

<b>LONDON BOROUGH OF CAMDEN</b>	<b>WARD:</b> All
<b>REPORT TITLE:</b> London Collective Investment Vehicle Progress Report	
<b>REPORT OF:</b> Executive Director Corporate Services	
<b>FOR SUBMISSION TO:</b> Pension Committee	<b>DATE:</b> 02 December 2024
<b>SUMMARY OF REPORT:</b>  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).	
<b>Local Government Act 1972 – Access to Information</b> No documents requiring to be listed were used in the preparation of this report:	
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<b>RECOMMENDATIONS:</b>  The Committee is asked to note the contents of the report.	
<b>Signed by</b>	
Executive Director Corporate Services	..... <b>Agreed</b> .....
Date:	..... <b>18/11/2024</b> .....

## 1. INTRODUCTION

- 1.1. All Local Government Pension Scheme (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 and the City of London have joined the London Collective Investment Vehicle (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. As of 30 September 2024, the Camden Fund currently has 78% of its assets pooled, of which 31% is with the London CIV and 47% is under pool management with LGIM.

## 2. CIV BUSINESS UPDATE

- 2.1. Some highlights from LCIV's Business Update meeting of the 24<sup>th</sup> of October 2024 meeting as well as updates from their most recent Q3 investment report are:
  - **AUM Growth:** Total pooled assets reached £32.5 billion, with £17.7 billion managed directly by LCIV.
  - **Performance Insights:** LCIV highlighted mixed public fund performance, with volatility in growth-oriented sectors impacting results. Key public funds like the LCIV Global Bond and LCIV MAC Fund outperformed, leveraging strategic interest rate and credit management. The volatility in growth-oriented sectors relates to those with high exposure to growth-oriented equity markets, such as the LCIV Global Alpha Growth Paris Aligned Fund experienced performance fluctuations due to recent market shifts and sector-specific volatility.
  - **New Fund Launches:** The LCIV Global Equity Value Fund was launched on 28 October 2024 and LCIV All Maturities Buy & Maintain Credit Fund was launched on 9 October 2024. While they target different markets, they share important features, such as strong responsible investment parameters, alignment to our net zero ambitions and strong value propositions.
  - **Private Market Activity:** Private markets saw increased activity. The LCIV Nature-based Solutions Fund and the LCIV Private Debt Fund II are now ready to receive Partner Fund investors' commitments. During the third quarter an additional 13% of the LCIV Infrastructure Fund was committed to primary and secondary investments and the LCIV UK Housing fund made a capital call to fund the latest investment in Octopus Affordable Housing Fund: 179 affordable

housing units in southeast England, spread across four local authority boroughs in Kent and East Sussex: Bexley, Dartford, Sevenoaks, and Wealden.

- **Investor Engagement:** Increased investor consultations on fund monitoring, and updates on strategic ESG realignments.

### 3. FUND ACTIVITY

#### Fund Portfolio

- 3.1. As of 30 September 2024, the total assets deemed pooled by Partner Funds stood at £32.5bn, of which £16bn are public markets funds, £14.8bn in passive equity funds and £3.1bn in Private Market funds.

#### Public Market funds

- 3.2. The following tables show all public market CIV funds:

##### Global Equities

LCIV Fund	AUM	Launch Date	Manager	No. of Investors
Global Alpha Growth	£1,442m	11 Apr 2016	Baillie Gifford	5
Global Alpha Growth Paris Aligned	£2,347m	13 Apr 2021	Baillie Gifford	11
Global Equity	£621m	22 May 2017	Newton	3
Global Equity Quality	£557m	21 Aug 2020	MSIM	2
Global Equity Focus	£1,269m	17 Jul 2017	Longview	6
Emerging Market Equity*	£606m	11 Jan 2018	JP Morgan	8
Sustainable Equity	£1,438m	18 Apr 2018	RBC	8
Sustainable Equity Exclusion	£751m	11 Mar 2020	RBC	5
Passive Equity Progressive Paris Aligned	£975m	01 Dec 2021	State Street	4
Global Equity Value	-	TBC	Wellington	-

##### Multi Asset

LCIV Fund	AUM	Launch Date	Manager	No. of Investors
Global Total Return	£104m	17 Jul 2016	Pyrford	1
Diversified Growth	£296m	15 Feb 2024	Baillie Gifford	4
Absolute Return	£1,003m	21 Jun 2016	Ruffer	10
Real Return	£114m	16 Dec 2016	Newton	2

##### Fixed Income

LCIV Fund	AUM	Launch Date	Manager	No. of Investors
Global Bond	£929m	30 Nov 2018	Pimco	10
MAC Fund	£1,965m	31 May 2018	CQS + PIMCO	14
Alternative Credit	£590m	31 Jan 2022	CQS	3
Short Duration Buy and Maintain Credit	£139m	06 Dec 2023	Insight	2
Long Duration Buy and Maintain Credit	£806m	06 Dec 2023	Insight	3
All Maturities Buy and Maintain Credit	-	TBC	Insight	-

## Private Markets Fund

3.3. The table below shows the CIV's private market funds:

LCIV's Private Market Funds	Total Commitments	Drawn Since Inception	% drawn (change in month)	Valuation	Valuation as at	Drawn Since Valuation Date	% Allocated	No. of Investors
	£'000	£'000		£'000		£'000		
<b>LCIV Infrastructure Fund</b>	475,000	370,791	78% (↑2%)	383,869	30/06/2024	54,917	93%	6
- A capital call of £9.0m was raised to investors to fund investments; An income distribution of £3.2m was paid to investors on 20 September.								
<b>LCIV Real Estate Long Income Fund</b>	213,000	213,000	100% (-)	155,484	30/06/2024	n/a	100%	3
- An income distribution of £1.8m was paid to investors on 20 September.								
<b>LCIV Renewable Infrastructure Fund</b>	1,108,500	544,884	49% (↑3%)	553,484	30/06/2024	63,735	78%	16
- A capital call of £39.9m was raised to investors to fund investments.								
<b>LCIV Private Debt Fund</b>	625,000	420,091	67% (-)	506,832	30/06/2024	n/a	100%*	8
- No movements.								
<b>LCIV UK Housing Fund</b>	450,000	73,200	16% (-)	71,889	30/06/2024	n/a	60%	8
- No movements.								
<b>SLP</b>	£'000	£'000		£'000		£'000		
<b>The London Fund</b>	250,000	104,026	42% (-)	105,821	30/06/2024	n/a	61%	4
- No movements.								
<b>Total</b>	<b>3,121,500</b>	<b>1,725,993</b>	<b>55% (↑2%)</b>	<b>1,777,379</b>		<b>118,653</b>	<b>84%</b>	<b>23</b>

\* LCIV Private Debt % Allocated is higher than 100%, this is due to during Ramp-up period, the Fund utilised distributions received to increase commitments of underlying investments.

## Fund Launches

3.4. LCIV launched the Housing Fund, Long Duration and Short Duration Buy and Maintain funds in 2023.

3.5. **LCIV Global Equity Value Fund:** This fund is managed by Wellington and integrates ESG considerations into its strategy. The fund was launched in October with combined seed investments from 3 Partner Funds. A "Meet the Manager" session was conducted with Wellington, the fund manager, on October 1st, which allowed investors to gain insights into the fund's approach and investment philosophy.

### Key points of the Meet the Manager meeting:

- **Investment Objective:** The fund seeks to outperform the MSCI All Country World Index by 1.5% per annum (net of fees) over rolling five-year periods. It integrates ESG principles to reduce the carbon footprint progressively, aiming for a Net-Zero greenhouse gas emission target by 2050.
- **Investment Strategy:** Employing a contrarian, value-focused approach, the fund targets undervalued companies globally. It aims to capture upside potential by investing in sectors or stocks that are often underappreciated or mispriced due to market sentiment.
- **ESG and Decarbonization:** The fund is committed to a decarbonization pathway, with an initial Weighted Average Carbon Intensity (WACI) 30% below the MSCI ACWI benchmark and aiming for a 60% reduction by 2030. The portfolio excludes high-carbon industries, including coal, oil sands, and other sectors misaligned with Net-Zero goals.

- Engagement and Stewardship: Wellington employs active engagement, targeting that 90% of assets will be Net Zero-aligned by 2027. This engagement includes stewardship actions with companies not meeting decarbonization or ESG goals.
  - Rationale for Selecting Wellington: Wellington was chosen for its robust value-investing expertise, strong ESG alignment, and low-carbon starting point. The fund structure may evolve into a two-manager model as it grows, ensuring a diversified and resilient investment approach.
- 3.6. **LCIV Nature Based Solutions Fund**: Launched in July 2024, this fund focuses on addressing climate change by investing in projects like carbon sequestration, sustainable forestry, and biodiversity improvement. The goal is to contribute to the transition to net zero while offering co-benefits such as improved water quality and community engagement. The first close for investors is expected in mid-December 2024.
- Fund Objective: The LCIV Nature-Based Solutions Fund focuses on investments that protect, manage, or restore natural ecosystems, addressing climate change, biodiversity, and human well-being challenges. Core allocations are directed towards sustainable forestry and agriculture, while non-core investments include carbon credit-focused strategies.
  - Initial Portfolio Structure: The portfolio will primarily invest in sustainable forestry (73.5%), agriculture (17.5%), and carbon credits (9%). LCIV plans to allocate 45% to Campbell Global (forestry and carbon), 35% to Manulife (agriculture and forestry), and 20% to Gresham House (UK-focused forestry). The allocation aims to balance returns, geographic exposure, and ESG impact.
  - Return and Yield Targets: Targeting a net annual return of 6-8% with a cash yield of 2%, the fund seeks steady returns while adhering to a regenerative approach in agriculture and forestry to enhance ecosystem resilience.
  - ESG and Decarbonization: The fund is structured to support LCIV's responsible investment policy, integrating ESG considerations and setting decarbonization targets across its investments. Carbon credits are expected to play a role, particularly through Campbell Global's reforestation projects.
  - Fund Structure and Liquidity: Structured as an open-ended fund to accommodate ongoing client commitments, the fund is designed to provide long-term capital deployment flexibility, with a 7-year lock-up period for initial investments.
- 3.7. **LCIV Private Debt Fund II**: Launched in June 2024 and progressing toward first close in December, this fund is designed to provide diversified exposure to senior direct lending in the US and Europe, along with asset-backed lending. It targets an internal rate of return (IRR) of 6-8% and has garnered commitments from partner funds. Manager selection has been finalized, and confirmatory legal and tax due diligence is in progress. The first close for investors is expected in mid-December 2024. This is a closed ended fund, so investors will be able to commit until the end of the Initial Subscription Period – 31 March 2026.
- 3.8. **London CIV Indirect Real Estate Pooling Solution**: This Solution is not a Fund. It is a Service. It enables Partner Funds to progress their pooling agenda

with minimum disruption. Partner Funds will enter into an Investment Management Agreement with London CIV to grant them authority to manage their existing indirect real estate investments through a Separate Managed Account. Each Partner Fund utilising this Service would be contracted with London CIV and will not be contracted directly with the sub-fund manager (CBRE). CBRE IM will have full discretion to manage the Separate Managed Account. This Service does not trigger change in ownership of investments and will not trigger transaction costs or stamp duty taxes. Partner Funds will retain the choice to allocate to UK and/or Global Real Estate, decide the split, and the Sub-Fund Manager will manage regional investments as instructed in the Investment Management Agreement. Partner Funds will benefit from 1) CBRE's best ideas portfolio, 2) increased influence, 3) pooling progression, and 4) the unlocking of cost savings by aggregating investments with other Partner Funds. This service is now available via the London CIV. Camden already uses CBRE and they could benefit from attractive savings if they were to sign up for this Service.

- 3.9. **LCIV All Maturities Buy & Maintain Credit Fund:** Launched on 9 October 2024 with £500 million initial seeing from 3 Partner Funds. It is designed to provide diversified, stable returns across credit maturities, enhancing ESG integration aiming for a 25% lower weighted average carbon intensity compared to its reference index. The Fund is managed by Insight Investment.

#### 4. **London CIV's Approach to Human Rights in Conflict Zones**

- 4.1. London CIV's Sustainability Working Group, a consultative body comprising Responsible Investment, Investment teams, and Partner Fund representatives, has been actively discussing the management of human rights risks in conflict zones, particularly in light of recent global events such as the invasion of Ukraine and conflicts in Gaza and Israel. The group reviewed the importance of incorporating human rights considerations in investment decisions and acknowledged the diverse preferences among London Borough Pension Funds—some favouring divestment from companies associated with human rights risks, while others advocate a flexible engagement approach.

Key actions and insights include:

- **Policy Development:** London CIV is drafting an addendum to its Stewardship Policy to specifically address investments with human rights risks in conflict zones.
- **Data Utilization:** Emphasis is placed on using detailed datasets and diverse expertise (e.g., from the World Bank, OECD, and UNGP) to identify companies with potential human rights controversies.
- **Monitoring and Engagement:** The London CIV monitors companies accused of human rights abuses, balancing regional screenings with a comprehensive approach to human rights violations.
- **Compliance and Flexibility:** The policy framework will follow international law and allow Partner Funds flexibility to opt into or exclude specific investments based on their preferences.

- Engagement Over Divestment: The approach promotes engaging with companies on human rights issues, favouring a nuanced “explain or divest” method to support long-term investment decisions.

The Responsible Investment team is working with legal counsel to develop this policy addendum, aiming to equip Partner Funds with resources to address human rights concerns in their portfolios. Concurrently, the Pension Leaders Group, led by Damon Cook, will issue guidance and conduct a survey among Partner Funds to inform the next steps in this initiative

## **RESPONSIBLE INVESTOR COMMENT**

- 4.2. 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. The Fund will need to think carefully about how to incorporate Task Force on Nature Related Financial Disclosure (TNFD) requirements in the future.

## **5. ENVIRONMENTAL IMPLICATIONS**

- 5.1. This report covers several of the actions taken by the CIV towards responsible investment, in response to pressure from London Boroughs including Camden. Taskforce on Nature -related Financial Disclosures (TNFD) requirements will ensure that nature-based risks are captured in the Fund’s investment approach.

## **6. FINANCE COMMENTS OF THE EXECUTIVE DIRECTOR CORPORATE SERVICES**

- 6.1. There are no finance comments to add.

## **7. LEGAL COMMENTS OF THE BOROUGH SOLICITOR**

- 7.1. The Local Government Pension Scheme (Management and Investment Funds) Regulations 2016 requires, amongst other things, the authority’s investment strategy to include its approach to pooling investments, including the use of collective investment vehicles and shared services and the authority’s policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments. The authority must invest, in accordance with its investment strategy, any fund money that is not needed immediately to make payments from the fund.
- 7.2. This report helps demonstrate 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.