LONDON BOROUGH OF CAMDEN	WARD: All
REPORT TITLE: Performance Report	
REPORT OF: Executive Director Corporate Services	
FOR SUBMISSION TO: Pension Committee	**DATE:** 23 September 2021

SUMMARY OF REPORT:

This report presents the performance of the Pension Fund investment portfolio and that of the individual investment managers for the quarter ended 30 June 2021.

Local Government Act 1972 – Access to Information
No documents required 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 requested to note the contents of this report.

Signed by

Director of Finance Agreed

Date 14 September 2021

1. INTRODUCTION

1.1. This report presents the performance of the Pension Fund investments up to 30 June 2021 (quarter 2 of 2021) and since manager inception. More detailed information on the financial markets and individual managers can be found in **Appendices A and B.**

FINANCIAL MARKET DATA

1.2. A summary of financial market returns to 30 June 2021 is shown in Table 1 below, in percentages.

TABLE 1: FINANCIAL MARKET RETURNS Q2 2021

Market Returns		3 months	12 months	3 years (annualised)
EQUITIES	FTSE all world	7.3	25.0	13.3
	UK FTSE All Share	5.6	21.5	2.0
	Europe (ex UK)	8.4	23.0	10.2
	North America	8.7	27.3	17.2
	Japan	-0.5	12.0	5.7
	Asia (ex Japan)	5.0	32.4	11.9
	Emerging Markets	5.1	24.5	10.3
UK gilts		1.7	-6.2	3.7
ILGs		3.6	-4.0	5.0
Corp bonds		1.9	2.9	5.3
UK Property		3.9	9.1	3.3
Commodities		14.7	64.7	3.2
Cash - 3m LIBOR		0.0	0.1	0.5
RPI (UK) Inflation		2.4	3.9	2.6
US CPI (Inflation)		2.2	-5.7	1.1

1.3. Economic recovery expectations continue on an upward trend, as a result of the effective Covid-19 vaccine rollouts, the motion of the recent US fiscal stimulus package ($1.9tn), and the greater economic resilience to the latest waves of Covid-19. Global GDP growth is forecast in Q2 2021 to have a sharp recovery, as restrictions in the major advanced economies are lessened. Recent improvements in expectations see output in many economies reaching pre-pandemic levels by the end of the year, much faster than earlier predictions. The global economy will likely experience a period of above-trend growth as it rebounds out of the Covid-19 crisis.

1.4. In the equity sectors in Table1, during Q2 2021. Global equity markets gained 7.3%, driven by positive growth and earnings momentum. The UK FTSE All Share rose by 5.6%, assisted by the continuing success of the domestic vaccine rollout and relaxing of lockdown restrictions. European equities performed well, at 8.4%, with several eurozone countries continuing to ease restrictions as immunisation operations continue. North America performed amongst the best, at 8.7%. Recent US inflation concerns were offset by favourable economic results and corporate earnings. Record high US equity earnings were driven by technology companies, including manufacturers of hardware, who gained from increasing demand to manage the global shortages of semiconductor chips. Asia (ex Japan) equity index reported positives returns of 5%, buoyed by the stabilisation of bond prices and high economic growth expectations. In the light of a slow immunisation rollout and recent outbreaks of Covid-19. Japan equities performed least well, at -0.5%, as a resurgence in new Covid-19 cases and low vaccination rates resulted in new restrictions.

1.5. Over Q2 2021, US Government bond yields for 10-year Treasury fell 0.3% p.a. to 1.5% p.a. and UK Government bond yields fell 0.1% p.a. to 0.7% p.a.

1.6. The UK property gained 9.1% over the year and gained over the quarter by 3.9%. All sectors reported gains, especially industrial, but offices were the weakest performers. Retail capital values are starting to increase, and are driven by activity in retail warehousing and supermarkets. Offices are currently underperforming, due to the uncertainty of the impact of Covid-19 on future occupation.

1.7. Sterling fell slightly over Q2 2021. In trade-weighted terms, sterling has fallen by 0.5% since the end of March 2021.

1.8. Inflation figures have risen over Q2 2021, due to the effects of the restart to global economic activity, coupled with rising oil and natural gas prices.

2. FUND VALUATION & ASSET ALLOCATION

2.1. Table 2 sets out the value of the assets held by each investment manager, the asset classes held, and the targets for each mandate. The portfolio had a market value of £2.212bn at 30 June 2021, compared with £2.095bn at 31 March 2021, an increase of 5.6%. However, this figure includes the prepayment of secondary contributions by Camden Council, so excluding this, the overall return on the Fund’s investments is 5.6% - still in excess of the composite target of 4.7% and shown in Table 7.

Table 2: Portfolio Summary as at 30 June 2021

Manager	Mandate	Target	Date Appointed	Value 31/03/21 £m	Value 30/06/21 £m	%age 31/03/21	%age 30/06/21
Baillie Gifford (LCIV)	Global Equity	+2-3%	01/12/16	£431.7	£462.4	21%	21%
Harris	Global Equity	+2-3%	14/05/15	£314.1	£331.7	15%	15%
L&G	Global Equity	0%	10/08/11	£359.1	£385.0	17%	17%
L&G	UK Equities/ Future World	0%	17/03/09	£251.9	£270.8	12%	12%
Insight	Absolute Return Bonds	+4%	15/03/14	£98.1	£98.5	5%	4%
CQS Fund (LCIV)	Multi Asset Credit	4-5%	01/05/19	£51.8	£52.8	2%	2%
L&G	Index Linked Gilts	0%	17/03/09	£43.6	£45.3	2%	2%
Stepstone	Infrastructure	8-10%	31/10/19	£25.1	£28.0	1%	1%
Partners	Global Property	15%	04/06/10	£83.2	£87.2	4%	4%
CBRE	UK Property	+1%	26/07/10	£87.9	£91.4	4%	4%
HarbourVest	Private equity	+8%	28/07/16	£42.4	£49.8	2%	2%
Barings	Diversified Growth	+4%	01/02/13	£137.6	£0.0	7%	0%
Ruffer (LCIV)	Diversified Growth	+3%	14/03/18	£70.9	£71.4	3%	3%
Standard Life	Diversified Growth	+5%	13/04/16	£41.6	£41.9	2%	2%
Other				£1.2	£1.2	0%	0%
Cash				£55.1	£194.3	3%	9%
				£2095.3	**£2211.7**	**100%**	**100%**

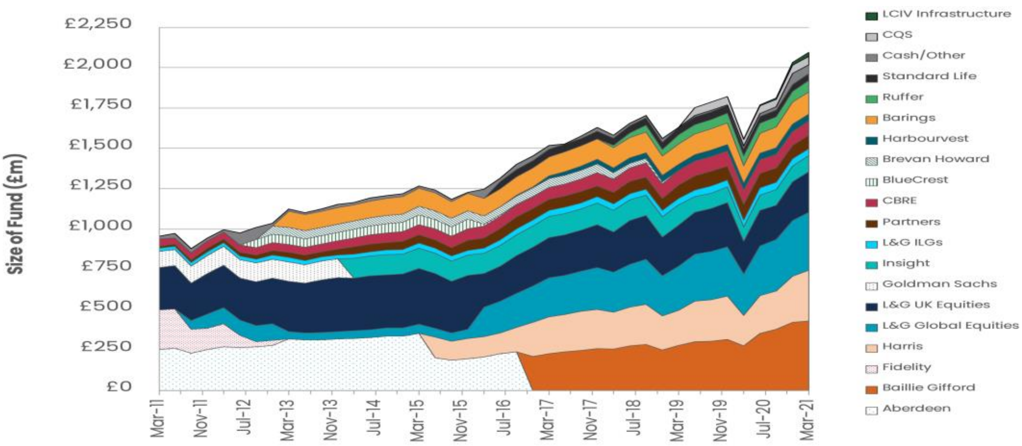
2.2. The current asset allocations compared to target weights are set out in Table 3 below.

Table 3: Asset class allocations

	Value as at 30 Jun 2021 £m	Current Weight %	Target Weight %
Baillie Gifford (LCIV)	462.4	21%	
Harris	331.7	15%	
L&G Global passive	385.0	17%	
L&G UK/ Future World passive	270.8	12%	
Equity	**1449.9**	**66%**	**50%**
Insight	98.5	4%	
CQS (LCIV)	52.8	2%	
L&G Ind.Lkd Gilts	45.3	2%	
Bonds	**196.6**	**9%**	**15%**
CBRE	91.4	4%	
Partners Group	87.2	4%	
Property	**178.6**	**8%**	**10%**
Aviva	0.0	0%	5%
Long-Lease Property	**0.0**	**0%**	**5%**
HarbourVest	49.8	2%	
Private Equity	**49.8**	**2%**	**5%**
Stepstone (LCIV)	28.0	1%	
Infrastructure	**28.0**	**1%**	**5%**
Barings	0.0	0%	
Ruffer (LCIV)	71.4	3%	
Standard Life	41.9	2%	
Diversified Growth Funds	**113.3**	**5%**	**10%**
Cash	**194.3**	**9%**	**0%**
Other	**1.2**	**0%**	**0%**
	2211.7	**100%**	**100%**

2.3. Table 4 shows the total value of the Pension Fund over time. Each segment shows the value of the assets with each underlying investment manager.

TABLE 4: HISTORIC FUND MANAGER VALUATIONS



Source: London Borough of Camden; MJH Allenbridge

2.4. The LCIV Infrastructure Fund had a number of capital calls in Q1 2021 totalling £9.1m. Three drawdowns in the quarter came from Macquarie GIG Renewable Energy Fund 2 ('MGREF II'), First Sentier's European Diversified Infrastructure Fund III ('EDIF III') and Capital Dynamics Clean Energy Infrastructure Fund VIII ('CEI VIII'). Following the Q4/2020 close on the Equitix Fund VI ('EFVI') there was an equalisation amount and interest attributable to the Fund which was retained within EFVI. Finally, the Fund received a distribution from the CEI VIII relating to late closing interest and income from its portfolio assets. No new commitments were made by the Fund to primary funds in Q1 2021 so the Fund maintains its c.75% committed position. At the end of the quarter the Fund was over 20% deployed. It is expected that the rate of invested capital will increase throughout 2021 as the current primary funds have a few large ticket deals in their pipelines.

2.5. HarbourVest made no straight capital calls or distribution activities during Q2 2021.

2.6. The Fund's equity allocations still remain above the strategic asset allocation levels, due to strong outperformance of equity markets over successive years. The high proportion of equities is what drives much of the volatility in overall returns. As Table 5 shows, the Fund is outside the target ranges in all asset classes apart from property and private equity. This will be addressed as the Fund implements its new agreed investment strategy. As a reminder, the ultimate position targeted is shown in the final column of Table 5, with the move into index linked gilts only happening if their 20-year yields rise above -1.5%. The phased sell out from Legal and General's UK Equity fund into Legal and General's Future World Market Capitalisation Index Fund was instructed to begin from 1 February, with tranches of £38m every month until 1 July 2021 where the balancing figure will be transferred across.

2.7. The Retail Price Index (RPI) measure of inflation will be reformed in 2030, moving to the "Consumer Price Index including owner-occupiers' housing costs" (CPIH) measure instead, it was announced in Q4 2020. The effect on yields was muted implying markets had already priced in this change. Holders of index-linked gilts (ILG's) maturing post-2030 could pursue compensation claims through the courts, it has been suggested, as the CPIH measure of inflation is typically lower than the RPI measure to which ILG's returns have been linked to. For example, an index-linked gilt today with 20 years' duration would be worth 10% less if RPI inflation was reduced by 1% per annum (the approximate wedge between the two indices) from

2030 onwards. Most of the Fund's liabilities are already linked to CPI rather than RPI so unfortunately for the Fund, this does not coincide with a reduction in its liabilities.

TABLE 5: ASSET CLASS OPERATING RANGES

Asset Class Operating Ranges

Asset class	Value £'000s	Actual %	Range %	Target	New Target
Active Equities	794.1	35.9%	22-28%	25%	20%
Passive Equities (to be ESG focused)	655.9	29.7%	22-28%	25%	30%
Fixed Income/Multi Asset Credit	151.4	6.8%	10-14%	12%	12%
Passive Index Linked Gilts	45.3	2.0%	2.5-3.5%	3%	8%
Property	178.6	8.1%	8-12%	10%	10%
Long-Lease Property	0.0	0.0%	2-8%	5%	5%
Private Equity	49.8	2.3%	2-8%	5%	5%
Infrastructure	28.0	1.3%	2-8%	5%	5%
Diversified Growth Fund	113.3	5.1%	8-12%	10%	5%
Cash	194.3	8.8%	0%	0%	0%
Other	1.0	0.0%	0%	0%	0%
Total	2,211.7	100%		100%	100%

2.8. The overweight position in cash will soon correct itself as the c.£190m bulk transfer out of the Improvement and Development Agency's assets from Camden. London CIV and Merseyside are currently working with the Merseyside Fund on the transfer and this will complete in Q4 2021. Project meetings to progress with substitution of funds are ongoing and work with both sets of actuaries.

3. LIABILITY MONITORING

3.1. The actuary (Hymans Robertson) valued the liabilities at 31 March 2019 at £1.613bn. This figure was calculated by discounting future liabilities with a discount factor equal to the assumed average annual return on assets (4.5% per annum). This gave a funding ratio of 103% and is a different basis from the previous Triennial Valuation methodology in 2016 when the discount factor was linked to the return on gilts. This revised approach is more realistic and should result in more stable funding ratios over time.

3.2. In order to be consistent with the approach taken by the actuaries, the valuation of these liabilities has been extrapolated by the assumed average quarterly return on assets (4.5%/4 = 1.125%), rather than using the movement in gilt yields as a means of extrapolating.

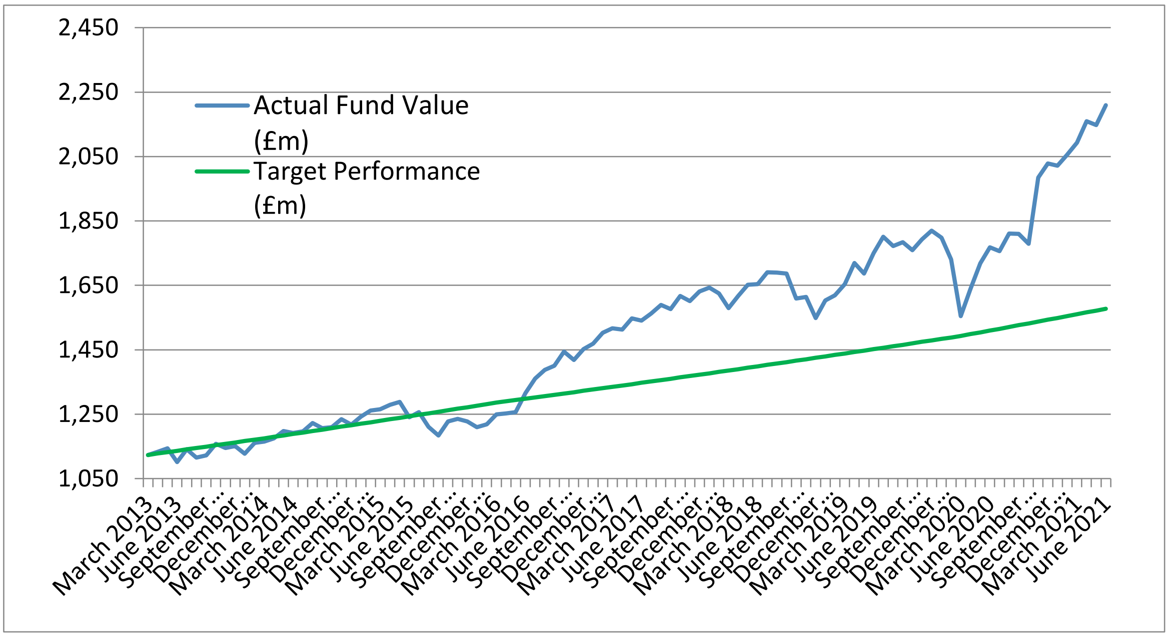
3.3. This gives a theoretical estimated funding ratio in June 2021 of 124% (£1.784m of liabilities) and is based on the investment strategy returning in-line with the actuary's estimations for the coming years and decades. This is only an approximation, however. Long-term asset performance is considerably above the actuary's historic expectations, as shown below in Table 6.

4. ASSET PERFORMANCE

4.1. Comparative benchmarking data from a universe of 64 other local authority pension funds (valued at £230bn indicates that median Local Government Pension Scheme (LGPS) fund growth was just over 5.6% in the quarter to 30 June 2021. The Fund equalled this benchmark return of 5.6% for the quarter. Over 1 year the universe of PIRC funds achieved 17.7% with the Camden Fund out-performing this with a return of 21.6%. Over three years the comparison with the PIRC universe is also positive with the Fund returning 9% and the PIRC universe 8.2%. Even over 5 years the Fund compares very favourably to the PIRC universe with the Fund achieving a return of 10.2% versus the universe's 9.7%. This demonstrates that the Fund has been able to deal with poor performing managers and turn around the detrimental effect they have had on overall Fund performance.

4.2. The PIRC league tables for 20/21 have also recently been published and they shows some very pleasing results. The Camden Fund is ranked 8th percentile over 1 year, 28th in 3 years and 26th percentile in 5 years meaning the fund is in the top third of funds over all these time frames. As we know the Fund has had some weaker performance with equity managers in particular who we have left over the medium term, and so results in 10 and 20 years are 70th percentile and 59th percentile.

TABLE 6: ASSET PERFORMANCE SUMMARY



4.3. The latest asset valuations, at 30 June 2021, are markedly above their level last quarter and 25% higher than their low of £1,769.8m at 30 June 2020, as shown above in Table 6. The Fund's high exposure to equities is what has fuelled this volatility.

4.4. Examining the individual investment manager returns in Table 7, the Fund has outperformed its composite target by 0.9% in Q2. This is far more than what the actuary assumed (4.5% per annum) at the last Triennial Valuation. Since inception, the Fund has returned 10.2%.

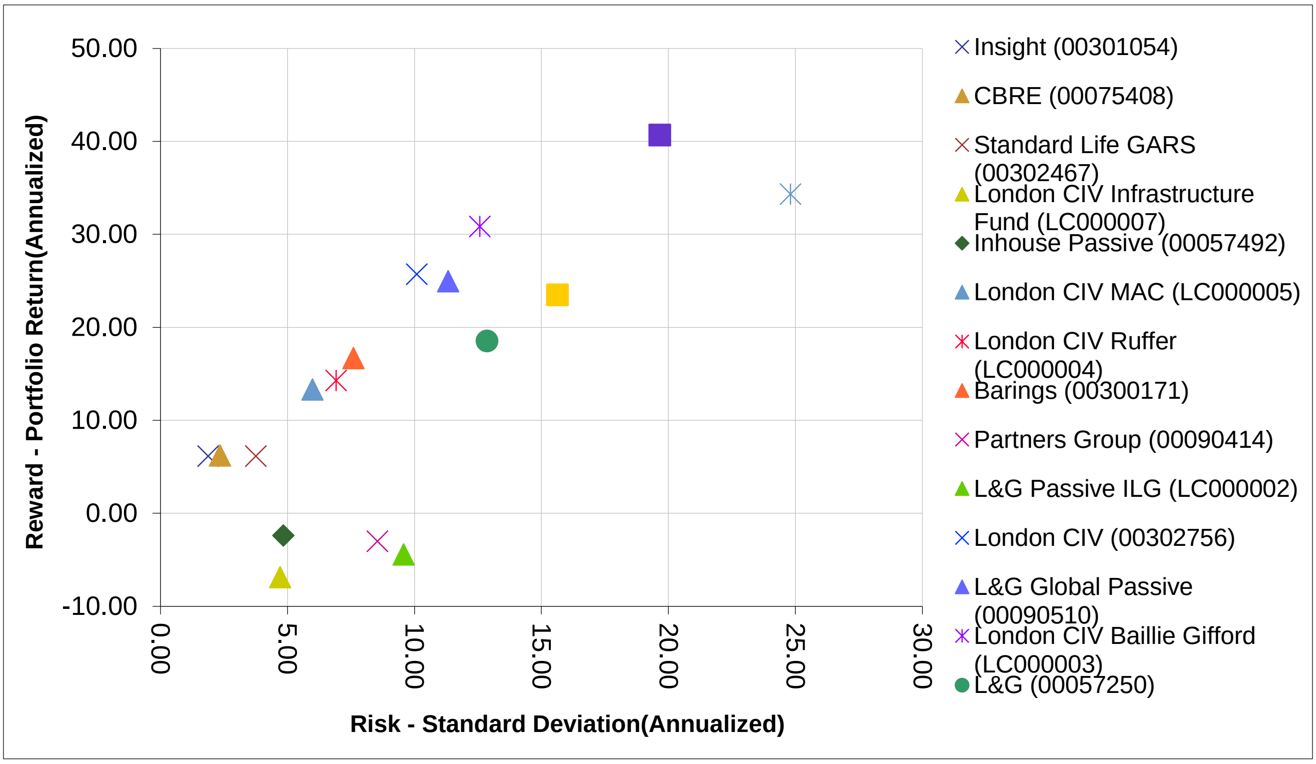
TABLE 7: MANAGERS' PERFORMANCE

Name	Trailing 3 Months	Trailing 1 Year	Trailing 2 Years	Trailing 3 Years	Since Inception
Harris	5.9	40.7	16.5	11.3	12.4
Custom Global Equities (Gross) +2.5%	8.1	28.2	17.9	16.3	16.2
Excess Return	-2.2	12.5	-1.4	-5.0	-3.8
Baillie Gifford (London CIV)	7.1	30.8	23.9	18.8	17.9
Custom Global Equities (Gross) +2.5%	8.1	28.2	17.9	16.3	15.8
Excess Return	-0.9	2.6	6.0	2.5	2.1
L&G UK Equity/ Future World	7.5	23.5	3.6	2.6	10.1
FTSE All Share + 0%	5.6	21.5	2.8	2.0	9.8
Excess Return	1.9	2.0	0.8	0.6	0.3
L&G Global Equity	7.2	24.9	14.9	13.3	13.9
FTSE All-World + 0%	7.3	25.0	15.0	13.3	13.9
Excess Return	-0.0	-0.1	-0.0	-0.0	-0.0
Insight Investment	0.4	6.1	2.1	0.6	0.8
3 month LIBOR + 4%	1.0	4.1	4.4	4.5	4.5
Excess Return	-0.6	2.1	-2.3	-4.0	-3.6
CQS (LCIV)	2.0	13.3	4.0	-	4.0
3 Month GBP Libor +4.5%	1.1	4.6	4.9	-	4.9
Excess Return	0.9	8.7	-0.9	-	-1.0
L&G Passive ILG	3.9	-4.4	3.4	5.3	8.4
FTSE Over 5yr Index Linked Gilts +0%	3.8	-4.8	3.0	4.9	8.1
Excess Return	0.1	0.3	0.4	0.4	0.2
CBRE	3.4	6.2	1.1	2.7	7.2
All Balanced Property Funds + 1%	4.1	9.6	3.8	4.1	7.9
Excess Return	-0.7	-3.4	-2.7	-1.3	-0.8
Partners Group 2009 Euro Fund	0.2	-7.4	-6.3	-3.7	6.4
Absolute 15%	3.6	15.0	15.0	15.0	15.0
Excess Return	-3.3	-22.4	-21.3	-18.7	-8.6
Partners Group 2013 USD Fund	-0.7	-8.2	-6.1	-1.3	11.5
Absolute 15%	3.6	15.0	15.0	15.0	15.0
Excess Return	-4.3	-23.2	-21.1	-16.3	-3.5
Partners Group 2017 USD Fund	2.1	3.3	3.4	9.0	4.9
Absolute 15%	3.6	15.0	15.0	15.0	15.0
Excess Return	-1.5	-11.7	-11.6	-6.0	-10.1
HarbourVest	23.7	34.3	22.1	21.4	24.5
Absolute 8%	1.9	8.0	8.0	8.0	7.9
Excess Return	21.7	26.3	14.1	13.4	16.6
Barings	3.5	16.7	5.3	4.4	4.5
3 month LIBOR + 4%	1.0	4.1	4.4	4.5	4.5
Excess Return	2.5	12.6	0.9	-0.1	-0.0
Ruffer (London CIV)	0.7	14.3	11.1	6.7	6.8
3 month LIBOR + 3%	0.8	3.1	3.4	3.5	3.5
Excess Return	-0.1	11.2	7.8	3.2	3.2
Stepstone (London CIV)	0.0	-6.9	-	-	-4.2
9% p.a Net	2.2	9.0	-	-	8.5
Excess Return	-2.2	-15.9	-	-	-12.7
Standard Life	0.7	6.1	4.3	3.9	2.2
6 month LIBOR+5%	1.3	5.1	5.4	5.6	5.6
Excess Return	-0.5	1.0	-1.1	-1.7	-3.4
Total Fund	**5.6**	**21.6**	**11.1**	**9.0**	**10.2**
Total Fund Composite Target	**4.7**	**16.3**	**8.9**	**8.3**	**11.4**
Excess Return	**0.9**	**5.3**	**2.1**	**0.6**	**-1.2**

4.5. The risk: reward ratio of individual mandates over the preceding year is represented in Table 8 below. The graph plots absolute returns in the year to June 2021 against the volatility (risk) of returns relative to the benchmark assessed in terms of annualised standard deviation. This approach measures the volatility in respect of the 12 end of month valuations for the entire portfolio; the maximum number made available by the custodian carrying out independent valuations. The greater the number of observations in the data set the more comprehensive the measure of volatility.

4.6. The graph below shows the actively managed Harris equity portfolio as performing far better than any other manager in the period, The next best performing fund is the actively managed Baillie Gifford equity portfolio. The funds of both Harris and Baillie Gifford have been performing particularly well, on an annual basis, in recent quarters. HarbourVest private equity fund returns were marginally better than Baillie Gifford's over the year. HarbourVest returns were achieved with higher risk however. The next best performing fund is the passive investment of Legal and General (L&G) Global Passive equities, returning 24.9 annualised returns. L&G Passive (UK) Equity performed considerably better than the L&G Index Linked Gilts, returning 23.5 and -4.4 annualised returns, respectively. All diversified growth funds (DGFs - (Barings, Ruffer and Standard Life)) delivered positive returns over the year. Ruffer has performed especially well for a low risk investment, 11.2% above target over the year. Standard Life has performed the worst of the DGFs, but the Fund is gradually exiting this mandate. The Barings Dynamic Asset Allocation Fund was fully liquidated on 30 June 2021. Over the quarter, year, and since inception, CQS MAC fund has performed better than Insight, although the volatility of CQS is far greater than Insight's, as shown below. The poor performance of real estate (CBRE and Partners) can also be seen below and the additional risk of investing in Partners group – private market funds - is not producing much of a return premium when compared to the CBRE portfolio.

TABLE 8: RISK VS REWARD GRAPH



4.7. Since 1 February the Fund has transitioned £38m each month from the UK L&G Fund to the Future World Fund as agreed at the November 2020 meeting. This completed with the residual balance of £66m being transferred on 1 July. The Future World Fund now has funds of £271m invested and achieves the strategic asset allocation for sustainable equity. There are two smaller allocations (c£27m) to be transferred from Baillie Gifford and Harris and these will now take place. The future world fund delivers a portfolio with a reduced carbon footprint and enhanced ESG score which encompasses the Fund's Investor Beliefs while still tracking the wider equity index.

4.8. **Harris** have underperformed the benchmark, by -2.2% over Q2 2021, but outperformed the benchmark trailing one year, by 12.5%. Harris are also still behind target, since inception, by 3.8%. Their top contributors in the quarter were Alphabet Cl A (0.97% contribution to returns), Grupo Televisa ADR and Glencore. They added Danone and Fresenius, in the quarter. The bottom performer was Naspers (-0.37% contribution to returns).

4.9. **Baillie Gifford (London Collective Investment Vehicle)** underperformed against target, by 0.9% over Q2 2021, but outperformed over all other time periods including 2.6% over the year. The top performing sectors that contributed most towards this quarter's positive returns were Information Technology (IT) Health Care and Communication Services. Conversely, the less successful sectors were Industrials Real Estate and Energy. Moderna Inc, a US Pharmaceutical company, was the largest contributor to performance in this quarter. As a result of Moderna's Covid-19 vaccine rollout in India, as well as proving its effectiveness against its different variants.

4.10. **Insight** underperformed against their target by 0.6% in Q2 2021, and still lag considerably behind target since inception by 3.6%. Insight's performance is worse than that of CQS over comparable time periods, (CQS being the other actively managed fixed income fund which the Committee agreed to transfer into from Insight. Before concerns were subsequently raised about CQS. The main negative contributor was the long position in Germany relative to the US.

4.11. **CQS (London Collective Investment Vehicle)** have outperformed the benchmark over Q2 2021 and the trailing one year, by 0.9% and 8.7% respectively. But still falls behind the target since inception by 1.0%. Performance during Q2 2021, proved to be beneficial for credit markets, with issuers' fundamentals supported by steady progress of vaccination rollouts and the continued economic recovery. Senior secured loans contributed most to returns, with strong performance from US and European books. CQS still remains under enhanced monitoring.

4.12. **CBRE** trailed the target by 0.7% over Q2 2021 and trails target across all time horizons (by 3.4% over the year). They have returned 7.2% per annum since inception, slightly below target. Performance in the quarter were positively impacted by exposure to the industrial and other commercial sectors, but funds in the retail sector have been a drag on returns. All Property capital values have returned to growth more quickly than predicted.

4.13. **Partners Group** funds' performance were all below target and negative out to three years. During the second quarter of 2021, the real estate transaction volume was reported at USD 415.4 billion, resulting in a year-on-year growth of 26%. This reflects the continued economic recovery of real estate deal activity, in contrast to the peak of last year's Covid-19 pandemic. The US was the main driver to recovery, and reported during Q2 2021 transaction volume year-on-year growth of 176%.

Partners Group funds' performance is viewed individually for the three funds as follows:

i. The 2009 Euro fund has underperformed the benchmark, by -3.3% over Q2 2021, and is 8.6% below its ambitious target since inception. The fund is completely invested. Their latest report to Q2 2021 stated the fund was in its realisation stage and continued to be in receipt of proceeds from its underlying investments. The continued appraisal of suitable exit strategies for the remaining assets will be the main focus for the program.

ii. The 2013 Dollar fund's performance fell over Q2 2021 by -0.7% and -8.2% over the year. However, since inception, the fund has returned 11.5% per annum which is more in line with its benchmark. The fund continued to receive proceeds from its underlying investments, delivering a total distribution amount since inception near to USD 1.2 billion as of 30 June 2021.

iii. The 2017 Dollar fund, the youngest of the three funds, performed the best during the second quarter of 2021, achieving 2.1% growth. Since inception, it has only achieved 4.9% growth, but it is still relatively early days. The main positive revaluations in their latest report to Q1 2021, were from its two office portfolios in the US, namely San Francisco Bay Area Office Portfolio (Rapid) and Southern California Office Portfolio (Montana). The San Francisco Bay Area Office Portfolio (Rapid) was positively revalued to reflect the latest third-party broker opinion. The San Francisco Bay Area Office Portfolio (Rapid) was revalued upwards to reflect the agreed sale price of the assets at a significant premium to their latest appraised values. Partners Group will continue to focus on the ongoing value creation initiatives across the portfolio and explore early exit opportunities, proceeds of which can be reinvested to support the rounding out of the portfolio.

4.14. **HarbourVest** strongly outperformed their benchmark by 21.7% in Q2 2021, outperforming over all time periods including 26.3 over the year. Their valuations are also lagged by three months and so the full effects of the current macroeconomic situation are yet to be seen on HarbourVest's holdings.

4.15. **Stepstone (London Collective Investment Vehicle)** had recorded 0.0% in its latest quarterly results, but these figures are lagged by three months, as is typically the case with private investments. The fund was only launched on 31 October 2019 and so it is too early to read into their performance figures. Looking to the future, infrastructure will be a key part of economic recovery plans.

4.16. **Barings** returned 3.5% in Q2 2021, against a target of 1.0%. The Barings Dynamic Asset Allocation Fund was fully liquidated on 30 June 2021 as per the notice sent out to investors back in April this year. The fund was liquidated to cash after the notice to liquidate.

4.17. **Ruffer (London Collective Investment Vehicle** reported positive returns of 0.7% in Q2 2021, against a target of 0.8%, and outperforming over all time periods including 11.2% over the year. Based upon performance for this quarter, the fund is at the lower end of the diversified growth funds. Performance during this quarter was predominantly attributable to equity exposure given a sharp recovery of economic activity as vaccine programmes continue to develop.

4.18. The portfolio position in bitcoin was actively reduced during the quarter with the final sale occurring in April 2021, with bitcoin above $50,000. The fund continues to hold significant credit protections, which is mainly concentrated on high yield credit, as part of the fund. The bitcoin position, which used to serve as an extra layer of protection in conjunction with inflation-linked bonds and gold holdings, provided significant gains throughout the period. However, the investment managers perceives bitcoin as a “riskier” asset now, and despite being interested in digital currencies over longer term, believes the portfolio can provide other layers of protections, such as interest rate options and credit default swaps to compensate any negative contributors to performance.

4.19. **Standard Life** reported positive returns of 0.7% in Q2 2021, against a target of 1.3%, and since inception they still lag by 3.4%, but over one year they have outperformed above target by 1.0%. The two top performers that contributed most towards this quarter’s positive returns were Long European Inflation and High yield credit. However, the two bottom contributors that underperformed were Short US Real Yields and Emerging Market Currencies Relative Value.

5. ASSET ALLOCATION REBALANCING UPDATE

5.1. Given the many moving parts as a result of decisions and actions from the July 2021 Pension Committee, the performance report will update on progress each quarter until all asset transfers as a result of the asset allocation rebalancing has been completed.

5.2. At the time of writing the Fund was imminently about to transition from Baillie Gifford’s Global Alpha Growth fund to the Paris-aligned version. Fund’s transferred were £283m leaving £190m earmarked for the transfer to Merseyside for the Improvement and Development Agency’s Substitution of Funds.

5.3. In August the application form for the £95m Inflation plus mandate was submitted to the London CIV after legal due diligence on the fund was cleared. There is an opportunity for Aviva to bid on a portfolio of assets, which if successful it would mean immediate deployment for the Fund.

5.4. Officers are exploring how to conclude the reduction in the Harris mandate by c£170m to bring equities back to their target allocation of 50%. Given the target will be to redeem cash it is likely that this will be instructed using Harris’ brokers over severa tranches in order to be as efficient as possible. During the autumn this sale will occur to ensure the Fund can invest in a further tranche of £57m in index linked gilts and to fund the planned investment in Baillie Gifford’s diversified growth fund of £95m.

5.5. The Multi Asset Credit fund with the CIV (CQS) will only be moved to the new blended sub-fund, including PIMCO, once this is available. The CIV are expecting to launch the alternative credit fund during Q4 2021 or Q1 2022 and we await progress on this.

6. FOSSIL FUEL EXPOSURE

6.1. Investment managers were asked about the Fund’s exposure to fossil fuels in general. The results for our equity managers (for whom the results are more meaningful than other asset classes), at 30 June 2021, are as follows:

TABLE 9: PERCENTAGE OF EQUITIES INVESTED IN FOSSIL FUELS

£m	L&G	Harris	Baillie Gifford	Total
Total Fund at June-21	656	340	462	1,458
Fossil fuel stock	17	25	6	48
% of NAV in fossil fuels for equities at June-21				**3.29%**

6.2. It is important to remember that all companies have slightly different definitions of fossil fuel companies and so this is only an estimate. As reported in the ESG report at the September 2019 committee, the Fund once had 12.8% invested in fossil fuel companies.

6.3. Investment managers were also asked what percentage of our portfolio was invested in the Carbon Underground 200 Index of companies at 30 June 2021. This is a more consistent definition of fossil fuel companies and the results are below for those that replied. Harris only had two holdings, Berkshire Hathaway and Glencore, and the Legal and General UK fund is being exited from this year, so their percentage will move to zero.

TABLE 10: PERCENTAGE OF PORTFOLIO IN CU200 COMPANIES

Investment Manager	% Portfolio invested in Carbon Underground 200 Index of Companies
CBRE	0.57
HarbourVest	0.00
Harris	3.75
Insight	0.76
Legal and General UK	0.38
Legal and General World	1.08

7. FINANCE COMMENTS OF THE EXECUTIVE DIRECTOR CORPORATE SERVICES

7.1. The finance comments of the Executive Director Corporate Services are contained within the report.

8. LEGAL COMMENTS OF THE BOROUGH SOLICITOR

8.1. This report demonstrates that the Camden Pension Fund adheres to the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. Regulation 7 requires that the authority must invest, in accordance with its investment strategy, any fund money that is not needed immediately to make payments from the fund. In doing so the Committee must take account the requirements for the investment strategy and in particular, the need for a suitably diversified portfolio of investments considering the advice of persons properly qualified on investment matters.

9. APPENDICES

APPENDIX A – Camden Client ranking by Manager

APPENDIX B – Detailed Market and Manager Performance Review

CAMDEN CLIENT RANKING BY MANAGER

This appendix details Camden's exposure as clients to the overall fund or strategy managed by Investment Managers. Where Camden represents more than 5% of each fund and there is a material increase, due to client outflows, this will be reported to the Committee on an exception's basis.

Manager	Assets under management (£m)	Fund or Strategy	Number of investors	Camden's rank	Size of Camden's portfolio (£m)	Percentage of Fund or Strategy	Comment
Baillie Gifford	3,521	Fund	12	Not provided by London CIV	462.40	13.13%	AUM has decreased by £170m. Number of investors decreased by 1.
Harris	15,500	Strategy	18	10th	331.70	2.14%	£1,000m increase in AUM. No of Investors and Camden's rank remain unchanged.
L&G UK Equities	12,374	Fund	463	34th	270.80	2.19%	£9m decrease in AUM. 20 fewer investors. Camden's rank changed from 13th to 34th.
Legal & General - UK equity (World)	28	Fund	10	1st	15	56.25%	£1.4m increase in AUM. No of Investors decreased by 1 and rank was unchanged.
Legal & General - North America	5,437	Fund	203	8th	233	4.28%	£132m decrease in AUM, 7 fewer investors. Rank has changed from 9th to 8th.
Legal & General - Europe	3,872	Fund	206	18th	51	1.31%	£346m increase in AUM, 6 fewer investors. Rank remained 18th.
Legal & General - Japan	2,160	Fund	198	17th	26	1.21%	£22m increase in AUM. 7 fewer investors. Camden's rank has changed from 15th to 17th.
Legal & General - Asia Pacific	2,000	Fund	191	19th	20	1.00%	£116m increase in AUM. 10 fewer investors. Rank has remained at 19th.
Legal & General - Middle East	1	Fund	10	1st	0	31.13%	£0.06m decrease in AUM. 1 fewer investors and the rank has remained the same.
Legal & General - World Emerging Markets	5,211	Fund	290	29th	40	0.76%	£626m increase in AUM. 5 fewer investors. Rank changed from 27th to 29th.
L&G ILGs	8,013	Fund	283	24th	45	0.57%	£306m increase in AUM. 12 fewer investors. Rank changed from 25th to 24th.
Legal & General - FW Global Equity Index	1,995	Fund	39	4th	205	10.27%	£545.05 increase in AUM. 8 more investors.Camden's rank has changed from 8th to 4th.
Insight	482	Fund	14	3rd	98.50	20.44%	£111m decrease in AUM. 3 fewer investors. Camden's rank changed from 4th to 3rd.
CBRE	3,232	UK separate accounts	36	16th	91.40	2.83%	£54.5m decrease in AUM. 1 more investors. Rank has remained the same. Includes AUM managed by CBRE Global Investors affiliates.
Partners 2009 fund	696	Fund NAV	53 (EUR SICAR sleeve)	3rd	45	6.46%	Annual update as at December 2020
Partners 2013 fund	1,255	Fund NAV	39 (in the USD C LP sleeve)	5th	53	4.20%	Annual update as at December 2020
Partners 2017 fund	606	Fund NAV	11 (in the USD D LP sleeve)	3rd	73	NA	Annual update as at December 2020
Harbourvest	191	Fund NAV	8	2nd	49.80	26.07%	As the fund is a closed-ended vehicle and the figures are based on committed capital, the fund size and Camden's position in terms of investor size will not change over time.
Ruffer	1,122	Fund	10	Not provided by London CIV	71.40	6.36%	£104m increase in AUM. Number of investors increase by 1.
Standard Life	6,100	Fund	329	16th	41.90	0.69%	£200m decrease in AUM. 14 fewer investors. Rank has remained the same.
CQS	1,160	Fund	12	Not provided by London CIV	52.80	4.55%	£23m increase in AUM. Number of investors unchanged.
LCIV Infrastructure	95	Fund	6	Not provided by London CIV	28.00	29.63%	£31.m increase in AUM. Number of investors unchanged.

London Borough of Camden

Quarterly Report – Q1 2021

SEPTEMBER 2021

Table of Contents

Contacts

Karen Shackleton

Senior Advisor

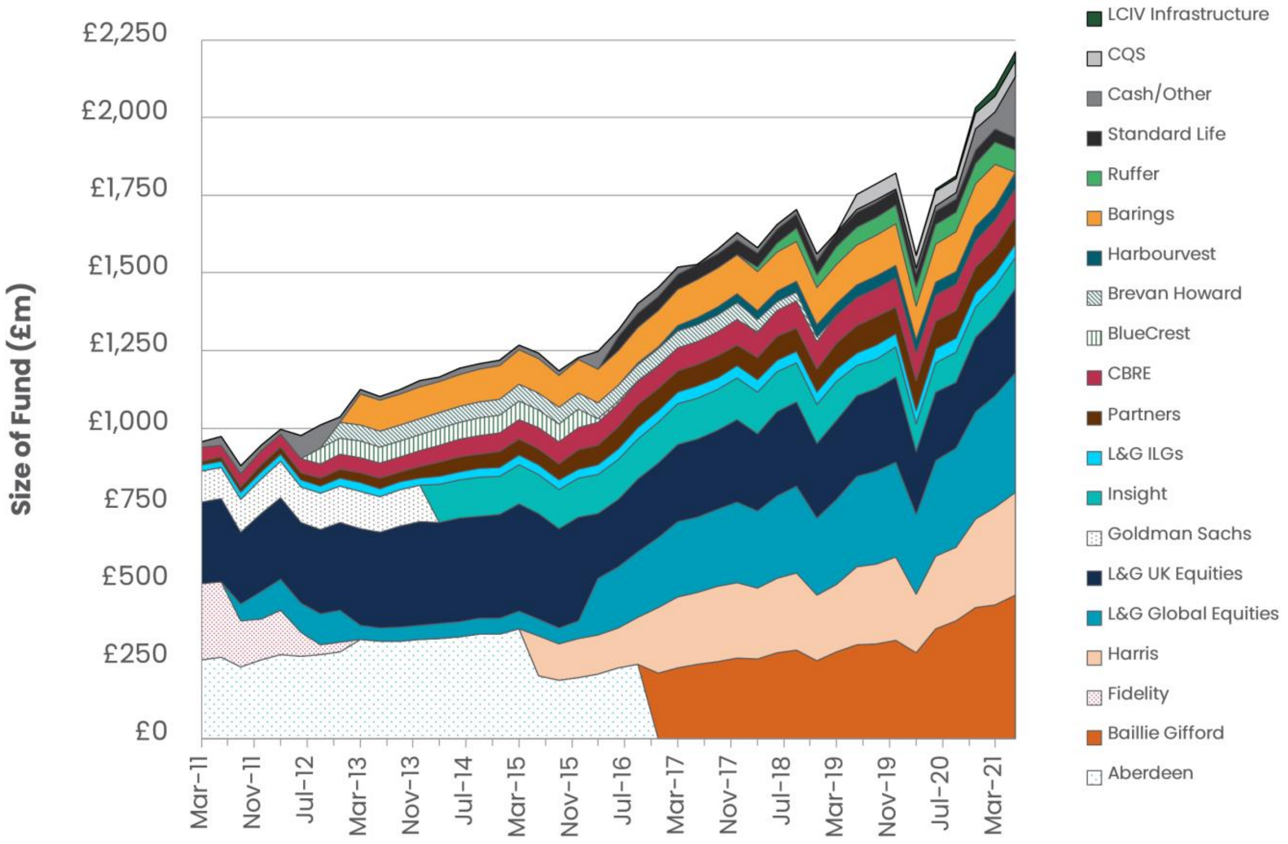
+44 20 7079 1000

karen.shackleton@mjhudson.com

1. Total Fund Valuation

1.1. Table 1 shows the total value of the pension fund over time. Each segment shows the value of the assets with each underlying investment manager.

TABLE 1: VALUE OF LONDON BOROUGH OF CAMDEN PENSION FUND (£M) OVER TIME



Source: London Borough of Camden; MJH

2. Independent Advisor Market Review

Overview

2.1. The second quarter of 2021 saw market differences in countries that were making strong progress with their vaccination programmes, and opening up their economies, such as in the UK, versus economies where progress was slower such as Japan. COVID-19 continues to be a key driver of markets globally, driving positive returns in equity markets around the world making this another positive quarter for the fund as a whole.

The Global Economy

2.2. Markets continued in a positive trend in Q2. Major equity regions produced returns of between +5.1% (MSCI Emerging Markets) and +8.5% (US S&P 500) with only Japan lagging at -1.2%. Growth style regained the lead over Value style, as rates fell, but commodities continued to be strong, with oil up over 18%. Bonds also produced positive returns, as the first quarter’s inflation-inspired rise in yields reversed somewhat: UK Gilts produced returns of +1.8%, reducing their losses for the year, while long-dated index-linked bonds bounced 4.7%. Credit spreads narrowed marginally over the quarter, as the economic recovered.

TABLE 2: QUARTERLY GDP GROWTH RATE

	US GDP	UK GDP	EUROZONE GDP	JAPAN GDP
Q2 2021*	2.2%	5.1%	1.5%	0.4%
Q1 2021	1.6%	-1.6%	-0.3%	-1.0%
Q4 2020	4.3%	1.3%	-0.7%	2.8%
Q3 2020	33.4%	16.0%	12.5%	5.3%

Source: Bloomberg. *Forecast based on leading indicators.
Notes: UK Real GDP (Ticker: UKGRABIQ Index), US Real GDP (Ticker: EHGDUS Index), Eurozone Real GDP (Ticker: EUGNEMUQ Index), Japan Real GDP (Ticker: EHGDJP

2.3. GDP growth expectations for Q2 are positive across the board; the US is expected to follow a positive Q1 with +2.2% quarterly growth[1]. The UK (+5.1%), EU (+1.5%) and Japan (+0.4%) are expected to return to growth, having contracted in Q1. This large uptick is due to the re-opening of the global economy with pent-up demand from deferred purchases combined with continued government fiscal stimulus and expansionary monetary policy. Despite the unequal access to vaccines, the World Bank now predicts global growth to reach +5.6% in 2021, its fastest pace in 80 years. However, many are now fearing that increasing inflation, and the risk of subsequent increases in interest rates to tackle it, pose the greatest threat to a sustainable recovery.

2.4. Labour force dislocation: As economies have reopened, and service industries look to hire, strains have emerged in many labour markets. Though unemployment rates remain elevated (estimated to be 6.6% for the OECD)[2], employers have reported difficulty in filling vacancies. Potential reasons range from a lack of workers, ongoing COVID relief, childcare difficulties created by at-home schooling, and workers having changed industry.

2.5. Global equities had a very strong Q2 overall, with gains higher than those observed over Q1. Equities were supported by an accelerating vaccine rollout and strong economic data, with strong purchasing managers index ("PMI") measures across the UK, US, and Europe. Most regions delivered good returns over Q2, with the MSCI World up +7.9%. Volatility, measured by the VIX index, fell -18.4% over the quarter, from 19.4 to 15.8.

2.6. US equities, measured by the S&P 500, performed strongest over Q2, gaining +8.5%. The S&P 500 continued its trend of reaching new all-time highs in late June, driven by strong economic data and the prospect of more fiscal stimulus. In particular, the technology giants made strong gains, driving the rebound of growth stocks, though most sectors gained.

[1] Note: US GDP has been de-annualised to be consistent with the other regions.
[2] OECD, "Labour: Labour market statistics", July 2021.

2.7. Growth stocks outperformed value in Q2, a reversal in trend from what was seen previously, with undervalued discounts largely disappearing. Sector-level performance was also a big factor in the outperformance of growth stocks, with technology leading the way, in addition to communication services and healthcare. The MSCI World Growth index gained +11.0% over the quarter, compared to +4.9% for the MSCI World Value index.

2.8. UK equities performed well over Q2, with both the FTSE 100 (+5.6%) and FTSE All-share (+5.6%) indices delivering positive returns. Over April and May, value stocks continued to perform well, alongside small and mid-caps. However, concerns over the COVID-19 delta variant led to a fall to these equities that had experienced strong gains, leading, at the end of the quarter, to a rotation towards defensive large-cap stocks – which increased as Sterling fell against the Dollar in June.

2.9. The Euro Stoxx 50 gained +5.2% over Q2, supported by an increase in vaccine rollouts, loosening of restrictions, and a strong corporate earnings season from strong global goods demand. Rotations between growth and value stocks led to a mixed group of sectors outperforming including consumer staples, and information technology. Meanwhile, the utilities and energy sectors lagged.

2.10. Japanese equities underperformed other developed markets in Q2, having the weakest quarter overall, returning -1.2%. This is a reversal from the previous quarter, due to the slow vaccination campaign and a state of emergency that lasted much of the quarter.

2.11. Emerging market equities returned a solid +5.1%, measured by the MSCI Emerging Markets index, but performance between regions was mixed. Despite a sell-off in May resulting from US inflation concerns, as the outlook for economic recovery improved, regions such as Poland, Hungary and Czech Republic outperformed. Surging oil prices, and commodity prices in general, helped Russia and Saudi Arabia as large exporters, but hindered others. Regulatory concerns in China began to extend outside of the technology sector, which impacted China's performance, and Asia's as a whole.

2.12. Bonds, in general, had a good quarter, reversing some of the losses in Q1 as yields fell and bond prices increased. Despite the sharp rise in inflation indicators, we did not see an accompanying sell-off in the bond market that would be expected if moving to a high inflation regime, implying markets expect the inflation to be transitory. In a reversal of last quarter, US investment grade bonds outperformed US high yield. In terms of regions, the US outperformed both UK and the Eurozone.

2.13. 10-year US Treasury yields fell from +1.74% to +1.47% over the quarter, delivering a return of +1.7%. In addition, the 2- to 10-year curve flattened, with the spread decreasing by 0.36%. The closely watched Federal Reserve meeting in June kept short-term borrowing costs at near-zero levels and agreed to continue the same rate of bond purchases. While recognising that inflation has risen, they attributed this mainly to "transitory factors". However, the Committee surprised the market with an updated "dot plot" showing that their median expected pace of interest rate rises had increased, with two increases expected in 2023, up from zero, and an acceleration of expectations by one year.

2.14. 10-year UK Gilt yields fell from +0.85% to +0.72% over Q2 with the curve flattening, a departure from the pronounced rise in Q1, providing a total return of +1.8%. In June the Bank of England's nine monetary policymakers again voted 8 to 1 in favour of keeping stimulus at full throttle and hold steady the government bond-buying programme at £875 billion pounds. Rising inflation concerns led to strong index-linked gilt returns (+4.7% for over 15-year index-linked bonds, and +3.9% for over 5-year), though performance is still negative year-to-date.

2.15. High yield bonds continued to perform strongly while investment grade bonds eroded Q1 losses. European high yield bonds returned +1.4%, and US high yield bonds returned +2.7% in Q2. European investment grade bonds returned +0.5%, while the US and UK equivalents returned +3.5% and +1.9% respectively.

2.16. Commodities experienced another strong quarter, with major indices driven by the rise in oil and natural gas. Metals such as aluminium and nickel also performed strongly. The combination of an accelerating global economy, infrastructure spending and ongoing supply chain dislocations have led to strong performance across major commodities, a contributing factor to rising inflation.

2.17. Brent crude oil had another strong quarter (+18.2%), while aggregate output remains subdued due to OPEC+ production cuts in the wake of the pandemic and reduced shale output in the US. The strong performance over the quarter was mostly attributed to a faster than expected economic recovery.

2.18. Copper had another strong quarter posting a +7.5% rise in price, finishing the quarter at $4.3/lb.

2.19. Natural gas prices continued to climb (+40.0%) to $3.7/MMBTU. High temperatures in North America drove up demand from power generation, as well as a need to replenish inventories in other markets before winter. Global demand is projected to rise 3.6% year-on-year due to increased economic activity and a shift from coal to natural gas.

2.20. Gold posted modest gains Q2 (+3.4%), with prices increasing to $1,772 per troy ounce.

2.21. Global listed property delivered another strong quarter, with the FTSE Global Nareit index up +7.8% in Q2.

2.22. Green Street Advisor's US Commercial Property Price Index rose by +4.9% over the quarter. The index is now -1% below pre-COVID levels despite persistence in sub-sector dispersion. Their European Commercial Property Price Index rose +1.9% in the quarter, breaching the pre-COVID peak[3].

---

[3] Green Street "Property Prices up 8% YTD; Further Increases Coming", July 2021.

2.23. The Nationwide UK house price index continued to rise and at an increased rate with a +3.8% rise compared to last quarter's +1.1%, with growth seen across all regions of the UK. Annual house price growth was +13.4% compared to +5.7% in Q1.

2.24. In contrast to previous quarters, Sterling weakened against the Euro (-0.8%) but held steady against the dollar (+0.0%), as the UK vaccine recovery was already priced in. The Dollar had a weak quarter, with the Dollar Index Spot falling -0.9%, as markets reacted to heightened inflation measures in April and May, though a shift in interest rate guidance in June caused the dollar to gain back some of its losses. The Euro performed strongly in April and May, due to an accelerating vaccine rollout pushing growth expectations higher, catching up with the US and UK.

Asset Allocation

2.25. The changes in asset allocation agreed at the last Pension Committee meeting are now beginning to roll out. The additional allocation to index linked gilts could be well timed if inflation accelerates, as is being predicted. Reducing the active equity exposure after recent strong returns will also benefit the total fund's performance, tactically, although the asset allocation changes were being made for strategic, long-term reasons.

3. Individual Manager Performance Review

London CIV – Baillie Gifford

3.1. The Independent Advisor comments that, the London CIV – Baillie Gifford sub-fund delivered a return of +7.11% in Q2, outperforming Harris by +1.2% for the quarter but underperformed Harris by -9.9% for the 12-month period. However, the manager outperformed its target over 12 months and continues to show long term outperformance. The strong absolute return of +30.83% should also be noted.

3.2. During the quarter Norwegian Krone, Moderna Inc and Shopify were Baillie Gifford's best-performing positions. Meanwhile, Naspers and Prudential were the largest detractors. The fund added two new positions to the portfolio: Carvana and Vimeo Holdings Inc. Two sales were completed during the quarter: Softbank Group and Interactive Brokers Group. The beta on the portfolio as at quarter end stood at 1.23. This means that if the market falls 10%, the portfolio is expected to fall by 12.3%.

3.3. Baillie Gifford's 12-month performance has produced strong returns on a relative basis, beating the index by +2.6%. The manager is also outperforming over two and three years, and since inception. In terms of their investment process, Baillie Gifford assesses stocks using four growth criteria: growth stalwarts, rapid growth, cyclical growth and latent growth. Three years ago, there were more opportunities in cyclical and latent growth stocks. Over the past two years, however, more opportunities are being seen in growth stalwarts and especially rapid growth over this quarter.

3.4. The London CIV (LCIV) monitors this manager noted that it was "disappointing" that the manager did not generate high relative returns over the quarter, particularly since Growth outperformed Value style indices in Q2. LCIV noted that much of the strong performance from the index was driven by "FAANG" stocks (Facebook, Amazon, Apple, Netflix and Google), to which the portfolio has less exposure. LCIV also noted that an investment in China Brilliance (around 0.2% of the portfolio) was written down by 50% following regulatory investigations. Whilst Baillie Gifford have written to management, there had been no response at the time of writing.

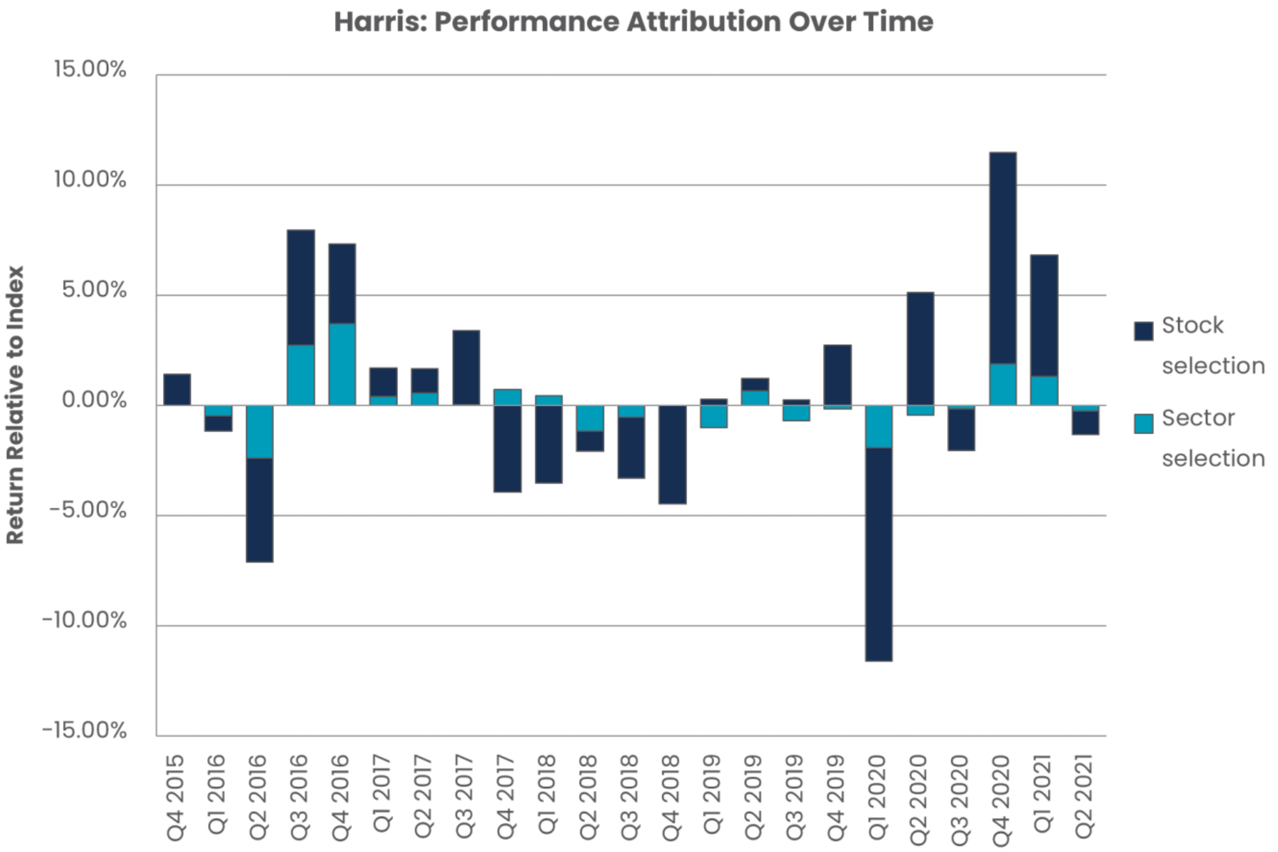
3.5. The fund held 106 companies at quarter end, across 23 different countries, and had an active risk of 7.19% (active risk, or tracking error, is a measure of how much risk the manager is tracking away from the benchmark index. A passive manager would have 0.25% tracking error). The fund remained overweight in financials, consumer discretionary, healthcare, communication services, materials and cash and other net assets. It was underweighted in information technology, industrials, consumer staples, energy, real estate, and other investments.

3.6. In terms of assets under management, the LCIV sub-fund stood at £3,520.7 million as at end June, a decrease of £170.7 million since the previous quarter end. London Borough of Camden's investment represents 13.13% of the fund.

Harris

3.7. Table 3 shows the contribution to performance, relative to the index, from asset allocation and stock selection. Table 3 shows that stock selection was the main detractor for the negative relative returns of the fund during Q2 2021, with -1.08% attributed to poor stock selection, and sector selection moderately detracting performance by -0.25%.

TABLE 3 HARRIS PERFORMANCE ATTRIBUTION



Source: Harris; MJH

3.8. The Independent Advisor comments that, Value underperformed Growth in Q2. The MSCI Value Index returned +4.9% whereas the Growth Index delivered +11.0%. Whilst Harris outperformed the Value Index, against the market capitalisation index, their stock selection had a negative impact, decreasing performance by -1.08%. Sector selection detracted a further -0.25% from the return relative to the index in Q2 2021. Most of the negative return from stock selection came from holdings in consumer discretionary, which detracted -0.97% from the return. Despite a poor quarter in relative terms, it is worth noting that, for the past 12 months, Harris has outperformed its performance target by +12.47%.

3.9. It is worth remembering that in June 2021, Baillie Gifford estimated that Value would outperform growth for a further 6-12 months, whereas Harris felt this was likely to last a further 12-24 months). Obviously, it is still early days, but the recent swing towards Growth suggests that Baillie Gifford may have provided a more accurate estimate.

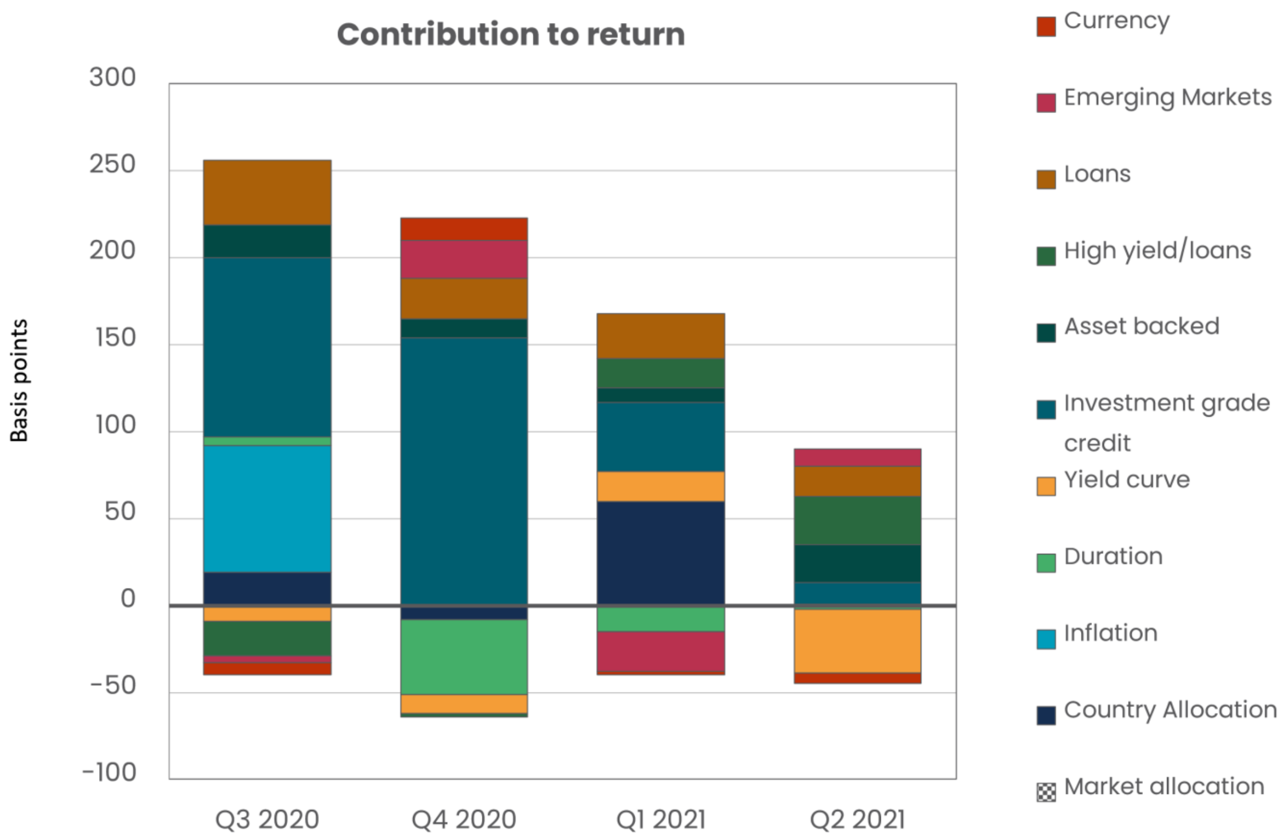
3.10. The top contributor during Q2 was Alphabet which added +0.96% to the total return. Naspers was the worst performing stock in Q2, detracting -0.37% from the portfolio.

3.11. As at quarter end, the fund had a 49.04% allocation to Europe, a 41.51% to the US, and the balance of 9.45% in Asia/emerging markets.

Insight

3.12. Table 4 shows the contribution to performance, relative to the index, from different drivers in the credit markets.

TABLE 4: INSIGHT PERFORMANCE ATTRIBUTION



Source: Insight; MJH

3.13. <u>The Independent Advisor comments that</u>, the fund performed positively in absolute terms (+0.4%), and in relative terms it underperformed the benchmark by -0.6% in Q2 2021. Over three years, it continues to fail to meet its target of outperforming the benchmark by +4.0%. The largest negative contribution in the quarter came from yield curve (-0.37%). Meanwhile, the largest positive contributions came from high yield (+0.28%). Over three years, the main detractors were attributed by Insight to country allocation, inflation, duration and yield curve positions. These detracted -4.99% in absolute terms over three years to June 2021.

3.14. Table 5 shows the allocation of risk across different exposures.

TABLE 5: ALLOCATION OF RISK

EXPOSURE	UNITS OF RISK
Market allocation - Country allocation - Inflation	 2.2 0.0
Swap spreads	0.0
Duration	0.0
Yield curve	1.5
Investment-grade corporates	-0.8
High-yield	0.8
Loans	0.5
Investment-grade ABS	1.3
Emerging market debt	1.5
Currency	0.3

Source: Insight; MJH

3.15. The risk budget allocation to market allocation increased between the end of March 2021 and the end of June 2021, from 1.3 to 2.2, a shift towards a slightly more risk-on approach. The risk budget allocation to duration increased from -0.3 to 0.0. The high yield risk budget increased from 0.5 to 0.8 whilst the budget to investment grade corporates has decreased from -0.3 to -0.8. The likes of yield curve, loans, investment grade ABS, emerging market debt, and currency, all remained unchanged since last quarter.

Legal & General

3.16. The Independent Advisor comments that, the observed tracking errors on the pooled index funds were within expected ranges during the quarter. The tracking is shown in Table 6. As the tracking is still in line with expectations, there are no concerns.

TABLE 6: TRACKING ERROR

	THREE-MONTH TRACKING	ONE-YEAR TRACKING	THREE-YEAR TRACKING
UK	0.00%	0.08%	0.08%
WORLD – FUTURE WORLD	0.06%	-	-
WORLD – MARKET CAPITALISATION	-0.01%	-0.01%	0.03%
GILTS	0.00%	0.0%	0.02%

Source: Legal & General; MJH

3.17. Legal & General aims to add modest value over the long term, through small benefits arising from opportunities in index changes, stock lending and corporate actions. In total, these activities should result in outperformance of around +0.1% for equities. Table 6 indicates that Legal & General are close to this target over a three-year period.

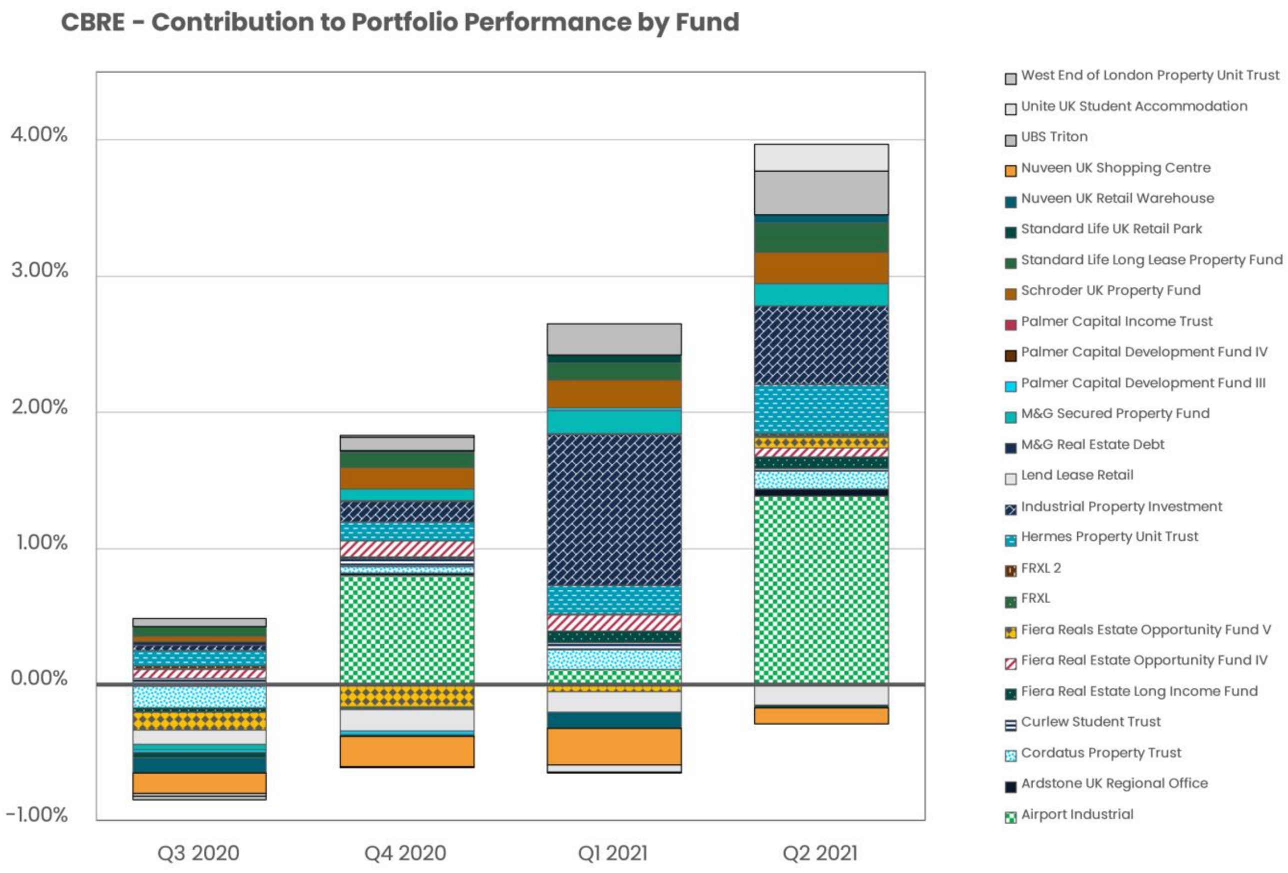
3.18. The manager now allocates to the Future World global equity index fund. This is a sustainable passive fund which is more closely aligned to the pension scheme's investment beliefs. In Q2 the sustainable index delivered a return of +7.57% compared with the full market capitalisation index which returned +7.23%.

CBRE

3.19. Table 7 shows the contribution to performance from each of the underlying funds making up CBRE's portfolio over the past four quarters. This quarter shows a mixture of both positive and some negative returns, although the majority were positive. Lend Lease Retail (the pearl-coloured segment in the right-hand bar of Table 7) produced the worst returns for Q2 at -13.5%, attributed by the manager to a decrease in the value the fund's holding in Bluewater shopping centre (-9.9%) and Touchwood, Solihull (-23.1%). The fund is in wind down with the manager selling assets in phases, and CBRE Capital Market has now been appointed to bring Bluewater to market. As retailers struggle to meet lease obligations, there is a reduced rental income hence, distributions to investors in this fund remain suspended. Meanwhile, the most positive returns for the quarter came from FRXL at +9.6%. Four funds contributed negative returns in Q2.

3.20. For the 12 months to June 2021, Industrial Property Investment and Airport Industrial Property were the strongest contributor to returns, contributing +2.2% and +1.9% respectively to the one-year portfolio return. CBRE attributed the success of Industrial Property's performance to the industrial sector being supported by occupational demand, a lack of accommodation supply, and COVID-19 leading to increased ecommerce and home delivery service (source: CBRE).

TABLE 7: CBRE PERFORMANCE ATTRIBUTION



Source: CBRE; MJH Allenbridge

3.21. During the quarter, the manager noted that rental values in the index saw consecutive quarterly growth through 2021, with rents rising by 0.2% in Q2 and 0.1% in Q1. The industrial sector remained the key driver of this growth.

3.22. As at quarter end the portfolio had 23 investments and leverage on the portfolio stood at 11.10%, a slight decrease from last quarter at 11.40%.

Partners

3.23. The Independent Advisor comments that, the 2009 Fund has invested in a total of 61 investments, with 39 investments having now been realized. This Fund is fully invested, and Partners have called down 95.3% of committed capital. The manager has distributed 112.5% of the invested money since inception and is continuing to “focus on exits and distributions as several investments in the portfolio move into the realization phase of their lifespan”. 11% of the investments were above expectations, 20% were meeting expectations, 59% were outperforming and 10% had issues.

3.24. The portfolio had 77% allocated to Europe, 14% to the rest of the world, 8% to Asia Pacific and 1% to North America.

3.25. The 2013 Fund had made 42 investments as at 30 June 2021, with 14 having been realized. The Fund was 72.0% contributed and has distributed 57.6% (as a percentage of contributed capital) since inception. Investment activity will be focused on the existing portfolio assets, while evaluating divestment opportunities for the mature assets.

3.26. As at end June 2021, 28% of the investments were above expectations, 15% were meeting expectations, 24% were outperforming, and 33% had some issues. The portfolio's allocation is split as follows: 54% to Europe, 39% to North America, 4% to Asia-Pacific and 3% to the rest of the world

3.27. The pension fund has committed capital to Partners Group's 2017 Fund. The Fund had drawn 56.0% of commitments as of quarter end and had 45 investments, with 1 having now been realized.

3.28. As at end June 2021, the portfolio's allocation was split: 59% to North America, 16% to Europe, and 25% to Asia-Pacific. 7% of investments were outperforming, 10% were above expectations, 57% were meeting expectations, 22% were too early, and 4% had some issues. At the end of the period, the 2017 Fund remained in its value creation stage.

Barings

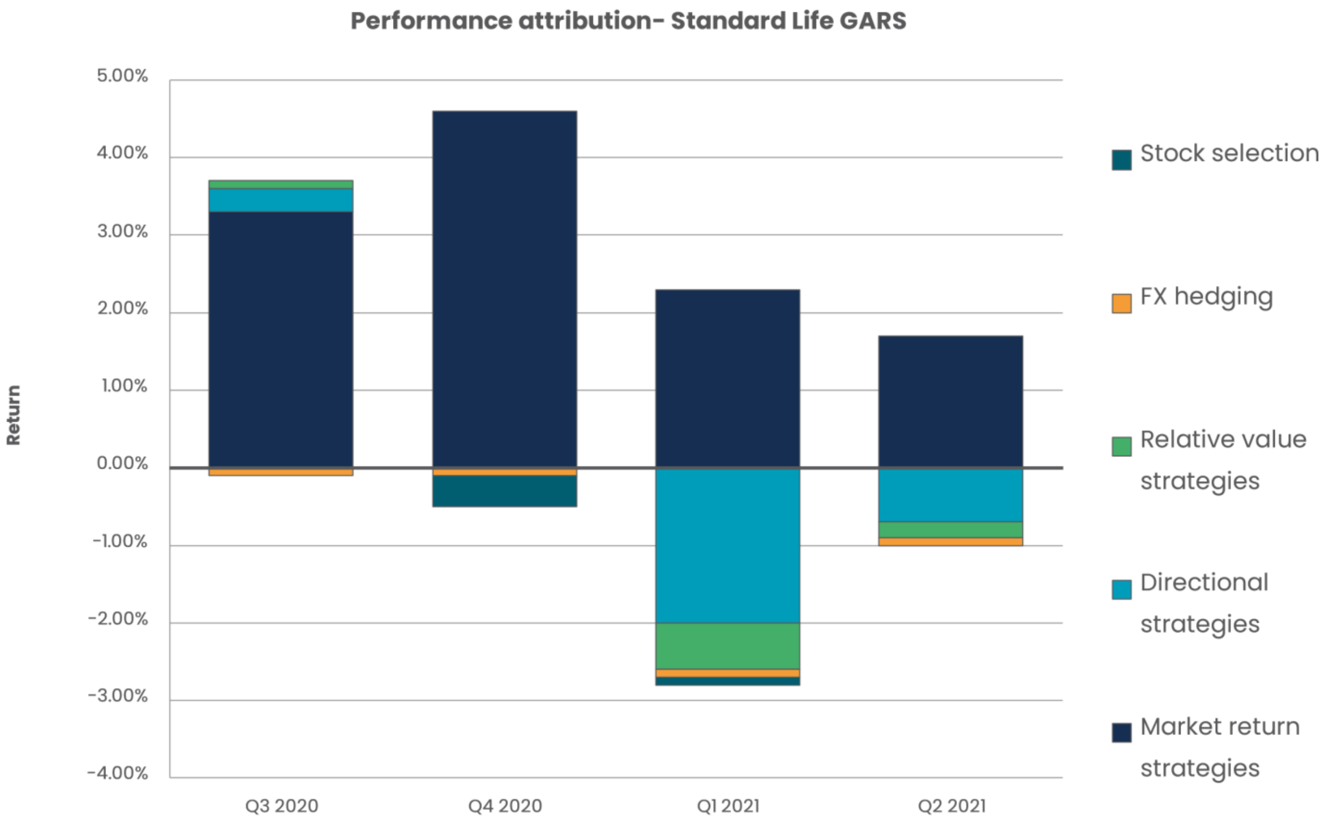
The Independent Advisor comments that, the fund was fully liquidated and closed on 30th June 2021, as had been communicated to investors earlier in the quarter.

Aberdeen Standard Life

3.29. The Independent Advisor comments that, Standard Life GARS had a positive quarter in absolute terms and delivered a return of +0.7% in Q2 2021, however it underperformed the performance target which returned +1.3%. Table 9 shows the contribution of returns from different strategies within the portfolio over the past eight quarters.

3.30. Market return strategies (the dark blue segment in the right-hand bar of Table 9) was the largest positive contributor to performance in Q2 2021, delivering a return of +1.7%. The rest were all negative, or neutral, with directional strategies at -0.7%, relative value strategies at -0.2%, FX hedging at -0.1%, and stock selection at 0.0%. Overall, 14 individual strategies added value, 13 were flat and 8 detracted.

TABLE 9: STANDARD LIFE GARS PERFORMANCE ATTRIBUTION



Source: Aberdeen Standard Life; MJH

3.31. Significant detractors from the fund's performance included Short US Real Yields, as well as a relative value position in Emerging Markets Currencies. Meanwhile, positions in Long European Inflation and High Yield Credit benefited the performance.

3.32. The manager has asserted that they need 60% of their central return forecasts to be positive, in order to achieve their cash target of six-month LIBOR plus 5%. At present they are only achieving a success rate of 40% (in Q2, 14 strategies added value and 21 were neutral or detracted value).

3.33. The expected volatility of GARS stood at 7.7%, which was 46% of the volatility of equities (16.9%), and within the normal range expected (the manager expects the volatility on GARS to be around one-third to one-half the volatility of equities).

London CIV – Ruffer

3.34. The Independent Advisor comments that, the fund delivered a return of +0.7% in Q2 2021. This mandate has now been invested since 21st March 2018, and the fund has returned +6.8% per annum since inception, compared with the target return of 3.5% per annum.

3.35. This quarter the fund produced a positive absolute return of +0.7%, however in relative terms it marginally underperformed, relative to the target return of +0.8% in Q2. Ruffer attributed the returns to a "sharp rebound" in the economy that was prompted by vaccination programmes. The manager made a small change away from cyclical stocks toward lower beta positions and reported performance to have been positively impacted by its holdings of index-linked bonds. During Q2 the manager removed its bitcoin exposure, which in total had contributed 4.1% to the fund's performance.

3.36. No team changes were reported by the manager.

3.37. The one-year return as at end of June 2021 was positive at +14.3%, comfortably ahead of the performance target of +3.1%. The manager is also ahead of the target over three years, delivering a return of +6.7% per annum.

3.38. As at end Q2 2021, the fund had a beta of just 0.26. This means that if the equity market increases by 10%, the fund will be expected to rise by 2.6%. The LCIV sub-fund was valued at £1,121.8 million as at end June (up from £1,018.3 million in Q1). London Borough of Camden's investment is equivalent to 6.36% of the Fund.

HarbourVest

3.39. The Independent Advisor comments that, the London Borough of Camden pension fund has committed $86.3 million to HarbourVest's Global Fund 2016. Around 73% had been drawn down as at 30th June 2021. A total of $38m has been distributed back to investors (0.61x capital paid in).

3.40. In terms of how investments are performing relative to expectations: 42% of the investments are above expectations, 45% are meeting expectations, and 14% are currently below expectations.

3.41. The fund is investing in a diversified spread of secondary funds, primary funds and direct co-investments. This allows the manager to make the early distributions to investors.

3.42. HarbourVest's goal is to have 35% in secondary investments, 15% in co-investments and the balance in primary funds. The fund will also have geographic diversification, with a target range of 60-70% allocated to the US.

London CIV – CQS

3.43. The Independent Advisor comments that, the London Borough of Camden pension fund committed capital to London CIV's multi-asset credit fund, managed by CQS, in May 2019. In Q2 2021 the fund returned +2.0% which was above the target return of 3 months LIBOR + 4.5% (+1.1%). The one-year return for the fund was also ahead of the benchmark by +8.7%.

3.44. During the second quarter of 2021, CQS posted positive relative and absolute returns. The manager commented that it is continuing to increase European exposure, specifically via positions in loans, high yield, and financials. The manager stated this was due to "better expected returns in Europe" as well as the area offering increased credit spreads.

3.45. The value of the fund's investment in CQS stood at £52.8 million as of end June 2021, which represents 4.55% of the London CIV sub-fund.

3.46. London CIV has reported that the fund is still under enhanced monitoring, as has been the case for some time. However, it is hoped that the hiring of a second manager to the fund will help with some of London CIV's concerns.

London CIV – Infrastructure Fund

3.1. The Independent Advisor comments that, the London Borough of Camden pension fund committed £106 million of capital to London CIV's infrastructure fund, in October 2019.The total fund value as at end of March 2021 was £94.5 million, although in total there are commitments of £399 million. London Borough of Camden's valuation as of 31 March 2021 was £25 million and represents 26.6% of the Fund.

3.2. Long-term, the fund will aim to achieve a net return of 8% to 10% p.a. over rolling four-years, and a cash yield of 4% to 6% p.a.

3.3. As of end of March 2021, the percentage deployed stood at approximately 24%.

4. Summary of concerns

Date raised	Concern	Update
Q1 2021	Ruffer's holding in Bitcoin	This position has now been closed.
Q1 2021	Barings – fund is closing.	Fund closed on 30th June.
Q2 2021	CBRE – Lendlease has problems with Bluewater asset – trying to sell.	

Karen Shackleton
Senior Advisor, MJ Hudson
1st September 2021