6	6.3	15.3	8.6	6.7	(0.2)	(1.4)	1.2
	Darwin Alternatives	(0.1)	2.8	(2.9)	(16.4)	11.2	(27.6)	n/a	n/a	n/a
	Partners Group Infra[2]	0.6	3.3	(2.7)	6.7	13.2	(6.5)	17.1	10.5	6.5
	Aviva Infra Income[4]	2.7	2.8	(0.1)	(14.5)	11.2	(25.7)	(0.5)	8.5	(9.0)
Inflation Protection	abrdn Long Lease Property Fund	(2.3)	(1.1)	(1.2)	(9.1)	1.9	(11.0)	(6.8)	(5.2)	(1.6)
	Alpha Real Capital	2.3	(4.8)	7.0	(12.3)	(15.2)	3.0	n/a	n/a	n/a
	Man GPM	(3.4)	2.3	(5.7)	(8.1)	9.2	(17.3)	n/a	n/a	n/a
Total Fund[1]		4.6	4.0	0.6	7.9	11.9	(4.0)	5.2	5.8	(0.6)

Commentary

- The Total Fund delivered an absolute return of 4.6% on a net of fees basis over the quarter to 31 March 2024, outperforming the fixed weight benchmark by 0.6%.
- The Total Fund delivered positive returns of 7.9% and 5.2% p.a. on a net of fees basis over the year and annualised three years respectively to 31 March 2024, underperforming its fixed weight benchmark by 4.0% and 0.6% p.a. over the year and three years respectively.
- Short term deviations from benchmark can be expected where the underlying fund is measured against a target that does not move in line with the respective asset class, for example a number of the private markets funds are measured against a cash-plus target. Details of the benchmarks used for each fund can be found in the Appendix.
- The chart to the right compares the net performance of the Fund relative to the fixed weight benchmark over the three years to 31 March 2024. The 3-year rolling excess return remained negative over the first quarter of 2024 despite outperforming the benchmark over the quarter, with the Fund having underperformed the fixed weight benchmark over each of the five quarters in succession leading to the end of December 2023.

Total Fund Performance – Last Three Years



Source: Northern Trust (Custodian). Figures are quoted net of fees. Differences may not tie due to rounding. Please note that there also exists a residual private equity allocation to Invesco and Unicapital – this allocation makes up less than 0.1% of the Fund's total invested assets.

[1] The Total Assets benchmark is calculated using the fixed weight target asset allocation. [2] Partners Group Multi Asset Credit and Direct Infrastructure Fund performance provided to 28 February 2024. [3] abrdn MSPC Fund performance provided to 31 December 2023.

[4] Aviva Investors performance figures provided by Northern Trust take into account a c. 1.7% income distribution from the Infrastructure Income Fund towards the end of each quarter.

Asset Allocation as at 31 March 2024

Fund	Actual Asset Allocation				
	31 Dec 2023 (£m)	31 March 2024 (£m)	31 Dec 2023 (%)	31 March 2024 (%)	Benchmark Allocation (%)
LCIV Global Equity Quality	167.6	179.7	12.7	13.2	13.0
LGIM Low Carbon Mandate	375.3	412.6	28.5	30.3	27.0
Total Equity	**543.0**	**592.3**	**41.2**	**43.5**	**40.0**
LCIV Absolute Return Fund	152.4	151.2	11.6	11.1	10.0
Allspring Buy & Maintain (Climate Transition)	129.0	135.3	9.8	9.9	10.0
LCIV Buy & Maintain (Long Duration)	33.9	33.5	2.6	2.5	2.5
LCIV Buy & Maintain (Short Duration)	32.9	33.1	2.5	2.4	2.5
Total Dynamic Asset Allocation	**348.1**	**353.1**	**26.4**	**25.9**	**25.0**
Partners Group MAC	8.1	6.5	0.6	0.5	-
Oak Hill Advisors Diversified Credit Strategies	71.7	73.6	5.4	5.4	5.0
Partners Direct Infrastructure	39.8	33.2	3.0	2.4	5.0
Aviva Infrastructure Income	20.5	15.2	1.6	1.1	-
Quinbrook Renewables Impact	42.1	47.6	3.2	3.5	3.5
abrdn Multi Sector Private Credit	48.4	51.2	3.7	3.8	4.0
Darwin Alternatives Leisure Development Fund	29.0	29.0	2.2	2.1	2.5
Secure Income	**259.6**	**256.3**	**19.7**	**18.8**	**20.0**
Abrdn Long Lease Property	50.8	49.6	3.9	3.6	5.0
Alpha Real Capital Inflation Linked Income Fund	78.7	79.0	6.0	5.8	7.5
Man GPM	24.5	23.6	1.9	1.7	2.5
Total Inflation Protection	**154.0**	**152.2**	**11.7**	**11.2**	**15.0**
Bank Balance	13.1	7.3	1.0	0.5	-
Total Assets	**1,317.9**	**1,361.1**	**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. [1]Partners Group Multi Asset Credit and Direct Infrastructure valuations provided by Northern Trust with a month's lag (i.e. as at 30 November 2023and as at 28 February 2024). [12] Total Fund valuation includes £30k which is invested in private equity allocations with Invesco and Unicapital, with these investments currently in wind down.

Fund Activity

Item	Action points / Considerations	Status
Infrastructure and Renewable Infrastructure	**Aviva Investors Infrastructure Income Fund ("AIIIF")** • At the 20 June 2022 Pension Fund Committee Meeting, the Pension Fund Committee agreed to proceed with the proposed full disinvestment from the Fund's investment in the Aviva Investors Infrastructure Income Fund and, in June 2022, the Pension Officers served notice to fully disinvest from AIIIF. • The London Borough of Hammersmith and Fulham Pension Fund received £5.4m on 30 January 2024, which represents the first tranche of the redemption proceeds. The remaining redemption proceeds are expected to follow in one further tranche during Q3 2024. **Quinbrook Renewables Impact Fund** • Over the quarter, Quinbrook issued two draw down requests for £3.1m to be paid by 23 January 2024 and £2.6m to be paid by 28 February 2024, funded from excess cash held in the Trustee bank account. Following quarter end, Quinbrook issued a further draw down request for £1.1m for payment by 30 May 2024, also funded from excess cash. Resultantly, following payment of the latest draw down request, the Fund's £45m commitment is c. 95% drawn for investment as at 30 May 2024.	Discussion (yellow) Information only (green)
Affordable Housing	**Man GPM Community Housing** • Man GPM did not issue any further capital calls over the first quarter of 2024. Following quarter end, Man GPM issued a draw down request for £0.2m for payment by 9 May 2024, funded from excess cash held in the Trustee bank account. As such, as at 9 May 2024 following payment of this request, the Fund's total commitment is c. 79% drawn for investment.	Information only (green)

Summary

This page sets out the key Fund activity updates over the quarter and following quarter end.

Any updates that require action or discussion are flagged accordingly with the key below.

Status key

- Action
- Decision
- Discussion
- Information only

Fund Activity

Item	Action points / Considerations	Status
Partners Group	**Partners Group Multi Asset Credit** • Following quarter end, on 10 May 2024, Partners Group wrote to investors in the Multi Asset Credit Fund 2014 to seek consent to extend the term of the strategy by three years to 28 July 2027. • There are 5 investments remaining in the portfolio and Partners Group is seeking an extension to the fund life in order to facilitate an orderly wind-down – to avoid selling the remaining assets at substantial discount as a result of current market dynamics and to allow additional time for the remaining assets to realise their value creation potential. • Partners Group anticipates that the majority of asset exits will complete within the next 12-18 months, but has proposed a 3 year extension to allow flexibility.	Decision
Allspring Global Investments	**Allspring Climate Transition Global Buy & Maintain** • Following quarter end, on 22 April 2024 Allspring Global Investments announced that Stephane Fiévée will be named as the new Head of European Credit Research on the Global Fixed Income Research Team, effective 1 June 2024. This action will coincide with the retirement of Duncan Warwick-Champion, current Head of European Credit Research. • Prior to taking on the new role, Stephane was a senior research analyst for the Global Fixed Income Research Team, having joined Allspring in 2017. Stephane has 20 years of investment industry experience. • Isio held a meeting with Allspring on 15 May 2024 to discuss the change in personnel. Allspring have confirmed that there are no plans to modify the conviction or approach undertaken by the European Credit Research Team, and have detailed that continuity of research team methodology and structure has been a key factor behind the decision to promote Stephane. Allspring has constructed its research teams to ensure that, where there are team changes, there is minimal impact to services. • We are comfortable with the proposed changes considering Stephane's experience in the industry and that the European Credit Research Team is relatively large and supported by the wider global Allspring teams. We will, however, continue to monitor the strategy in the light of the agreed changes.	Information only

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Appendices

Fund and Manager Benchmarks

Manager	Asset Class	Allocation	Benchmark	Inception Date
LCIV	Global Equity Quality	13.0%	MSCI AC World Index	30/09/20
LGIM	Low Carbon Target	27.0%	MSCI World Low Carbon Target Index	18/12/18
Ruffer	Dynamic Asset Allocation	10.0%	3 Month Sterling SONIA +4% p.a.	31/07/08
LCIV	Short Duration Buy & Maintain Credit	2.5%	iBoxx £ Collateralized & Corporates 0-5	06/12/2023
LCIV	Long Duration Buy & Maintain Credit	2.5%	iBoxx £ Collateralized & Corporates 10+	06/12/2023
Allspring	Climate Transition Global Buy & Maintain	10.0%	ICE BofA Sterling Corp Bond	07/11/2023
Partners Group	Multi Asset Credit	0.0%	3 Month Sterling SONIA +4% p.a.	28/01/15
Oak Hill Advisors	Multi Asset Credit	5.0%	3 Month Sterling SONIA +4% p.a.	01/05/15
abrdn	Multi Sector Private Credit	4.0%	3 Month Sterling SONIA / ICE ML Sterling BBB Corporate Bond Index	08/04/2020
Partners Group	Infrastructure Fund	5.0%	3 Month Sterling SONIA +8% p.a.	31/08/15
Quinbrook	Renewables Impact Fund	3.5%	3 Month Sterling SONIA +6% p.a.	24/08/23
Darwin Alternatives	Leisure Development Fund	2.5%	3 Month Sterling SONIA +6% p.a.	01/01/22
abrdn	Long Lease Property	5.0%	FT British Government All Stocks Index +2.0%	09/04/15
Alpha Real Capital	Ground Rents	7.5%	BoAML >5 Year UK Inflation-Linked Gilt Index +2.0%	17/05/21
Man GPM	Affordable / Supported Housing	2.5%	3 Month Sterling SONIA +4% p.a. (Target)	02/06/21
	Total	100.0%		

Explanation of Market Background

This glossary explains the components of the Market Background charts at the beginning of this report.
All returns are in Sterling terms, unhedged, unless otherwise stated. Where "hedged" returns are quoted, these are local currency returns (i.e. any costs and imprecisions in hedging are assumed to be negligible).

Market Background Overview

- Returns by Asset Class – The market indices underlying this chart are as follows:
  - UK Equity: FTSE All-Share
  - Global Equity: FTSE World (Unhedged and Hedged)
  - Emerging Market Equity: MSCI Emerging Markets
  - Diversified Growth Funds: mean of a sample of DGF managers
  - Property: IPD Monthly UK
  - Global High Yield: BoAML Global High Yield (GBP Hedged)
  - UK Inv. Grade Credit: BoAML Sterling Non-Gilt
  - Over 15 Years Gilts: FTSE Over 15 Year Gilt
  - Over 5 Years Index-Linked Gilts: FTSE Over 5 Year Index-Linked Gilt
  - Example Liabilities: a simplified calculation illustrating how a typical pension scheme's past-service liabilities may have moved

Market Background – Global Equity

- Regional Returns – The market indices underlying this chart are as follows:
  - World: FTSE World
  - UK: FTSE All Share
  - North America: FTSE North America
  - Europe ex UK: FTSE Europe ex UK
  - Japan: FTSE Japan
  - Emg Mkts: MSCI Emerging Markets
- Sector Returns – The market indices underlying this chart are the relevant sectors from the MSCI All-Countries index.
- VIX Volatility Index – This is a forward-looking indicator. It represents the expected range of movement (in percentage terms) in the S&P 500 index (i.e. US equities in dollar terms) over the next year, at a 68% confidence level. It is calculated using options prices over a 30-day horizon.

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Market Background – DGF

- Diversified Growth Funds ("DGFs") – Due to the lack of a market index for DGFs, we illustrate their performance by showing the returns of ten of the largest funds by assets under management.
- Returns are shown net of each manager's standard fee. While every effort has been taken to select vehicles with institutional/clean fee structures, the impact may not necessarily reflect any particular client's fee arrangements.
- The 'Average DGF' performance is an equally-weighted average of the sample of 10 managers' performance figures.
- We have shown Cash+3.5% as an example performance comparator, although it should be noted that not all DGFs will have this performance target.
- 3m Libor is used for the underlying cash return.
- Volatility is calculated by annualising the volatility of daily returns.
- As clients have specific selection criteria, the managers included may not necessarily meet any given client's criteria.
- DGFs encompass a range of investment approaches, return targets, and risk profiles. Consequently, different managers' returns are not necessarily a like-for-like comparison.

Market Background – Real Assets

- Real Assets – The market indices underlying these charts are:
  - Core UK Property: IPD Monthly UK Index
  - Long Lease UK Property: IPD Long Income Property Fund Index

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Market Background – Credit

- Sector Returns and Credit Spreads – The market indices underlying this chart are as follows:
  - UK Inv Grade: BoAML Sterling Non-Gilt
  - US Inv Grade: BoAML US Corporate (GBP Hedged)
  - Euro Inv Grade: BoAML Euro Corporate (GBP Hedged)
  - Global High Yield: BoAML Global High Yield (GBP Hedged)
  - Emerging Markets: JP Morgan EMBI Global (GBP Hedged)
  - Leveraged Loans: S&P/LSTA US Leveraged Loan Equity (GBP Hedged)
- Global Broad Credit Market Return – The market index underlying this chart is the BoAML Global Broad Market Corporate Index (GBP Hedged):
  - The Global Broad Market Index tracks the performance of investment grade public debt issued in the major domestic and eurobond markets, including 'global' bonds.
  - Qualifying bonds must have at least one year remaining term to maturity and a fixed coupon schedule. Bonds must be rated investment grade and be domiciled in a country having an investment grade foreign currency long-term debt rating (based on a composite of Moody's and S&P).

Market Background – Yields

- Yields – Yields shown are annual yields (i.e. they have been converted from the “continuously compounded” basis quoted by the Bank of England).
- Example Liabilities – This illustrates how a typical scheme’s past-service liabilities may have moved.
  - It is based on a simplified calculation assuming a scheme with duration 20 years and liabilities split 70% inflation-linked and 30% fixed.
  - Liability movement is calculated using yield changes and unwinding (short-term interest rate with no premium) only, with no accrual, outgo, or inflation experience.
  - A rise in yields equates to a fall in the calculated value of the liabilities (due to the higher discount rate at which the future cashflows are valued); conversely, a fall in yields means a rise in liabilities.

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Contacts

Andrew Singh
Associate Director
Investment Advisory
+44 (0)1312023916
Andrew.singh@isio.com

Jonny Moore
Manager
Investment Advisory
+44 (0)1313222469
Jonny.moore@isio.com

isio.