London Borough of Camden Pension Fund

Appendix A – PART I - LCIV Inflation Plus Fund Assessment

August 2020

Isio have agreed to the disclosure of this redacted report subject to the paragraphs below:

- *Isio's work was designed to meet the London Borough of Camden's requirements and the engagement activities were determined by them at the time our report was written. Our report was completed in August 2020 and we have not undertaken to update our report for events or circumstances arising after that date.*
- *The report should not be used or relied on by any party other than our client for any purpose or in any context especially given the report is redacted to protect confidentiality requirements and commercial interests.*
- *In consenting to the disclosure of this report, Isio does not assume any responsibility to you in respect of its work for the London Borough of Camden, the report or any judgments, conclusions, opinions, findings or recommendations that Isio may have formed or made and, to the fullest extent permitted by law, Isio accepts no liability in respect of any such matters to any third parties. Should any third party choose to rely on the report, they will do so at their own risk.*

Executive summary

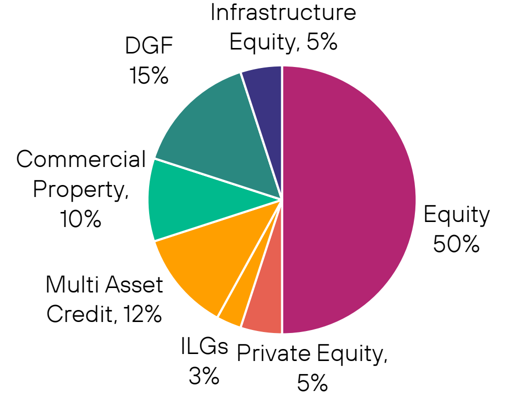
Addressee

- This report is addressed to the London Borough of Camden Council (“the Council”) as Administering Authority of the London Borough of Camden Council Pension Fund (“the Camden Fund”).

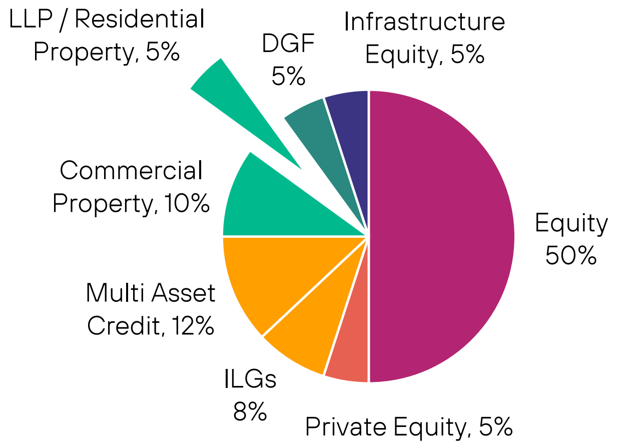
Summary of paper

- At the July 2020 meeting, the Camden Fund agreed in principle to make a strategic allocation into long lease property (“LLP”) and to consider the implementation route for this mandate further.
- Within this report, we provide an overview of the benefits of allocating to LLP, and analyse the suitability of the LCIV Inflation Plus Fund (“the LCIV fund”) as a means for implementing the target allocation.
- Our analysis of the LCIV Fund includes consideration of the investment characteristics, the ESG impact of the Fund, and the practicalities of, and timescales for, the implementation of the mandate.

Current strategic allocation



Target strategic allocation



Executive summary (cont.)

Recommendation

- The LCIV Inflation Plus Fund invests primarily in LLP but also a range of other real assets with long dated inflation linked income to a smaller degree. Strategically, we believe that the fund is structured to deliver the key attributes that an LLP allocation would achieve. Namely; a stable and inflation-linked income yield, access to an illiquidity premium, and cost effective risk-adjusted returns. The LCIV fund is a bespoke mandate, designed specifically around the needs of LCIV clients, whereas other pooled funds have broad investor bases, with differing needs.
- In the broader context of funds available, we rate the investment processes of the underlying manager, Aviva, highly and believe their LLP offering stands up well when compared to other pooled LLP funds. We also rate Aviva's approach to ESG highly and note that LCIV have adopted this in relation to this fund.
- We believe the LCIV Inflation Plus Fund is a good strategic fit and an offers an appropriate vehicle for the Camden Fund to implement the LLP allocation. Detail on timing and source of funds is given later in this report.

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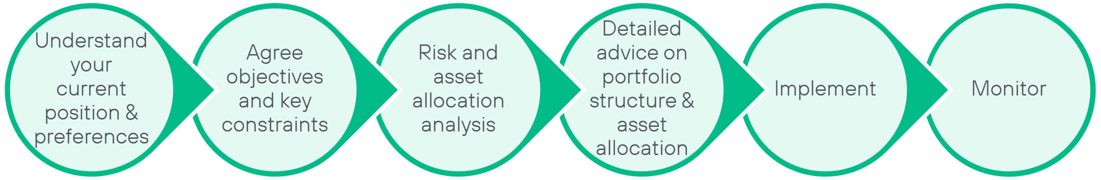
Introduction

Background

- In July 2020, Isio presented the Camden Fund with the results of a review of investment strategy, including suggested changes that would enhance the overall strategy.
- A key recommendation was to reduce inflation risk within the Fund by increasing the allocation to inflation-linked assets, such as LLP, residential property & infrastructure.
- The Camden Fund agreed, in principle, to make an allocation into LLP. The specific strategic allocation is expected to represent 5% of the Fund's assets.
- The Camden Fund has a preference to make use of the investment options available via the LCIV investment pool if these provide a good strategic fit. During the investment strategy review, Isio identified that the LCIV Inflation Plus Fund may offer a potential approach to implement the LLP allocation. The Camden Fund agreed to explore this fund in further detail and to seek to assess it relative to other potential alternatives.
- The diagram below highlights the key stages in our strategy review approach. Whilst our previous paper focussed on stages 1-3, this report focusses on stage 4.



Scope of this paper

This report includes:

- Re-cap of investment case for LLP;
- An assessment of the alignment of the LCIV fund with the Camden Fund's responsible investment beliefs;
- An overview of the key investment characteristics of the LCIV Inflation Plus Fund and a view on how these align to implementing an allocation to LLP;
- Detailed and independent review of the LCIV Inflation Plus Fund;
- Consideration of the specific issues raised by the Camden Fund's independent investment adviser (the deployment rate, the internal credit rating process, investment restrictions on the LCIV fund, and allocations of deals across mandates);
- Update on the LCIV's latest expectation of commitment from the London Boroughs;
- High level comparison with other propositions we know that are available outside of the LCIV investment pool;
- Our recommendation as to whether or not it is appropriate for the Camden Fund to commit to the LCIV Inflation Plus Fund;
- Guidance on implementation of the LLP investment.

Long Lease Property

Recap: Investment rationale for Long Lease Property

- Long lease property funds offer inflation protection and diversification against equity and bond assets within the investment strategy.
- These funds comprise of a diversified portfolio of UK commercial property assets, with the aim of providing a long-term, predictable, inflation-linked and growing income stream.
- They offer a much higher degree of certainty over future rental income than traditional balanced property investments, with less reliance on capital appreciation to drive future returns/
- The underlying contracts are typically inflation-linked with lease contracts extending over 20 years on average. The credit quality of the tenant is a critical factor.

Expected return (net)	Gilts + 2-3% p.a.
Cash yield	c.3-4% p.a. net paid quarterly
Volatility	8% p.a.
Liquidity	Semi-open ended, semi-annual redemptions after 18 months from initial investments
Inflation linkage	High
Potential for positive ESG impact	Medium

Opportunities presented by an LLP allocation:

- ✓ Increase inflation protection
- ✓ Access illiquidity premium
- ✓ Provision of income
- ✓ Diversifying and low volatility

Alignment of an LLP allocation with ESG objectives:

- ✓ **Energy consumption** – building regulations increasingly specify carbon emission targets, sustainable energy consumption (e.g. double glazing) and use of sustainable materials.
- ✓ **Social** – some LLP assets will have a social aspect to them (e.g. nursing homes or other medical facilities), with social value targets and a positive contribution to society.
- ✓ **Engagement** - LLP managers may engage with tenants and other stakeholders on sustainability of buildings and the local community.

Implementation options

1. Invest via LCIV

OR

2. Invest Directly

Factors	LCIV investment considerations	Direct investment considerations
Asset Allocation	Primarily LLP exposure (expected to be 60%-70%) with additional exposure such as infrastructure leases and ground rents	Pure LLP exposure – with various risk profiles dependant on fund choice
Accessibility	LCIV Inflation Plus Fund launched in Q2 2020. The initial seed capital has been raised and is currently being deployed. If the Camden Fund were to commit today, they could expect to be fully drawn in c. 12 months based on current market conditions	Most funds have investor queues to gain access – typically 6-24 months
Fees	Less expensive due to pooling arrangement and economies of scale this brings	Typically more expensive
Choice	Less choice available	Greater breadth of choice and risk/return profile
Governance	Governance & oversight of underlying manager provided by LCIV and in turn the Camden Fund	Governance & oversight burden fully on Camden Fund
Transition costs	c.3-4%	c.6%, plus potential future switching costs if there was a wish to move exposure to LCIV at a future date

LCIV Inflation Plus Fund

Fund overview

Overview of the LCIV Inflation Plus Fund

- The LCIV Inflation Plus Fund aims to provide stable, inflation-linked returns by investing in a diverse portfolio of income generating real assets. The expected yield of the fund is 3% p.a. and expected total return is RPI + 1.5-2% p.a.
- The fund has a broad investment opportunity set available to utilise in delivering on its objectives. The core element of the fund is expected to be long lease commercial property, with the remainder comprised of property income strips, commercial ground rents, infrastructure leases and to a lesser degree private corporate debt, commercial real estate debt, and infrastructure debt.
- The fund launched in June 2020 with two client commitments totalling £107m. Of this £107m, £44m is under offer to be invested, with the expectation that the remainder will be invested by the end of 2020. LCIV is in conversations with another three prospective London Borough investors, who are expected to commit a further c. £100m. The manager is confident that capital could be drawn at a rate of c. £400m per year, meaning that if the Camden Fund were to commit today, they could expect to be fully drawn in c. 12 months. We believe this is somewhat dependant on the evolution of COVID-19 and its impact on transaction volumes.
- LCIV is the named fund manager, however the day to day management of assets will be delegated to Aviva. This means Aviva will be making direct investments under the LCIV name for the participating London Boroughs.
- LCIV and Aviva will maintain regular dialogue and formal reporting will be provided to the LCIV on a quarterly basis. LCIV will have the ability to monitor all underlying investments.

Fund overview (cont.)

	LCIV Inflation Plus Fund	Comments on alignment to an LLP allocation
Fund size	£107m in initial commitments – expected to be invested by mid 2021. Conversations around commitments from 3 further London Boroughs ongoing. Target size of fund up to £1.5bn.	Successful LLP funds tend to grow to >£1bln AuM to allow greater diversify and flexibility when sourcing deals
Target return	RPI + 1.5-2% p.a. over a rolling 5 year period	Towards the lower end of range for a typical LLP manager
Target Cash Yield	3%	Towards the lower end of range for a typical LLP manager
Fund structure	Open-ended	In-line with a typical LLP allocation
Geography	UK only	In-line with a typical LLP allocation
WAULT	Minimum of 20 years	Broadly in-line with a typical LLP allocation
Sector Diversification	Expected to predominantly investment directly in: long lease property, property income strips, ground rents, and infrastructure leases with the ability to also invest in , private debt, commercial real estate debt & infrastructure debt.	Not a pure LLP exposure but allows greater diversification than a typical LLP allocation
Fund inception	June 2020	n/a
Fees (p.a.)	*Please refer to additional information given in Appendix B – comment 1.*	*Please refer to additional information given in Appendix B – comment 2.*
Drawdown	Investors commit an amount for investment in the fund. The commitment is then queued with other investors and gradually drawn down as investment opportunities arise in the market.	In-line with a typical LLP allocation
Liquidity	Quarterly redemptions following initial 4 year lock-up period	In-line with a typical LLP allocation

ESG assessment

Criteria	Risk Management	Investment Approach/Framework	Voting & Engagement	Reporting	Collaboration
Isio View	*Please refer to additional information given in Appendix B.*	*Please refer to additional information given in Appendix B.*	*Please refer to additional information given in Appendix B.*	*Please refer to additional information given in Appendix B.*	*Please refer to additional information given in Appendix B.*
Please refer to additional information given in Appendix B. *Please refer to additional information given in Appendix B.*	– Aviva Investors have a real asset responsible investment policy in place[1] which has been adopted by LCIV. Aviva have a well established ESG team in place. – ESG factors are incorporated into due diligence on properties and there is evidence that they are a material factor to inclusion of a property in the portfolio. – The ESG risks are not quantified and there is an overreliance on qualitative analysis which maybe subject to "greenwash". – Aviva are working hard to improve the data they can gather on their portfolio holdings and this will enable them to set quantifiable ESG objectives.	– The Fund has ESG objectives, and there is evidence that these have been applied these in the portfolio. – There are clear examples of where environmental and social factors have been taken into account in the Fund. – Aviva assign an impact score to each transaction, ESG factors form a big part of the score. This enables them to consistently apply their ESG framework to each transaction.	– Engagement activity is focussed on obtaining the necessary ESG metrics and data to enable better reporting against ESG objectives. – To date, engagements have not been effective and the Fund is characterised by poor data which cannot be aggregated to understand whether they are achieving their goals relating to climate change or social investments. – The commercial real estate market is characterised by limited availability of ESG metrics. Aviva should continue to make this a priority area to work alongside tenants to obtain the necessary ESG data.	– The Fund's ESG policies[1] are publicly available. They have a number of ESG objectives identified. – They are not able to set targets round their ESG objectives due to the lack of quantitative data. – The manager could provide better ESG reporting in their regular investment reports. For example they could detail their activity against each ESG target.	– The manager is a signatory to UN PRI. – Aviva takes part in cross industry working groups to promote various ESG issues. – They collaborate with UK Green Building Council to promote a framework for real estate to achieve a net zero emissions certification.

Note. [1]The Fund's ESG policies which are referenced pertain to the 'Aviva Investors Real Assets Responsible Investment Policy' which we have shared alongside this report. In addition to this, both LCIV & Aviva have firmwide responsible investment policies, which detail their investment beliefs and guiding principles. LCIV have advised that their policy is available on their Client Portal. Aviva's policy is available at: https://www.avivainvestors.com/en-gb/about/responsible-investment/our-approach/ .Source: LCIV & Aviva. The views expressed by Isio are based solely on the information provided by the managers.

Proposed ESG improvements

	Proposed Action
Engagement	– Fund to focus on engaging with construction companies and tenants to produce data for some key ESG metrics cover both environmental factors e.g. carbon and social factors e.g. diversity
Investment approach	– Fund to outline clear ESG objectives based on the SDGs and list quantitative goals around these
Reporting	– Fund to improve reporting on ESG metrics in its regular fund reporting to include progress against each ESG target over time

Source: LCIV & Aviva. The views expressed by Isio are based solely on the information provided by the managers.

Scope to improve UN SDG alignment through LLP

- The Camden Fund has identified a sub-set of United Nations Sustainable Development Goals ("UN SDGs") which represent the strongest investment risks and opportunities. Of these, the three shown in the table below have been identified by the Camden Fund as their highest priority UN SDGs for the Fund.
- The commentary provided in the table highlights some potential investment opportunities that could be utilised in order to align the Camden Fund's investments with the priority UN SDGs, along with the extent to which they are targeted within the LCIV Inflation Plus Fund.

Key SDG	Investment Examples	Consideration within LCIV Inflation Plus Fund
Climate action SDG 13	– Energy production: companies that produce renewable energy (wind, solar, geothermal etc.) – Forest conversation/management: companies responsible for maintaining, preserving or managing a forest(s)	– Aviva is working with the UK Green Building Council to promote a framework for real estate to achieve a net zero emissions certification. – Currently they have not been able to successfully engage with their building contractors or tenants to agree the implementation of a net zero framework, or obtain the data to monitor progress towards this goal. This is something they are committed to working towards.
Decent work and economic growth SDG 8	– Vocational and professional training: companies that design and deliver vocational and professional training targeting students, educators and general professionals – Financial services provider: companies and organisations that provide products and services including loans, savings, remittances, cash management, factoring, leasing and mortgages	– This asset class and LCIV fund is characterised by a lack of data. In addition, real estate construction and management does not have consistent reporting across social factors which causes additional issues. – Further engagement is needed to understand what is possible across the portfolio in terms of setting objectives around these SDGs, and subsequently what data could be gathered to set KPIs to implement a roadmap for achieving these objectives.
Gender equality SDG 5	– Gender equality policies: companies that lag behind on gender equality policies e.g. discriminatory recruitment policy, commitment to pay a fair wage to all employees, protections for employees reporting harassment – Women-lead businesses: increasing venture capital to women-led businesses – Accessible housing: improving access to housing for women and gender & sexual minorities	

Source: LCIV & Aviva. The views expressed by Isio are based solely on the information provided by the managers.

Further clarification areas

- The Camden Fund have advised that the Independent Investment Adviser supports their decision to allocate to long lease property and is in agreement that the LCIV Inflation Plus Fund should be assessed for this allocation.
- The Independent Investment Adviser raised a number of specific points for analysis . We detail these points below, along with our related findings from the due diligence undertaken.

1. Deployment rate

- The LCIV Fund launched in June 2020 with two client commitments totalling £107m. Of this £107m, £44m is allocated to properties and under offer to be invested, with the expectation that the remainder will be invested by the end of 2020.
- The LCIV is in discussions with another three prospective London Borough investors, who are expected to commit a further c. £100m.
- The manager is confident that capital could be drawn at a rate of c. £400m per year, meaning that if the Camden Fund were to commit today, they could expect to be fully drawn in c. 12 months. We believe this is somewhat dependant on the evolution of COVID-19 and its impact on transaction volumes.

2. Tenant credit rating process

- Credit analysis on underlying tenants. This is a key aspect of the fund manager role and something we rate Aviva highly on. The analysis is carried out by Aviva's in house specialist counterparty credit analysis function.
- This function is an extension of Aviva's large and established credit asset management business. This independent team, which monitors over £8bn of real estate loans. The team uses a range of internal and external sources to support the Real Assets team. The LCIV fund targets investment grade tenants only and has a restriction of 80% of the underlying assets to be rated as investment grade or equivalent.

Further clarification areas (cont.)

3. Investment restrictions on the fund

- An overview of the key investment restrictions of the LCIV Fund is given below. These are broadly in line with other LLP managers.
  - A minimum of 80% of assets have to have inflation-linked cashflows;
  - All assets must be invested in the UK;
  - A minimum of 80% of the fund's assets to be rated as investment grade or equivalent;
  - 20+ years of Weighted Average Unexpired Lease Term at Fund level (to be assessed at the end of the Ramp Up Period);
  - No more than 20% of the fund to be invested in a single asset;
  - No more than 40% of the fund to be invested in a single counterparty industry sector;
  - No more than 25% of the fund to be invested in a single creditor,

4. Allocations of deals between the fund and Aviva's wider business.

- Aviva manages a number of real asset mandates. The two strategies that invest in an asset range most similar to that of the LCIV Inflation Plus Fund are the Aviva LIME fund (Aviva's flagship commingled long lease property fund), and a segregated long-income managed account.
- Aviva has confirmed however that the deals being made in these strategies are unlikely to overlap with those in the LCIV Fund.
- In the case of Aviva LIME, this is due to the difference in size between LIME (multi-billion), and the LCIV Fund (currently £107m). This means the target lot sizes of the underlying investments will not overlap with Aviva LIME targeting larger deals. We expect that this rationale would fade if the LCIV fund grows rapidly and so there is a potential risk that would need to be managed by Aviva's internal policies.
- The segregated account would have made deals of a similar size to the LCIV Fund, however at this stage it is now fully invested and not allocating additional capital, so there will be no competition between the two funds. Again, this could change if the segregated investor committed further capital/
- If the Camden Fund decide to make an investment to the LCIV Inflation Plus Fund then the number of mandates which are actively competing for deals will need to be monitored.
- Aviva has shared their Fair Allocation policy with us and we are comfortable with the content.

Alternative external LLP options

Some alternative options for implementing LLP

Manager	M&G	BlackRock	LGIM
Name of fund	M&G Secured Property Income Fund	BlackRock UK Long Lease Property Fund	L&G LPI Income Property Fund
Launch date	Q3 2007	Q2 2013	Q3 2010
Type of fund	Open-ended, Guernsey Property Unit Trust	Open-ended, Jersey Property Unit Trust (JPUT)	Open-ended, Unit-linked life insurance policy
Objectives *Please refer to additional information given in Appendix B.*	The Fund aims for a medium to long term total gross return of RPI +3%	The Fund aims to provide an attractive, predictable and growing income stream. There is nor formal return or income objective.	The Fund aims to provide an income stream that rises annually in line with LPI (RPI between 0% and 5%)
Benchmark	No official benchmark The Funds provide a comparison with the IPD Long Income Property Funds Index		
Performance target	RPI + 3% p.a. (total return target) gross of fees	RPI + 2.5% p.a. (total return target) net of fees	Long-dated Index-linked Gilts + 3.0% net of fees
Distribution income target	Distribution yield of c.4% p.a., net of fees	Distribution yield of 4% p.a., net of fees	Distribution yield of RPI (floor of 0% and cap of 5%)
Inflation linkage target	No specific target - c. 91% inflation linked currently	>=60%	c. 94% inflation linked currently
WAULT	c.30 years	c.25 years	c. 26 years
Number of properties	240	74	71
Liquidity	Open-ended, monthly redemptions, subject to a 12 month deferral.	Semi open-ended, semi-annual redemptions with 6 months notice after 18 months from initial investment.	Semi open-ended with 9 month redemption notice period
Access	Queue of c.£402m, however guidance has been suspended regarding deployment timeframe given current market uncertainty	Queue of c.£167m, however guidance has been suspended regarding deployment timeframe given market uncertainty	Queue of c. £214m, which is expected to be deployed within 9-12 months
Fund size	£4.4bn	£1.0bn	£1.7bn
Management fee	*Please refer to additional information given in Appendix B – comment 1.*	*Please refer to additional information given in Appendix B – comment 2.*	*Please refer to additional information given in Appendix B – comment 3.*
Transaction costs	Transaction costs paid directly via dilution levy upon entry to the fund c.5.5%	5.7% of capital drawdown amount	5.5% of capital drawdown amount

Source: Investment managers as at 30 June 2020

Comparison

	LCIV Inflation Plus Fund	External propositions
Fund size	£107m in initial commitments – expected to be invested by mid 2021. Conversations around commitments from 3 further London Boroughs ongoing. Target size of fund up to £1.5bn.	External funds in excess of £1bn, with 70 to 240 underlying property holdings. This offers improved diversification at outset.
Target return	RPI + 1.5-2% p.a. over a rolling 5 year period	RPI+1.5% to 3%
Target cash yield	3%	3% to 4%
Fund structure	Open-ended	In-line
Geography	UK only	In-line
WAULT	Minimum of 20 years	25 to 30 years
Sector diversification	Expected to predominantly investment directly in: long lease property, property income strips, ground rents, and infrastructure leases with the ability to also invest in private debt, commercial real estate debt & infrastructure debt.	Limited to long lease property only
Fund inception	June 2020	7 to 13 years
Fees (p.a.)	*Please refer to additional information given in Appendix B – comment 1.*	*Please refer to additional information given in Appendix B – comment 2.*
Drawdown	Investors commit an amount for investment in the fund. The commitment is then queued with other investors and gradually drawn down as investment opportunities arise in the market.	In-line
Liquidity	Quarterly redemptions following an initial 4 year lock-up period	In-line

Implementation

Implementation

Market environment – Isio views on LLP

- Amidst the market volatility during Q1 2020, following the global outbreak of Coronavirus, performance in long lease property held up relatively well when compared to other growth assets. It has also been more defensive than balanced property portfolios. Income has driven the majority of recent returns, and capital values remained broadly static over Q1. We expect to see some valuation write downs in the coming months and reduced income collection in worst hit sectors (such as leisure and hotels), as the full impact of COVID-19 is realised. The outlook for sectors, such as office and retail, is less certain.
- Due to the impact of the pandemic, property transaction activity has fallen, leading to many property funds suspending trading and investing due to material uncertainty clauses placed on their portfolios. given the uncertainty in valuing underlying assets. As such, we might expect clients buying into LLP to face slower drawdown timeframes than pre-crisis.
- Longer term, we continue to believe that LLP offers a strong strategic fit, good value, and robust inflation-linked income for clients. Via the LCIV, capital will be committed in the full knowledge of COVID-19 and its potential impact on assets.

Market environment – Aviva comments re the LCIV Inflation Plus Fund

- While not immune to the recent market volatility, the secure income assets managed by Aviva are proving to be relatively resilient. Liquidity and income security has been strong, proving the effectiveness of Aviva's focus on long-term contractual cashflows backed by strong credit quality. In their existing real asset portfolios, rent collection levels have remained above 90% (in contrast to c. 70-80% for traditional real estate funds), with full rent-recovery expected in the small number of cases where deferrals have been agreed. Valuations have remained broadly stable, with the limited falls on some properties offset by strength in others, such as supermarkets and those with public-sector backed cashflows.
- Given the LCIV fund is in the investment stage, Aviva are able to take advantage of buying into secure long-term cashflows in the knowledge of the impact of COVID-19 on markets. The fund is able to invest now - unlike many others in the market, as there is no material uncertainty clause restricting activity on the portfolio. Aviva believes they are currently able to source attractive long-term deals with less competition than normal. We expect this will be short lived.

Implementation (cont.)

Transition timescales and costs

- Given the current capital commitment and drawdown expectations, LCIV and Aviva believes any new commitments today will be drawn and fully invested within c. 12 months. We believe this is somewhat dependant on the evolution of COVID-19 and its impact on transaction volumes.
- LCIV have estimated investment into the Inflation Plus Fund will incur transactions costs of c 3-4%. This amount is subject to change based on the exact construct of the portfolio but is expected to consist primarily of UK stamp duty. A portfolio constructed solely of LLP assets could be expected to incur upfront investment costs of 5-6%.

Source of funds to invest

- The review of investment strategy, presented to the Camden Fund in July, proposed reducing the strategic allocation to diversified growth funds from 15% to 5% (a reduction of 10%), and reducing the current overweight allocation to equities 60% to 50% (a reduction of 10%).
- The Camden Fund has already earmarked a portion of the current DGF allocation (equal to 5% of the Fund’s total assets) to be used to fund a commitment to the LCIV Infrastructure fund. We therefore propose that any remaining DGF allocation following this is used to fund the LLP allocation, together with funds from the overweight equity position and also potentially from the Council prepaid contribution amount.
- This approach is consistent with the direction of travel outlined in the investment strategy review. Isio will recommend the proportion of funds taken from each source, and the specific DGF and equity mandates to be utilised, based on drawdown timings and valuations and current market conditions at that time.

Summary, recommendation & next steps

Summary, recommendation & next steps

Summary and recommendation

- Following the July Committee meeting, the Camden Fund agreed, in principle, to make a 5% allocation to long lease property. Given the regulatory framework for LGPS funds, there is a preference to invest via the LCIV if a suitable investment option is available.
- LCIV does not currently offer a proposition with 100% long lease property exposure, however their newly established Inflation Plus Fund will be comprised of LLP assets in the majority, alongside other real assets predominantly with long dated inflation linked characteristics. We believe the fund would deliver the key investment benefits that an LLP allocation would bring to the Camden portfolio. Namely; a stable and inflation-linked income yield, access to an illiquidity premium, and cost effective risk-adjusted returns.
- The expected return and yield from the LCIV proposition is towards the lower end of what is available within other LLP funds, but we believe this should achieve the requirements of the Fund.
- We rate the investment processes of the underlying manager, Aviva, highly. Aviva's LLP proposition stands up well when compared to the pooled LLP funds of other investment managers, and we believe the additional governance provided by LCIV is a positive. We also rate Aviva's approach to ESG highly. However, we believe some further thought is necessary to determine how LCIV can better align its ESG approach to that of Aviva.
- The 'blank sheet of paper' that, being newly incepted, the fund has at this time, is positive as Aviva has flexibility to deploy capital as they see opportunities arise, without being constrained by existing exposure limits.
- We believe that the LCIV Inflation Plus Fund is a good strategic fit and an appropriate vehicle for the Camden Fund to implement its LLP allocation. We propose that the capital for the mandate is sourced from a combination of the existing diversified growth fund, equity holdings and if appropriate cash , in-line with the agreed strategic direction of travel.

Summary, recommendation & next steps (cont.)

Next Steps

- The Camden Fund should consider the information and views given in this paper in order to agree a way forward, and specifically:
  - its view on implementing a 5% strategic allocation to LLP via a commitment to the LCIV Inflation Plus Fund;
  - its view on utilising a combination of the existing diversified growth mandates and equity mandates in order to fund the allocation.
- Should the Camden Fund wish to proceed with an investment into the LCIV Inflation Plus Fund, the next step would be to complete the required account opening and subscription documents.
- We look forward to discussing this report further with the Camden Fund.

Appendices

A1: Long Lease Property – asset class summary

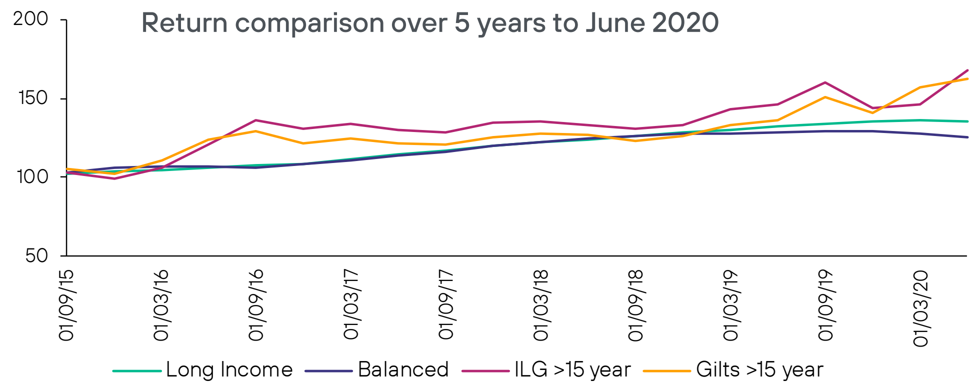
Long Lease Property ("LLP") funds are designed to produce secure, long term, inflation proofed income streams; they act as a diversifier in a portfolio. They also provide some "matching" properties to UK pension scheme liabilities due to their exposure to interest rates and inflation.

An LLP portfolio would focus on a subset of properties expected to display the following characteristics:

- Long lease lengths, providing some interest rate sensitivity;
- Inflation-linked, rather than fixed income;
- Income streams agreed with new acquisitions are increasingly using a Limited Price Index ('LPI') rather than traditional RPI, i.e. with 0% floors and 5% caps on rental uplifts. This will limit protection against a significant rise in inflation, but provide a floor in the case of deflation;
- Potential for additional gains from increases in the value of the underlying properties;
- Underpin of property value and resumption of rental income should the tenant default.

We view LLP positively in the current UK real estate market, where income is expected to be the main component of property fund returns over the medium term, as slower future growth is expected. Additionally, the long lease lengths provide some certainty of income, which acts as a diversifier from the more volatile equity and credit markets.

An allocation of between 5-15% of the total assets is most likely appropriate.



Expected Return	Low	High	Gilts + 2.5%;
Expected Volatility	Low	High	8% p.a.
Shape of Outcomes	0% Contractual	100% Contractual	>50% contractual
Liquidity	Immediate	Long	Long
Diversification	Concentrated	Highly Diversified	Diversified
Management Fee	Low	High	0.4% - 0.6% annual fees
Performance Fee	No	Yes	No

Implementation Considerations

Availability	Pooled options available
Governance	High due to long queues and drawdowns
Trading costs	c.5.0%
Turnover	Low turnover of underlying investments
Lock-ins	Typically none but newer funds may have initial lock-ins
Active/Passive	Active

Past Performance

Year	2020*	2019	2018	2017	2016	2015
Example Fund	-0.1%	5.5%	7.7%	9.7%	4.6%	8.0%

* 2020 returns are to 30 June 2020.
Note: LLP Index is the MSCI UK Long Income Property Fund Index. Net of fees.

A2: Due diligence meeting notes (1)

Business Management

Isio View – Aviva is a large, respected institutional asset manager and are amongst the largest managers of European real assets. Following strategic business reviews in recent years, Aviva have increased their focus on fixed income and real assets.

- Aviva Investors ("Aviva") is the London-based institutional asset management business of Aviva plc. Aviva is 100% owned by Aviva plc and asset management is one of the three core businesses of the Group.
- In 2013, Aviva restructured their real estate business, focusing on real asset-backed income strategies, making a significant investment in infrastructure, REaLM solutions and real estate debt.
- Aviva manages £354bn of assets, with real assets being one of Aviva's core asset classes, representing over 10% of the Firm's assets under management.

Team

Isio View – The REaLM team has experienced some turnover in recent years. Although Luke Layfield's range of responsibilities has increased, the wider long real estate income's senior team has remained stable and is highly experienced.

- The Fund Manager, Luke Layfield (12 years of industry experience), has been with Aviva since 2008. In addition to leading this strategy, Luke is also responsible for managing the ReaLM Multi-Sector, REaLM Commercial Assets and REaLM Social Housing Funds.
- Renos Booth (27 year of industry experience) is the Head of the Real Estate Long Income team, which oversees REaLM. He also co-manages one of the underlying funds, LIME Property Fund, with Kris McPhail (14 years of industry experience).
- The Fund leverages the wider Aviva Investors Real Assets business, which numbers approximately 340 specialists, including 80 credit specialists, across five locations.
- The Fund Managers are supported by a separate Transaction team who are responsible for sourcing deals, a Real Estate research team, and a Credit Research team.

Source: Aviva

A2: Due diligence meeting notes (2)

Investment Philosophy & Process

Isio View – The Fund is one of the few funds in the UK which can provide diversification within Real Assets by accessing a range of specialist underlying funds available on a single platform. The Fund aims to help meet the liabilities of LCIV clients through accessing high quality, inflation-linked income with long duration.

- The LCIV Inflation Plus Fund is a bespoke mandate, designed specifically with the needs of the LCIV clients in mind, in order to provide long-dated, inflation linked cashflows across a range of five sub-asset classes (long lease property, commercial assets, social housing, ground rents and infrastructure). The fund follows the below robust process:
  - **Asset sourcing:** Aviva benefit from extensive resources and a strong reputation in the market. The Fund's dedicated origination team has a strong track record of sourcing 'off market'.
  - **Fair Allocation:** the Fair Allocation Policy gives priority to Real Estate Long Income for all long-income assets within the strategy.
  - **Credit Analysis:** Robust credit analysis on underlying tenants is carried out by a specialist independent Credit Analysis team.

Investment Philosophy & Process (cont.)

  - **Opportunity Analysis:** Once the initial property and credit analysis has been conducted, the details are passed to the Real Estate Strategy and Portfolio Management team. This team constructs an in-house bespoke model to estimate a range of key metrics including expected return, credit and illiquidity risk, inflation linkage, as well as testing how the asset performs under various sensitivities. The internal modelling output is compared against external market data as an additional layer of review.
  - **Risk Control/Approval Process:** Following opportunity analysis, a detailed investment memorandum is drawn up, including a review of environmental & sustainability characteristics. Appraisal and valuation sign-off is then required by Aviva Investors Global Investment Committee.
  - **Ongoing monitoring:** The final stage of the process is the ongoing monitoring of the fund. This involves regular reviews of the portfolio, including a review of tenant credit strength, portfolio rebalancing, as well as regular ESG monitoring.
- Unlike some other funds on the investment pool, LCIV do not have scope to veto underlying investments selected by Aviva, but they do have sight of, and regularly monitor, the investment pipeline.

Source: Aviva

A2: Due diligence meeting notes (3)

Risk Management

Isio View – The Fund has a robust risk management process at a total Fund level and individual asset level. The Fund has an independent risk team which improves the robustness of the Fund.

— Aviva's Risk Management Framework is built on "three lines of defence". This provides appropriate first line (business) ownership of risk-based decision making, second line (risk and compliance) review and challenge, and the third line (internal audit) assurance.

— Aviva recognise risk management to be key to navigating volatility. This is broken down into three main pillars:
1. Counterparty / tenant risk: This involves detailed and sophisticated credit analysis to ensure the fund has strong public sector and corporate counterparties.
2. Real estate / project risk: Aviva make sure the underlying fundamentals of each potential investment are fully stress-tested before allocating capital.
3. Development risk: Expert oversight is applied to each investment, in order to mitigate any development risk.

Operations

Isio View – The operational framework appears appropriate for the Fund. Please refer to our risk warning below.

— The operations of complex transactions is reviewed and signed of from specialist areas within the Aviva Group.

Risk Warning:
Please note that Isio Investment Advisory have not conducted operational due diligence. Our review focuses on client servicing and reporting and on ensuring that clients guidelines are adhered to. However, we do ask investment managers to provide a SSAE 16 / ISAE 3402 type II report (where available) which is an independent audit of areas of control (for example, application systems, transactions, security and computer operations). Should clients wish us to undertake operational due diligence, we would be happy to discuss how Isio can help you with this.

Source: Aviva

A3: UN Sustainable Development Goals focus areas

The following United Nations Sustainable Development Goals ("UN SDGs") have been identified as key areas of focus for the Camden Fund, its investment managers and advisors when making investment decisions. These have been documented in the Investor Beliefs Statement.

Environmental

Climate action (SDG 13) - Goal: Taking urgent action to tackle climate change and its impacts.

Life below water (SDG 14) - Goal: To conserve and sustainably use the world's oceans, seas and marine resources.

Life on land (SDG 15) - Goal: To sustainably manage forests, combat desertification, halt and reverse land degradation, and halt biodiversity loss.

Social

Decent work and economic growth (SDG 8) - Goal: To promote inclusive and sustainable economic growth, employment and decent work for all

Good Health and well-being (SDG 3) - Goal: To ensure healthy lives and promote well-being for all at all ages.

Clean Water and Sanitation (SDG 6) - Goal: To ensure access to safe water sources and sanitation for all.

Affordable and clean energy (SDG 7) - Goal: To ensure access to affordable, reliable, sustainable and modern energy for all.

Sustainable cities (SDG 11) - Goal: To make cities inclusive, safe, resilient and sustainable.

Governance

Gender Equality (SDG 5) - Goal: To achieve gender equality and empower all women and girls.

Partnerships for goals (SDG 17) - Goal: To revitalize the global partnership for sustainable development.

A4: ESG manager review framework

We have used a 'Traffic Light' system to capture the fund manager's ESG capabilities against each criteria. The criteria are summarised below:

1. Risk Management – ESG factors are integrated holistically in the manager's risk management framework.
2. Approach/framework – There is a clear approach/framework for integrating ESG factors.
3. Voting & Engagement – There is evidence of exercising voting rights (where applicable) and ongoing engagement with companies on ESG issues to help initiate change.
4. Reporting – The manager provides meaningful and regular reporting on ESG issues, including voting and engagement activities.
5. Collaboration – There is evidence of engagement with other stakeholders and market participants to encourage best practice on various issues such as board structure, remuneration, sustainability, risk management and debtholder rights.

	**Above satisfactory:** The manager is well resourced and displays strong knowledge on key ESG issues. There is significant evidence of support from the business to build and maintain ESG capabilities. The manager incorporates ESG factors as a source of investment return and as a tool to mitigate risk at the portfolio management level. This is supported by evidence of how ESG factors are applied and measured. The manager acts as an active owner by taking responsibility of voting and engagement with companies. The manager collaborates with other market participants to encourage best practice on various ESG related issues. The manager provides detailed ESG related reporting to clients.
	**Satisfies requirements:** The manager has good knowledge of ESG issues and collaborates with market participants to encourage best practice in the wider market. There is evidence of support from the business to build and maintain ESG capability, but evidence of how ESG factors are applied at the portfolio management level may be limited. The manager takes responsibility for voting and engagement and provides high level reporting to clients.
	**Below satisfactory:** The manager displays limited knowledge of ESG issues at the business and portfolio management level. The manager is unable to provide evidence of voting and engagement. The manager relies heavily on voluntary codes, such as the UNPRI, to reflect their ESG capabilities.

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