London Borough of Havering Pension Fund

Q4 2024 Investment Monitoring Report

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The person responsible for this advice is Shaun Nicol. Members of the London Borough of Havering client team who contributed to the production of this paper but are not responsible for the advice are Meera Devlia and Jennifer Aitken

Fund Value
£1,018.6m

Over the quarter, the Fund's assets increased by circa £20.1m

Total Return
2.1%

Over the quarter the Fund returned 2.1%, behind the tactical benchmark of 2.7%

Fund performance

	Last 3 months (%)	Last 12 months (%)	Last 3 years (%)	Last 5 years (%)
Total Fund Performance	**2.1**	**8.8**	**1.7**	**5.4**
Tactical Benchmark	2.7	10.9	6.0	7.2
Strategic Benchmark	-5.5	-6.6	-13.2	-4.8

Tactical benchmark – Represents the aggregate performance target of the Fund's assets and is a measure of relative outperformance/ underperformance from the asset managers.

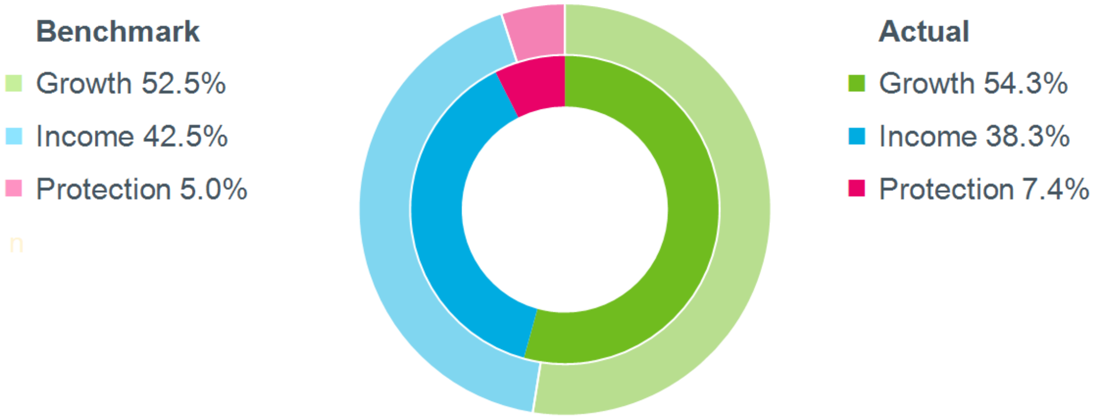
Strategic benchmark – Represents the expected rate at which the Fund's liabilities are growing (or falling) in value. The asset performance relative to the strategic benchmark performance gives an indication of whether the funding level has improved or weakened over a given period.

 Source: Northern Trust and Investment Managers

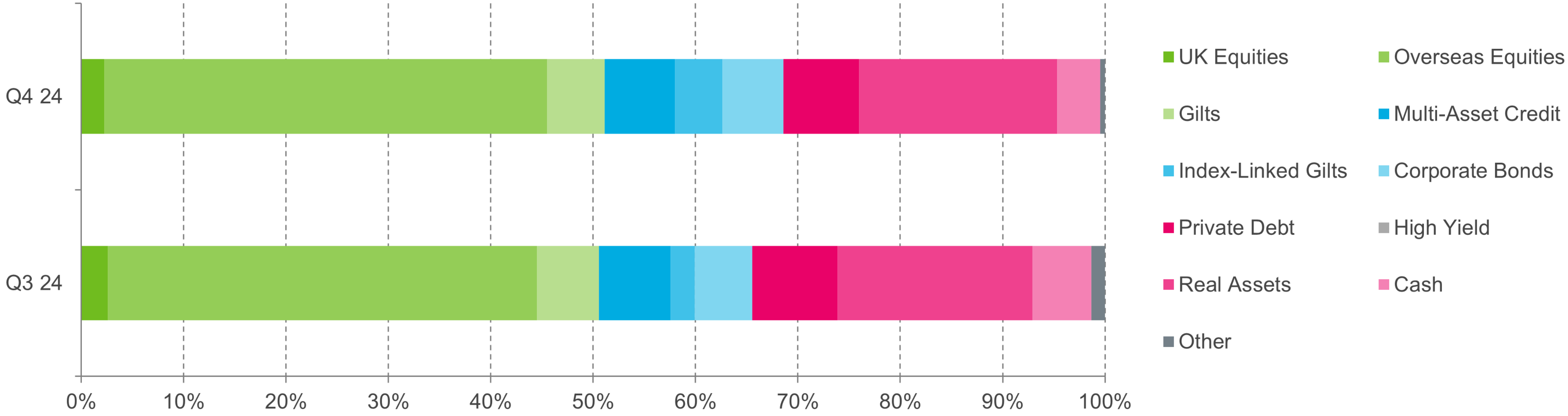
Key Takeaways

- The Fund's total assets increased in value to over £1bn over the quarter.
- Equities continued to perform well over the quarter, with all the Fund's equity mandates providing positive absolute returns, however with some mandates lagging benchmarks (most notably the LCIV GAGPA fund).
- The LCIV Absolute Return Fund performed negatively because of defensive positioning as equities rallied coupled with the impact of rising real gilt yields over the same period.
- This significant increase in real gilt yields rose meant the RLAM Index-Linked Gilt portfolio delivered a negative return.
- The value of the Fund's liabilities is expected to have decreased due to this over the same period (as proxied by the Fund's strategic benchmark).
- Due to limited reporting available for the Fund's private market funds as at quarter-end, performance figures predominantly account for cashflows/currency movements only over the period.
- Sterling weakened significantly against the US Dollar over the quarter, leading to strong performance of private market assets and CBRE in unhedged Sterling terms. The Russell currency overlay strategy served to mitigate this impact
- UK property capital values increased over the quarter, driven by the Industrial and Retail sectors.

Asset allocation



Underlying exposures



Source: Investment Managers

Asset allocation

		Valuation (£m)		Actual Proportion	Benchmark	Relative
		Q3 24	Q4 24			
Total Growth		**524.9**	**553.0**	**54.3%**	**52.5%**	**1.8%**
LGIM Global Equity	LCIV Aligned	43.1	45.7	4.5%	5.0%	-0.5%
LGIM Emerging Markets	LCIV Aligned	41.5	41.9	4.1%	5.0%	-0.9%
LGIM Future World Fund	LCIV Aligned	110.1	114.7	11.3%	10.0%	1.3%
LCIV Global Alpha Growth Paris Aligned Fund	LCIV	160.4	167.2	16.4%	15.0%	1.4%
LCIV PEPPA Passive Equity	LCIV	57.7	61.9	6.1%	5.0%	1.1%
LCIV Absolute Return Fund	LCIV	112.1	121.4	11.9%	12.5%	-0.6%
Total Income		**387.8**	**389.9**	**38.3%**	**42.5%**	**-4.2%**
LCIV Global Bond Fund	LCIV	48.7	47.4	4.7%	5.0%	-0.3%
UBS Property	Retained	50.0	50.3	4.9%	6.0%	-1.1%
CBRE	Retained	30.1	33.2	3.3%	4.0%	-0.7%
JP Morgan	Retained	48.1	53.7	5.3%	5.5%	-0.2%
Stafford Capital Global Infrastructure SISF	Retained	44.0	42.8	4.2%	3.5%	0.7%
LCIV Renewable Energy Infrastructure Fund	LCIV	16.1	17.2	1.7%	3.5%	-1.8%
RLAM Multi-Asset Credit	Retained	69.1	70.0	6.9%	7.5%	-0.6%
Churchill Senior Loan Funds	Retained	29.5	30.2	3.0%	3.0%	0.0%
Permira Credit	Retained	52.2	45.1	4.4%	4.5%	-0.1%
Total Protection		**85.7**	**75.8**	**7.4%**	**5.0%**	**2.4%**
RLAM Index-Linked Gilts	Retained	23.3	47.0	4.6%	5.0%	-0.4%
Cash at Bank	Retained	50.3	28.4	2.8%	0.0%	2.8%
Currency Hedging P/L	Retained	12.1	0.4	0.0%	0.0%	0.0%
Total Scheme		**998.5**	**1,018.6**	**100.0%**	**100.0%**	

Source: Northern Trust. Note: The target allocations were agreed in August 2023 as part of the last investment strategy review.

Asset allocation commentary

- The total value of the Fund's assets increased by c.£20.1m over the quarter to £1,018.6m as at 31 December 2024.
- The increase in valuation is primarily due to the Fund's allocation to 'Growth' assets – as equity allocations generated positive returns over the period, particularly as US equities continued to outperform following Trump's presidential victory (i.e. with expectations of tax cuts, deregulation, a more US nationalist trade policy) and their exposure to the Technology sector.
- The Fund's allocation to 'Income' assets also increased in value but remained slightly below the Fund's target allocation.
- The Fund's allocation to 'Protection' assets decreased in value – as index-linked gilts fell in value over the period, as real gilt yields rose substantially; driven by expectations of both larger and sooner interest rate cuts and declining bond prices.
- The Fund's overall allocation to index linked gilts increased over the quarter to c.4.6% (c.2.4% as at 30 September 2024) as £27.0m of 'surplus cash' (i.e. held across the Fund's in-house Treasury, Russell FX Account and Northern Trust General Cash Account) was invested into the RLAM Index-Linked Gilts Fund in December 2024, to bring this allocation back in line with its strategic benchmark target.
- The Fund paid the following capital calls during the quarter:
  - c.£374k to the Stafford Secondaries IV Fund.
  - c.£1.6m to the LCIV Renewables Fund.
  - c.£1.2m to the Churchill Senior Loan IV Fund.
  - c.£658k to the Permira Credit Solutions V Fund.

- The Fund's investment strategy is implemented through the London Collective Investment Vehicle ("LCIV") and retained assets including life funds (with fee structures aligned with LCIV).
- The target allocation to LCIV and life funds totals 61.0% of Fund assets. Other retained assets will be delivered through external managers, with the position reviewed periodically.

Manager performance

	Last 3 Months (%)			Last 12 Months (%)			Last 3 Years (% p.a.)			Since Inception (% p.a.)		
	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative
Growth												
LGIM Global Equity*	6.0	5.9	**0.1**	19.2	19.8	**-0.5**	8.5	8.7	**-0.2**	12.1	12.2	**-0.1**
LGIM Emerging Markets	1.1	0.2	**0.9**	14.6	14.7	**-0.1**	3.2	3.4	**-0.2**	5.6	5.8	**-0.2**
LGIM Future World Fund	4.2	4.4	**-0.2**	12.9	13.4	**-0.5**	5.9	6.1	**-0.2**	6.6	6.8	**-0.2**
LCIV Global Alpha Growth Paris Aligned Fund*	4.3	6.9	**-2.5**	15.6	20.8	**-4.3**	0.3	9.2	**-8.1**	12.4	12.5	**-0.1**
LCIV PEPPA Passive Equity	7.3	7.1	**0.1**	23.3	23.0	**0.2**	10.0	9.0	**0.9**	9.7	8.3	**1.3**
LCIV Absolute Return Fund*	-3.1	2.2	**-5.2**	-1.1	9.3	**-9.5**	-0.3	7.8	**-7.5**	4.1	5.5	**-1.3**
Income												
LCIV Global Bond Fund	-1.6	-1.6	**0.0**	3.9	3.1	**0.7**	-	-	**-**	8.8	9.9	**-1.0**
UBS Property*	1.2	2.4	**-1.2**	3.8	5.4	**-1.5**	-1.9	-2.0	**0.1**	4.9	5.5	**-0.6**
CBRE	10.1	2.2	**7.7**	2.8	7.6	**-4.4**	3.3	10.6	**-6.6**	5.0	8.9	**-3.6**
JP Morgan	11.7	2.2	**9.3**	15.6	7.6	**7.5**	10.9	10.6	**0.3**	9.1	8.9	**0.2**
Stafford Capital Global Infrastructure SISF II	-0.1	2.2	**-2.3**	-3.3	7.6	**-10.2**	6.9	10.6	**-3.4**	6.1	8.8	**-2.4**
Stafford Capital Global Infrastructure SISF IV	-2.2	2.2	**-4.3**	-1.6	7.6	**-8.5**	12.3	10.6	**1.5**	12.8	10.9	**1.7**
LCIV Renewable Energy Infrastructure Fund	-2.7	2.2	**-4.8**	-3.4	7.6	**-10.2**	7.1	10.6	**-3.1**	7.8	10.9	**-2.8**
RLAM Multi-Asset Credit*	1.6	1.3	**0.3**	8.0	8.3	**-0.3**	3.0	4.0	**-1.0**	3.8	6.7	**-2.7**
Churchill Senior Loan Fund II	10.4	2.2	**8.0**	13.1	9.3	**3.5**	11.5	7.8	**3.4**	7.2	6.1	**1.0**
Churchill Senior Loan Fund IV	9.9	2.2	**7.5**	12.9	9.3	**3.3**	10.7	7.8	**2.7**	10.7	7.8	**2.7**
Permira IV	2.0	2.2	**-0.2**	9.9	9.3	**0.6**	8.0	7.8	**0.2**	5.8	6.3	**-0.5**
Permira V	2.6	2.2	**0.5**	10.9	9.3	**1.5**	-	-	**-**	9.5	9.2	**0.2**
Protection**												
RLAM Index-Linked Gilts	-6.2	-6.0	**-0.2**	-11.6	-9.5	**-2.3**	-20.1	-17.5	**-3.2**	-10.6	-8.8	**-2.0**
Total Scheme	2.1	2.7	**-0.6**	8.8	10.9	**-1.9**	1.7	6.0	**-4.0**	7.7	-	**-**

*Source: 3m, 12m and 3yr performance returns – Northern Trust and Royal London. *SI returns are calculated using available data from Q2 2012. Individual SI performance returns – Hymans calculated chain-linked. **Includes cash at bank and currency hedging. Benchmark performance provided by Northern Trust and Investment Managers*

Manager performance commentary

- The Fund's assets returned 2.1% over the quarter, underperforming the tactical benchmark of 2.7%.
- Although global equities declined in December 2024 (as a result of investors cashing in on the strong equity rally seen over the rest of 2024, overall global equities still rose over the period – with all regions returning positively, as markets anticipate the impact of interest rate cuts, and US equities also outperforming. As a result, all the Fund's equity mandates returned positively – however, the LCIV Global Alpha Growth Paris Aligned Fund underperformed its benchmark over the quarter.
- The LCIV Absolute Return Fund and LCIV Global Bond Fund posted negative returns – the former due its defensive positioning as equities rose, with rising bond yields negatively impacting both mandates.
- Sub-investment grade credit spreads continued to narrow, leading the RLAM MAC Fund to deliver modest positive returns.
- Real gilt yields rose significantly over the quarter – as a result the RLAM Index-Linked Gilt portfolio delivered negative returns.
- Following review of the RLAM mandate, the Fund completed the process of disaggregating the MAC and ILG components within the RLAM mandate structure and updating the Index-Linked Gilt benchmark to the FTSE Actuaries UK Index-Linked Gilts All Stocks Index (from the FTSE Actuaries UK Index-Linked Gilts Over 5 Years Index). This change was effective from 1 October 2024.
- Due to Q4 2024 investment manager valuation/performance reporting not being available for private market funds at time of writing, the performance figures shown are sourced from Northern Trust which allow for cashflows/currency movements only over Q4 2024.
- Sterling weakened significantly against the US Dollar over the quarter, leading to strong performance of private market assets and CBRE in unhedged Sterling terms. The Russell currency overlay served to mitigate this impact

LGIM Global Equity mandate was managed by SSGA prior to November 2017, and we have retained the performance history for these allocations.

Longer term performance for the Baillie Gifford Global Equity Fund and Ruffer Absolute Return Fund is inclusive of performance prior to their transfer into the LCIV.

All asset performance is in GBP terms and does not make an allowance for currency hedging. The total Fund performance includes the impact of the Russell currency overlay mandate. Please see separate slide for further detail on the Russell mandate, along with asset performance excluding the impact of currency fluctuations.

Manager analysis

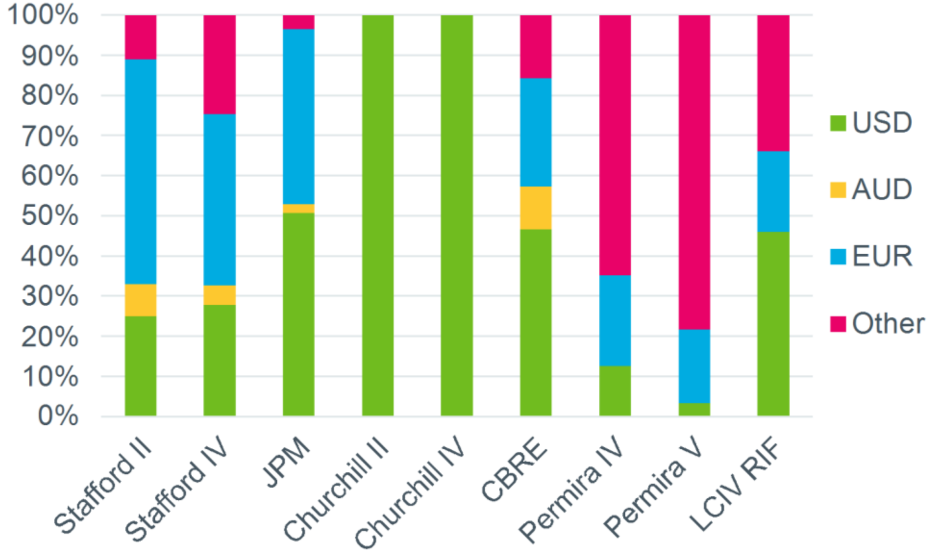
Q4 2024 performance

	Asset return (inc. FX impact)	Currency return (via Russell mandate)	Asset return (ex. FX impact)	BM return	Relative return (ex. FX impact)
Stafford II	-0.1	-0.9	-1.0	2.2	**-3.2**
Stafford IV	-2.2	-1.3	-3.5	2.2	**-5.6**
JPM	11.7	-2.7	9.1	2.2	**6.7**
Churchill II	10.4	-6.8	3.5	2.2	**1.3**
Churchill IV	9.9	-6.8	3.1	2.2	**0.9**
CBRE	10.1	-2.5	7.6	2.2	**5.2**
Permira IV	2.0	-0.3	1.7	2.2	**-0.5**
Permira V	2.6	-0.9	1.7	2.2	**-0.4**
LCIV RIF	-2.7	-2.6	-5.2	2.2	**-7.3**

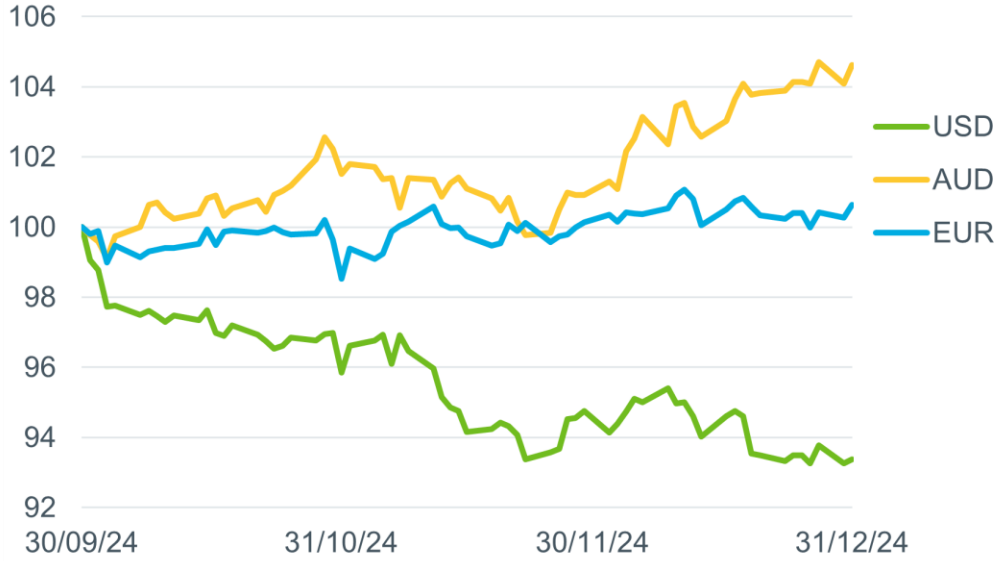
Performance since mandate inception*

	Asset return (inc. FX impact)	Currency return (via Russell mandate)	Asset return (ex. FX impact)	BM return	Relative return (ex. FX impact)
Stafford II	6.6	0.3	6.8	8.8	**-1.8**
Stafford IV	14.5	-0.3	14.1	10.9	**3.0**
JPM	8.2	-0.1	8.1	8.9	**-0.7**
Churchill II	6.7	-1.9	4.8	6.1	**-1.2**
Churchill IV	8.0	-3.0	5.0	7.8	**-2.6**
CBRE	3.1	-0.2	2.9	8.9	**-5.5**
Permira IV	5.7	0.7	6.4	6.3	**0.0**
Permira V	7.8	0.0	7.9	9.2	**-1.2**
LCIV RIF	9.2	-0.4	8.8	10.9	**-1.9**

Hedged currency exposure**



Sterling performance vs. foreign currencies (rebased to 100 at 30 September 2024)



 *Source: Northern Trust and Investment Managers. *Since inception performance is since individual fund inception or inception of the currency hedging mandate, whichever is more recent. **As at 30 September 2024 (latest available).*

Manager analysis commentary

- Russell Investments have been appointed to manage the Fund's currency overlay mandate.
- The current policy is to hedge non-sterling exposures in the Fund's private markets mandates.
- Currency exposure in equity mandates is retained.
- At present, 100% of the exposure to USD, EUR and AUD from the private market investments is hedged with any residual currency exposure retained on a de-minimis basis.
- The volatility of returns (measured as the standard deviation of quarterly returns since inception) is c.4.6% to date when the impact of currency fluctuations is included and c.4.0% when currency movements are stripped out by the Russell currency overlay mandate.
- This continues to indicate that the Russell mandate is reducing overall volatility and increasing the predictability of returns, as intended.

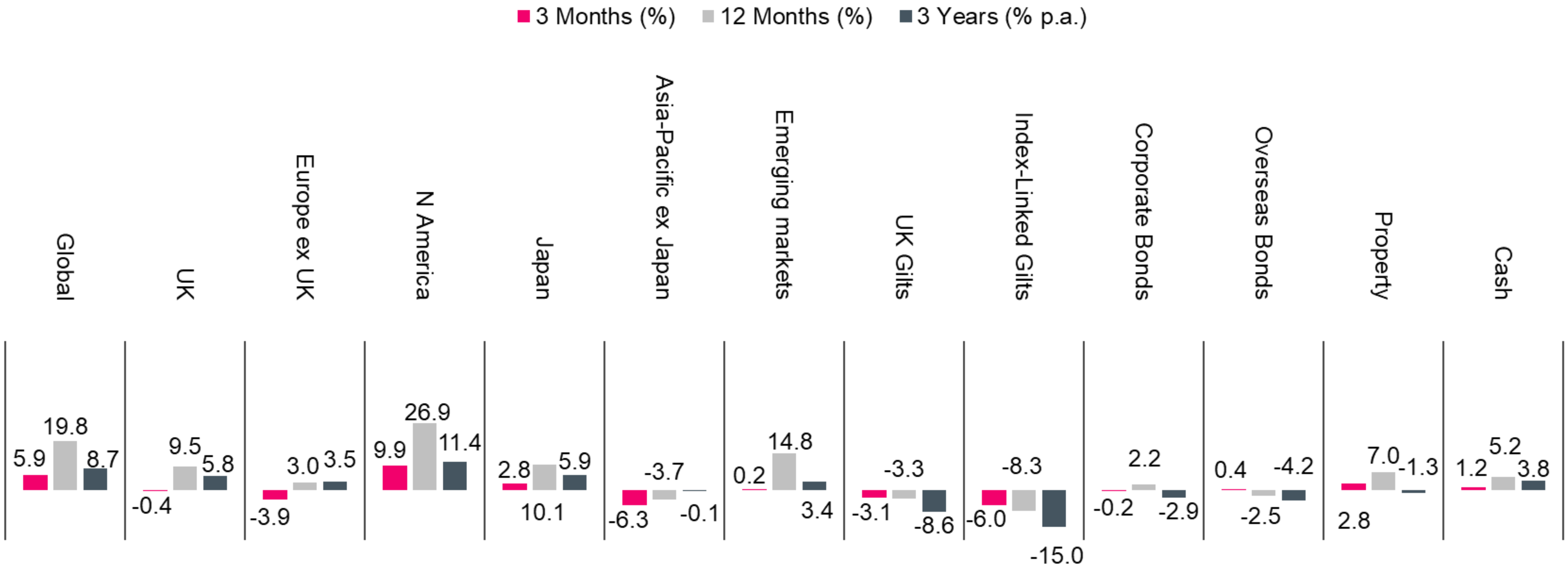
Private Market Investments

Vehicle	Infrastructure			Private Debt		
	Stafford Infrastructure Secondaries Fund II	Stafford Infrastructure Secondaries Fund IV	LCIV Renewable Energy Infrastructure Fund	Churchill Middle Market Senior Loan Fund IV	Permira Credit Solutions IV Senior Fund	Permira Credit Solutions V Senior Fund
Commitment Date	25/04/2018	18/12/2020	30/06/2021	29/09/2021	01/12/2018	07/11/2022
Fund Currency	EUR	EUR	GBP	USD	EUR	EUR
Gross Commitment	€28.5m	€30m	£25m	$26.5m	£36.0m	£43.0m
Gross Commitment (GBP estimate)	£23.6m	£24.8m	-	£21.2m	-	-
Capital Called During Quarter (Payments Less Returned Capital)	-	£0.4m	£1.6m	£1.2m	-	£0.7m
Capital Drawn To Date	£26.3m	£19.9m	£14.9m	£18.9m	£31.2m	£19.0m
Distributions/Returned Capital To Date (Includes Income and Other Gains)	£15.5m	£2.4m	-	£6.3m	£18.9m	£3.3m
NAV at Quarter End	£18.0m	£24.8m	£17.2m	£16.3m	£19.1m	£25.9m
Net IRR Since Inception*	7.4% p.a.	10.4% p.a.	7-10% p.a. (Target)	9.2% p.a.**	8.2% p.a.	12.8% p.a.
Net Cash Yield Since Inception*	6.4% p.a.	3.3% p.a.	3-5% p.a. (Target)	-	-	-
Number of Holdings*	38 positions	22 positions	8 investments	141 investments	46 investments	29 investments

 **as at 30 September 2024 (latest available) **Refers to IRR of realised assets in the portfolio. Source: Investment Managers*

Market Background

Historical returns for world markets



Data source: DataStream. [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. [3] 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 SONIA.

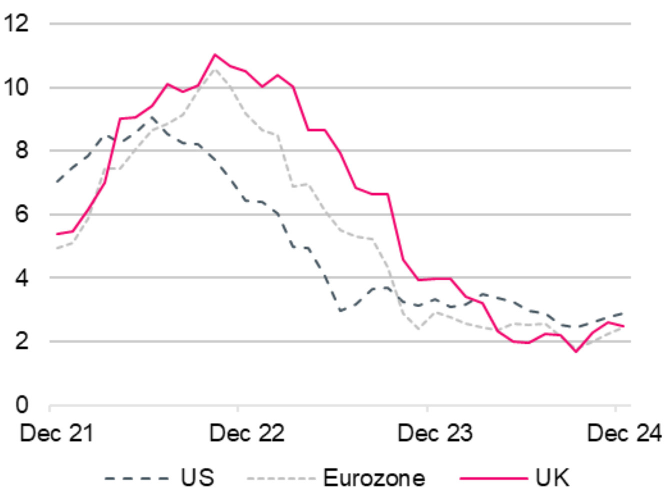
Market Background

Market update

December's US GDP release showed the economy continued to expand at a robust annualised pace of 3.1% in Q3: as consumer and government spending, and business investment all lent support. The eurozone grew a more modest 0.4%, as service sector activity offset ongoing manufacturing weakness, while the UK economy stagnated.

Year-on-year headline CPI inflation rose in Q4 to 2.9%, 2.5% and 2.4%, in the US, UK and eurozone, respectively, largely due to a smaller negative impact from energy prices relative to last year's sharp declines. Core inflation, which excludes volatile energy and food prices, was little changed, but remains above headline measures, at 3.2% in the US and UK, and 2.7% in the eurozone.

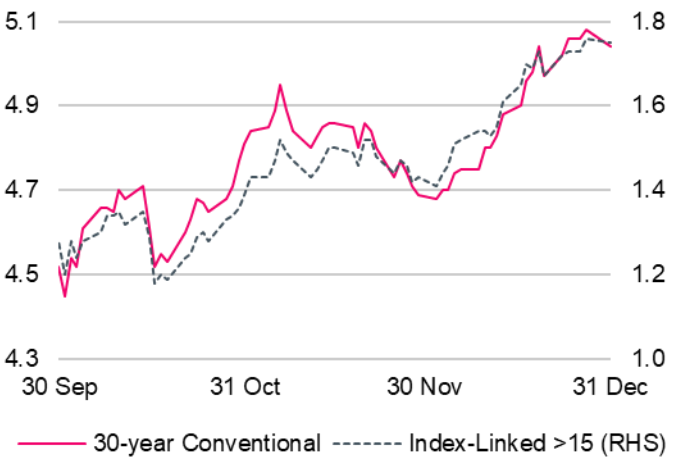
Annual CPI Inflation (% year on year)



Central banks looked through rising headline inflation and cut rates in Q4. The European Central Bank and Federal Reserve (Fed) both cut rates by 0.5% pa, to 3.0% pa and 4.25–4.5% pa, respectively. Amid signs of more persistent inflation, the Bank of England (BoE) lowered rates by a smaller 0.25% pa, to 4.75% pa. At the end of December, markets were expecting just two rate cuts from the BoE and Fed in 2025, down from five at the end of September.

Expectations that US interest rates will remain higher-for-longer saw the trade-weighted US dollar rise 6.4%. Equivalent sterling, yen, and euro measures fell 1.5%, 4.5%, and 2.0%, respectively. Oil prices rose 3.9% but remained relatively low, at $75 per barrel. Despite reaching new highs in October, gold prices fell 0.3% due to a stronger dollar and profit-taking by investors following gold's large gains in 2024.

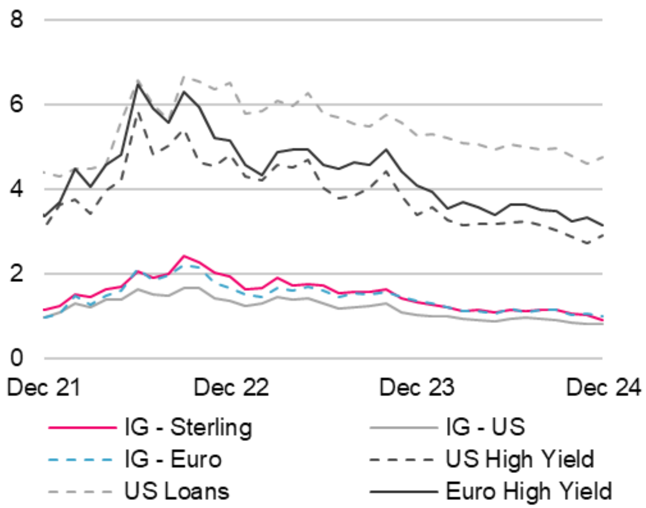
Gilt yields chart (% p.a.)



US 10-year yields rose 0.8% pa to 4.5% pa, driven by strong growth, expectations of a more inflationary policy mix under Trump, and anticipated higher bond issuance to fund tax cuts. UK 10-year gilt yields rose 0.6% pa to 4.6% pa, spiking after the Autumn Budget, as investors digested a likely slower pace of rate cuts and higher gilt issuance. French 10-year yields rose 0.3% pa to 3.2% pa as political ructions led Moody's to downgrade the country's debt. Equivalent German and Japanese yields rose 0.2% pa to 2.4% pa and 1.1% pa, respectively.

Credits spreads fell further in Q4, leaving both investment- and speculative-grade spreads near historic lows. Global investment grade credit spreads remained at 0.9% pa while speculative grade credit spreads fell 0.2% pa to 3.1% pa.

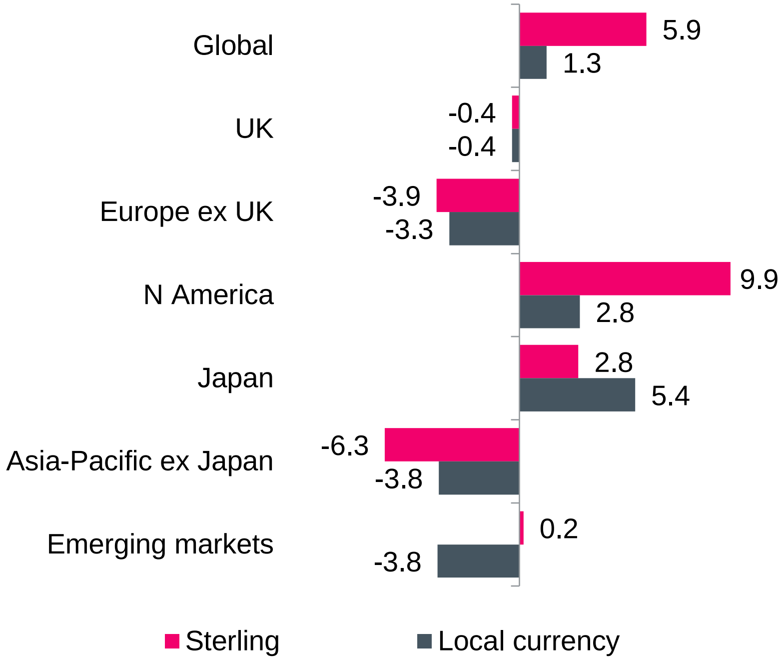
Investment and speculative grade credit spreads (% p.a.)

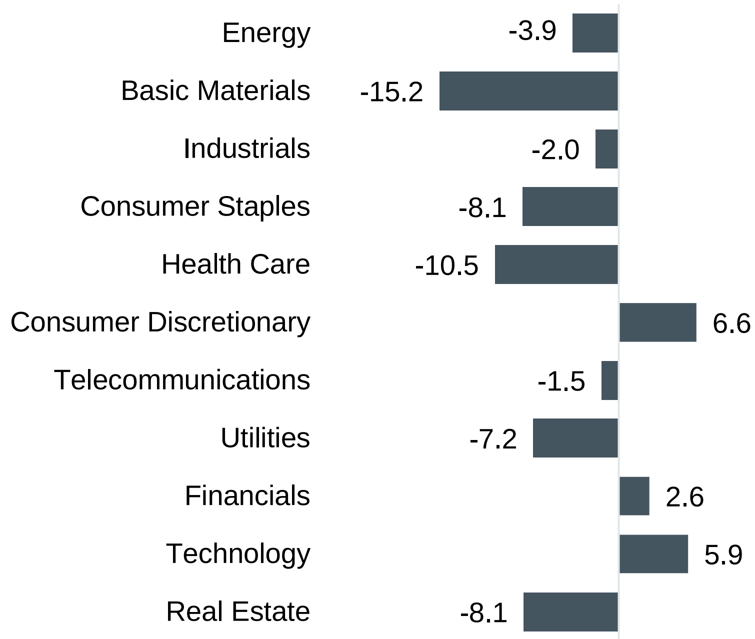


 Source: DataStream, Barings, ICE

Market Background

Regional equity returns [1]





Despite falling in December, the FTSE All World Total Return Index gained 1.3% in Q4. Japan outperformed, as yen weakness lent support to the export-heavy market. The US also outperformed with domestically focused stocks supported by Trump's tax and deregulation policies, and large-cap tech stocks rising on strong earnings. The prospect rising trade frictions, higher US rates, and a stronger dollar contributed to underperformance in other regions, led by emerging and Asian markets, followed by Europe ex-UK and the UK.

The MSCI UK Property Total Return Index rose 2.8% quarter-to-date to end-December, driven by income and a rise in capital values. The 12-month total return to end-December edged up to 7.0%, as 12-month capital growth turned positive in December.

 Data source: DataStream. [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

Capital Markets Outlook

Asset Class	Market Summary
Equities	MSCI ACWI full-year earnings growth forecasts for 2024 have settled at 9.4% while forecasts for both 2025 and 2026 stand at just over 12%. Although, we note the 2025 figure has steadily ticked down over Q4. A large proportion of the 20.6% rise in global equity markets over 2024 was driven by multiple expansion, leaving price-to-earning ratios significantly elevated relative to long-term averages. With less scope for increasing valuations to drive returns going forward, global equities look increasingly reliant on robust earnings growth forecasts being realised.
Investment Grade Credit	Attractive yields and ongoing demand from institutional investors continue to draw strong demand for fixed income credit, taking spreads to historically low levels, particularly in sterling and US investment-grade credit markets. While the dramatic rise in yields over the past few years might have enhanced the strategic role of investment-grade corporate credit, very tight spreads would still see us adopt an underweight position relative to strategic benchmark.
Emerging Market Debt	Strong US growth and sticky inflation point to higher-for-longer US rates and dollar strength. Tariffs also have scope to place further pressure on EM currencies and growth. However, high real policy rates give EM central banks room to cut short-term rates. Local currency sovereign yields remain in our neutral valuation range.
Liquid Sub-Investment Grade Debt	Default rates are expected to fall well below long-term averages over the next 12 months and reach 2.5% in October 2025. Effective interest rates will continue to rise, pressuring debt affordability, but strong balance sheets, limited refinancing needs, low credit spreads, and solid earnings support the benign default outlook. However, speculative-grade spreads already price in this optimism, offering little buffer against downside risks. Indeed, the default outlook is, in part, conditioned on credit spreads remaining historically low.
Private Lending	In the floating-rate syndicated loan market leverage is higher, and interest coverage is lower, than in the speculative-grade bond market. Defaults in the loan market, at 7.4% in the 12 months to end November, are as high as they have been since the COVID-19 pandemic. While spreads are less tight than in the speculative-grade bond market, and rate cuts will provide relief to loan fundamentals, spreads are now below long-term medians.
Core UK Property	Investment volumes have been improving but remain below 5- and 10-year averages. Nonetheless, we've become less cautious on commercial property over the last couple of quarters. The latest edition of the Royal Institute of Chartered Surveyors survey cited improvement in occupier demand as well as rent- and capital-value expectations, while availability and inducements declined. Meanwhile, decent, if unspectacular, economic growth is likely to support slower but still-healthy real rental growth, which has been positive for the last 10 months. Furthermore, property yields are substantially above their June 2022 low, and reversionary yields suggest there is scope for capital value appreciation ahead.
Conventional Gilts	UK GDP growth has slowed in H2 2024 from H1's above-trend pace. We anticipate steady but modest growth with slightly above-target inflation over the next two years, aligning with a neutral outlook. Nominal yields look attractive relative to economic fundamentals, even allowing for some persistence in term premia, which have risen. However, revised debt definitions in the UK autumn budget point to even higher gilt issuance, intensifying technical pressures.
Index-Linked Gilts	Real yields have also risen across maturities, with the 10-year yield slightly above our neutral band. Nominal yields have risen a little more than real yields quarter-to-date and the cost of hedging inflation remains expensive relative to our assessed fair value.

Risk warning

This report is addressed to the Pensions Committee ('the Committee') and Officers of the London Borough of Havering Pension Fund ('the Fund'). It should not be released or otherwise disclosed to any third party except as required by law or regulatory obligation or without our prior written consent. We accept no liability where the report is used by, or released or otherwise disclosed to, a third party unless we have expressly accepted such liability in writing. Where this is permitted, the report may only be released or otherwise disclosed in a complete form which fully discloses our advice and the basis on which it is given.

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