

LONDON BOROUGH OF CAMDEN	WARD: All
REPORT TITLE: London Collective Investment Vehicle Progress Report	
REPORT OF: Executive Director Corporate Services	
FOR SUBMISSION TO: Pension Committee	DATE: 21 September 2022
SUMMARY OF REPORT: This report provides a quarterly update on developments at the London Collective Investment Vehicle (CIV) in creating sub-funds for the spectrum of asset classes, on-boarding of assets and development of the CIV's staff resource. Progress with the London CIV contributes to the Government's pooling agenda and drive to reduce costs in the Local Government Pension Scheme (LGPS).	
Local Government Act 1972 – Access to Information No documents requiring to be listed were used in the preparation of this report:	
Contact Officer: Nigel Mascarenhas Head of Treasury and Financial Services Finance Corporate Services Dennis Geffen Annexe Camley Street London. N1C 4DG	
Telephone	0207 974 1904
Email	nigel.mascarenhas@camden.gov.uk
RECOMMENDATIONS: The Committee is asked to note the contents of the report and feedback any comments on progress to the Chair and officers.	
Signed by	
Director of Finance Agreed
Date:12/09/2022.....

1. INTRODUCTION

- 1.1. All LGPS Pension Funds in England and Wales are participating in the Government's pooling agenda aimed at reducing investment costs, gaining economies of scale, improving governance, and investing in infrastructure in the LGPS. There are eight pools for LGPS funds, and the Government has agreed that these should all be established and regulated.
- 1.2. In London all 32 of the London Borough Funds have joined the London CIV (LCIV) including this Fund. Committee receives quarterly reports on the establishment and progress of the London CIV and transfer of assets into it. This report covers establishment and procurement of new sub-classes, launches of new sub-funds, assets under management and resource build-out at the CIV.
- 1.3. This will assist the Committee in its responsibility of asset allocation whilst future procurement of funds and day to day management is now the responsibility of the London CIV. In October 2021 our Pension Committee chair, Cllr Madlani, was appointed chair of the Shareholder Committee.
- 1.4. The CIV have £12.75bn of assets under management (AUM) as of 31 July 2022. Total assets pooled by Client Funds were valued at £26.21bn (including private market funds).
- 1.5. Over the first quarter of 2022, the CIV had one additional investor to the LCIV Inflation Plus Fund (Camden), bringing total commitments raised by private market funds as of 31 July 2022 to £2 billion.
- 1.6. The value of total pooled passive assets was £12.65 billion.

2. LONDON CIV UPDATE

Funds

- 2.1 In July, LCIV gave an update on the Global Bond Fund's ongoing transition to a more ESG-focussed portfolio; this PIMCO-managed fund's previously omitted elements have successfully been brought down to 0% in terms of % weight of omissions (figure 1).

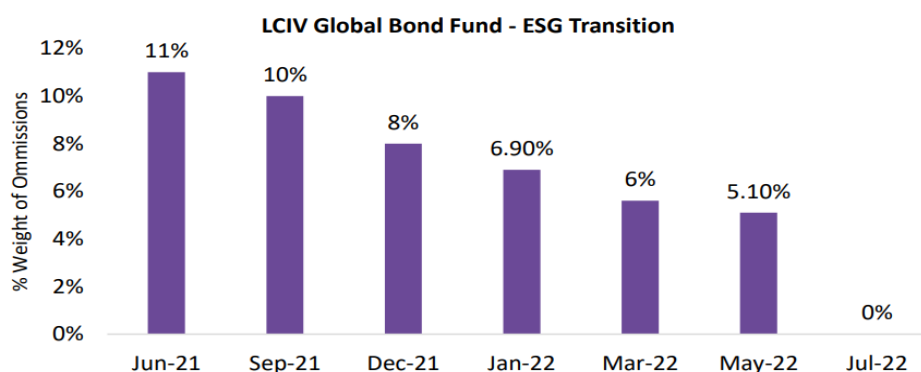


Figure 1

- 2.2 The re-alignment of the **LCIV MAC Fund** to introduce PIMCO's diversified income strategy and create a two-manager blended structure which began in February 2022 has now been completed. AUM as of 31 July stood at £1,234m with a 51/49% split between PIMCO and CQS. There have been £398m new net inflows, resulting in a £250m redemption from CQS, compared to an initial estimate of £437m.
- 2.3 The LCIV Inflation Plus Fund, managed by Aviva, and in which Camden holds £92m of assets, is being retitled to the **LCIV Real Estate Long Income (RELI) Fund**. This is to reflect the fund's large exposure to property.
- 2.4 A screening has been completed with fund managers, Campbells Lutyens and Stepstone, for the LCIV Renewable Infrastructure Fund's new manager selection. There were initially over 12 manager meetings with a focus on different opportunities within the energy transitions universe. LCIV are currently reviewing fund documents of preferred managers with follow up due diligence meetings to be arranged, with a plan to finalise manager selection by year-end.
- 2.5 LCIV gave a Fund Modification Update in Q2 which included the following four funds:

FUND	EVENT TYPE	EXPECTED COMPLETION	LATEST UPDATE	OVERALL RAG	TOTAL EXPECTED DEMAND
LCIV MAC Fund	Fund restructure: adding PIMCO delegated account alongside CQS Credit Multi Asset Fund.	July 2022	Last stages of rebalancing to be completed	Complete	Additional AuM c.£128m
LCIV Global Equity Core Fund	Investment objective moved to 'generate total return (comprising both capital growth and income returns) over a long-term period (typically 5-10 years). ESG enhancements. Name changed to LCIV Global Equity Quality Fund .	August 2022	FCA Approval has been received. Change to be adopted in circa 30 days	Green	Not Applicable (Existing Fund)
LCIV Global Bond Fund	Further integration of ESG criteria to its investment process.	Completed 10 July	Realignment is completed.	Complete	Not Applicable (Existing Fund)
LCIV Global Alpha Paris Aligned Fund	Climate benchmark amendment from the MSCI ACWI Climate Paris Aligned Index to the MSCI ACWI EU Paris Aligned Requirements Index	July 2022	FCA Approval has been received. Change to be adopted in July	Green	Not Applicable (Existing Fund)

Figure 2

- 2.6 LCIV split their Fund Launch Framework over three stages:
- Soft commitment - Initial survey to determine the level of appetite for a fund launch
 - Commitment in Principal - Determined immediately before the manager selection process: Pension Officers and Consultants will have agreed their appetite for the mandate

- Hard commitment – Pension committee has decided to invest into the Fund: Recommendations from Consultants to invest in the Fund taken to Pension Committee where the advice is agreed
- 2.7 An update on the revised fund launch framework will be presented in October when a detailed discussion is planned.
- 2.8 In June, LCIV provided a due diligence update for the Global Equity Focus Fund (managed by Longview) which saw the fund move from a monitoring status of “On Watch” to “Enhanced Monitoring”. Sufficient improvement on performance, resourcing and business risk have been made by Longview to support the revised status. There has also been movement in the right direction on RI (responsible investment) and engagement.
- 2.9 However, performance was not consistently aligned to expectations. Concerns remain about aspects of the process including the approach to valuing companies and the equal weighting of positions. The integration of Responsible Investment into decision making has been strengthened, but there is room for further improvement.
- 2.10 In July, LCIV provided further due diligence updates for the Absolute Return Fund and the Sustainable Equity & Equity Exclusion Funds. The Absolute Return Fund remains on ‘Normal Monitoring’ and Ruffer have built a robust process, demonstrating their commitment to continuous improvement and original research. The integration of ESG (environmental, social and governance) into decision-making has been strengthened, and LCIV expect to see further progress in this area over the course of 2022-2023.
- 2.11 The Sustainable Equity & Equity Exclusion Fund also remains on ‘normal monitoring’ with performance and risk levels remaining in line with expectations. ESG factors remain central to the team’s assessment of opportunities, however, capacity is a consideration given the rate of growth in assets under management, but RBC (Royal Bank of Canada) are considered to be managing the situation prudently.
- 2.12 In August LCIV gave updates on two pipeline funds, LCIV Sterling Credit Fund and LCIV UK Housing Fund, with the former currently at stage 1 (Initiation – expected launch H2 2023) and the latter at stage 2 (Implementation – launch Q4 2022). LCIV held an SIG (Seed investor group) on 11 July for the Sterling Credit Fund with the total expected demand for this fund of £546m. LCIV are currently gathering data on scale of demand for the UK Housing Fund with current estimates at £305m.
- 2.13 Throughout the year, London CIV collect and track the internal controls reports of the investment managers. Each of the reports is reviewed and any identified control issues are discussed with the investment managers as part of the

investment oversight process. Bridging letter requests are sent to all the investment managers seeking confirmation up to 31 March 2022 where possible. Based on the review of the internal control reports, there are no issues that London CIV would like to bring to the attention of the client funds as the internal control reports are unqualified.

3 Other areas of focus

3.1 The CIV presented material on rising power prices that have been caused by an increase in demand for electricity post-COVID and have been exacerbated by Russia’s invasion of Ukraine. The UK’s reliance on imported natural gas and lack of storage has led to further price spikes, far exceeding the European average in 2022 onwards (figure 3). This has benefitted renewable power producers through exposure to merchant pricing or indexed Power Purchase Agreements/ subsidies which have inflation pass-through mechanisms. As a result, cash yield has picked up significantly for the renewable infrastructure funds and this will benefit the proposed launch of the Renewable Infrastructure Fund.

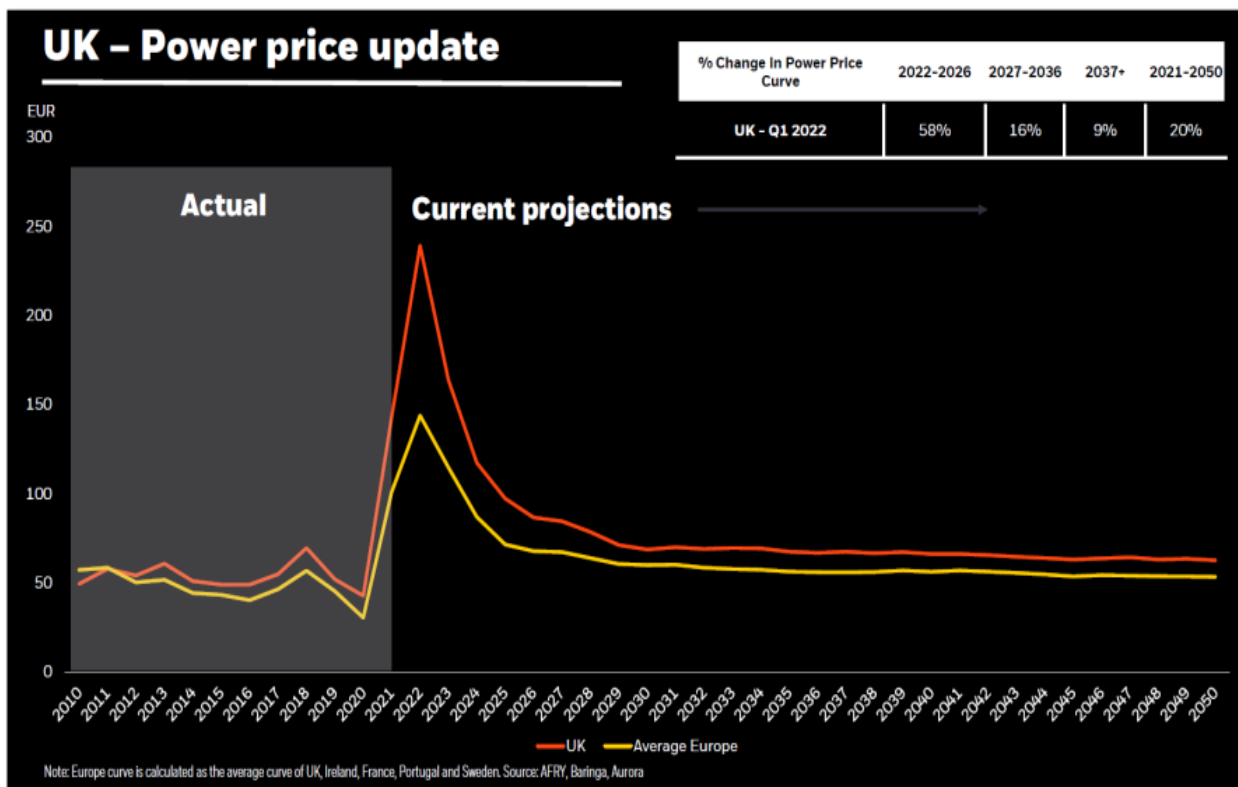


Figure 3

3.2 LCIV also updated us regarding its committed focus towards cyber security concerns. LCIV navigate these issues using a ‘multi-pronged’ approach with an emphasis on raising staff awareness. Training sessions have been carried out which seek to not only raise staff awareness but their vigilance too - the latter has been improved via a successful phishing exercise. LCIV also mention their desire to raise board member awareness to such issues and the need to

reduce technological risks. A 2022 Penetration test (testing a systems ability to prevent a cyberattack) found no critical issues and they are now focusing on removing any obsolete software from all PC's/laptops which should bring them to a secure baseline – a direct prerequisite for CyberEssentials accreditation.

4 People

- 4.1 In May LCIV announced they had appointed a new member of staff to four separate departments including the Fund Accounting Team and the Client Services team. In July another new member of staff was appointed to work on transitions and project management.

5 CIV conference

- 5.1 The Chair, Vice Chair, Cllr Mulholland and Cabinet Member for Finance and Cost of Living attended the CIV conference alongside the Head of Treasury and Financial Services. The event was a great success with the Chief Exec of the CIV presenting on pooling progress, the Chief Operating Officer presenting on operational issues and the Chief Investment Officer discussing investment products and the roadmap. There were also presentations on the CIV's monitoring process and policies, the fund launch framework, the CIV net zero commitments, and a few presentations on diversity, equity and inclusion.

6 RESPONSIBLE INVESTOR COMMENT

- 6.1 The Fund's engagement with, and commitment to, the London CIV is an important part of how the Fund can act as a responsible investor. Pooling increases the leverage and influence that any individual LGPS fund may have with fund managers, creating more opportunities for RI to be both discussed and practised.

7 ENVIRONMENTAL IMPLICATIONS

- 7.1 This report covers a number of the actions taken by the CIV towards responsible investment, in response to pressure from London Boroughs including Camden.

8 FINANCE COMMENTS OF THE EXECUTIVE DIRECTOR CORPORATE SERVICES

- 8.1 There are no finance comments to add.

9 LEGAL COMMENTS OF THE BOROUGH SOLICITOR

- 9.1 The Local Government Pension Scheme (Management and Investment Funds) Regulations 2016 requires all Local Authorities to commit to a suitable pool in order to achieve benefits of scale. This report demonstrates the adherence to the Regulations by providing details of the approach to pooling, the structure and the governance arrangements and the mechanism by which the CIV can be held to account.