London Borough of Camden Pension Fund

UK Residential Housing Briefing Paper

October 2023

isio.

Introduction and Background

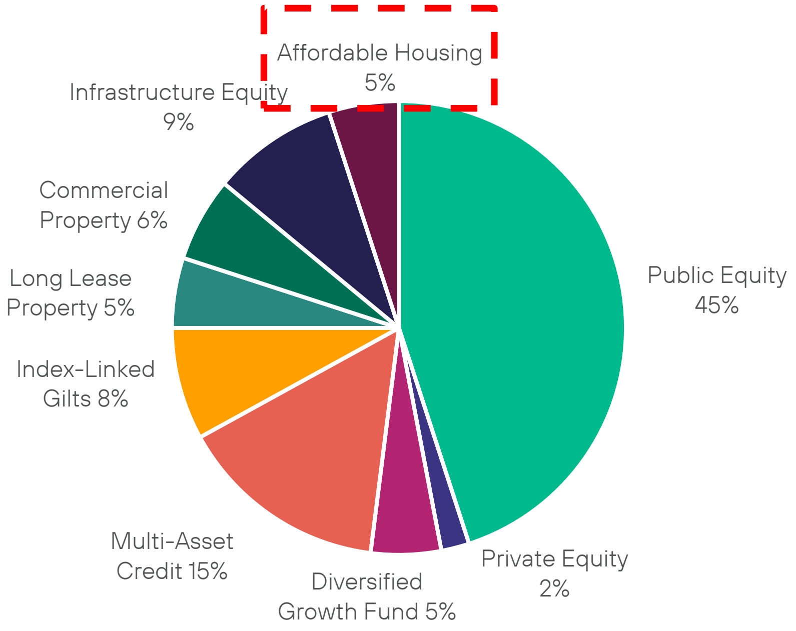
Addressee

- This report is addressed to the London Borough of Camden ("the Council") as the Administering Authority of the London Borough of Camden Pension Fund ("the Camden Fund").
- This paper sets out an overview of the key characteristics of the investable UK residential housing market in the UK, and a review proposition currently available on the Camden Fund's investment pool - the London Common Investment Vehicle ("LCIV"). We set out our views on the LCIV UK Housing Fund ("the Fund") that the Committee is considering for investment.

Background

- As part of the investment strategy review conducted in June 2023, the Committee agreed a new strategic asset allocation for the fund including the introduction of a new UK residential property mandate within the Fund's investment strategy, with a target strategic allocation of 5% of the Camden Fund's total assets. This is shown in the diagram on the right.
- This decision was driven by the Committee's wish to reduce the overall investment risk profile of the Camden Fund's existing portfolio, diversify the asset allocation, and increase the Scheme's ESG credentials and overall level of inflation-linked assets within the portfolio.
- Isio has been instructed by the Committee to review the LCIV UK Housing Fund to assess its appropriateness as the implementation vehicle for the proposed affordable housing mandate.

Future Strategic Benchmark



Scope of Report

- This paper sets out an overview of the key characteristics of the investable UK residential housing market in the UK, and a review proposition currently available on the Camden Fund's investment pool - the London Common Investment Vehicle ("LCIV"). We set out our views on the LCIV UK Housing Fund ("the Fund") that the Committee is considering for investment.

Investment Rationale for a UK Residential Housing Allocation

UK Residential Housing - An Overview

Strategic Case For Investment

- Residential property is an alternative to commercial property whereby portfolios are designed to produce returns primarily from rental payments (income) and to a lesser degree from the capital value of the underlying properties. Investments can act defensively given the essential nature of residential property, making them less economically sensitive. Residential property funds often display favourable ESG characteristics, as many funds are designed to address social needs.
- Residential property fits well with the approach used in Isio's portfolio construction:
    - **Spread of Outcomes** – generates returns primarily from contractual income.
    - **Inflation linked** – rental income uplifts can be linked to inflation and increased on a periodic basis.
    - **Diversification** – low correlation of returns relative to both commercial property and traditional asset classes e.g. equites and bonds.

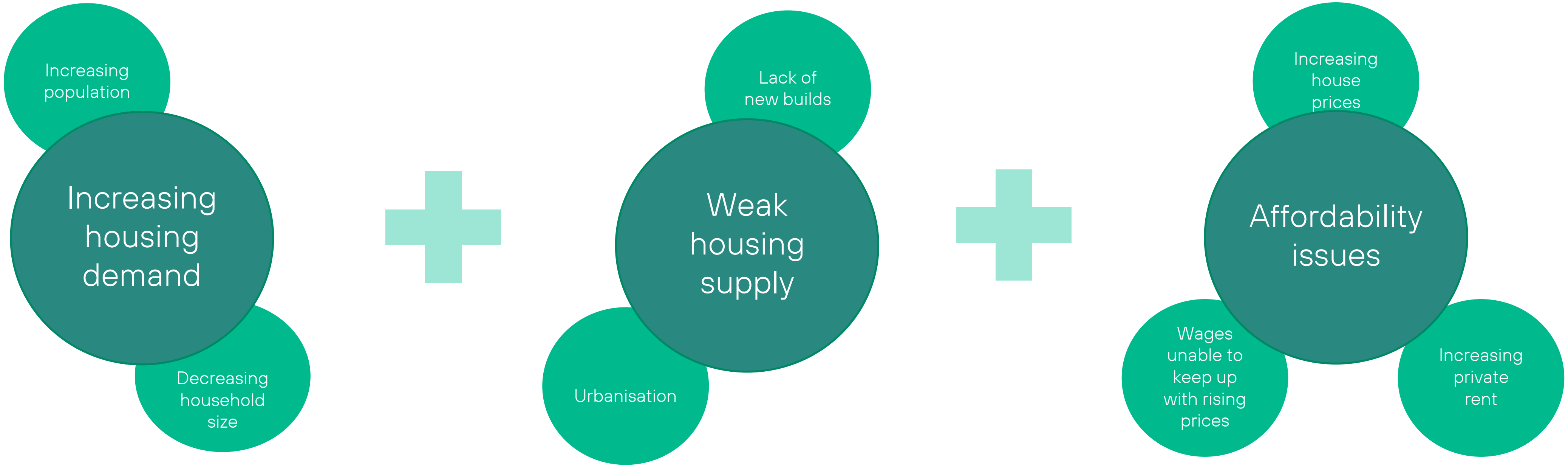
Types of Residential Property Investment

- The residential property market is split into the private rented and affordable/social housing sectors. **We favour the affordable rented and social sectors** as they combine the attractive investment characteristics of residential property with strong ESG characteristics (their objective being to address the structural housing market imbalance which currently exists in the UK, and to support those most in need in society by providing affordable housing).
- Investment managers seek to build and buy existing stock of affordable residential property and properties which address specific social needs. These properties are leased to local councils and housing associations as well as directly to private tenants. We believe an allocation to this segment of the property market would offer diversification to the current allocation to commercial property as well as to the wider investment strategy.

Market Opportunity in the UK

Market Opportunity

- Residential is a larger market than commercial in the UK, but is a less developed institutional investment market – unlike other parts of the world e.g. US and Germany.



Demand

- Rapid growth forecast in UK population (6% in next 10 years).
- Housing demand expected to increase further as the number of smaller-sized family households increases.

Supply

- The UK has persistently failed to meet its house building targets.
- 300,000 new homes p.a. needed to keep pace with demand vs. c. 170,000 p.a. homes delivered over the past decade.

Affordability

- UK house prices are elevated, driven by the large and growing structural supply/demand imbalance.
- Lower owner occupation and an increased proportion of longer-term rental tenants - particularly acute in areas of economic prosperity and mid market/affordable homes.

Investment Rationale and Risks

Strategic Case

Inflation linked income

Tenant leases can provide robust contractual income and have direct inflation exposure where rental increases are uplifted by inflation.

Diversification

Affordable housing provides diversification as the asset has low correlation of returns relative to both commercial property and traditional asset classes e.g. equites and bonds.

Defensive

Residential property values have proved resilient during prior market sell-offs due to their essential nature. Some funds are structured so returns have a low dependency on broad property prices.

Risk-adjusted returns

Risk-adjusted returns from funds are often supported either partially or fully by government backed payments, thus subject to very low defaults historically.

Strong ESG credentials

Affordable and social housing have a strong social focus which provides alignment with investors looking to invest with a positive ESG impact.

Risks

Vacancy

Uncertainty around resident take-up of developments is a risk, as is the ability of tenants to meet rental payments on an ongoing basis.

Regulatory risk

Reliance on free market rental pricing which could change via government policy. Additionally, external political shocks e.g. a significant shift in government policy could have a negative impact e.g. making house purchases more affordable.

Construction risk

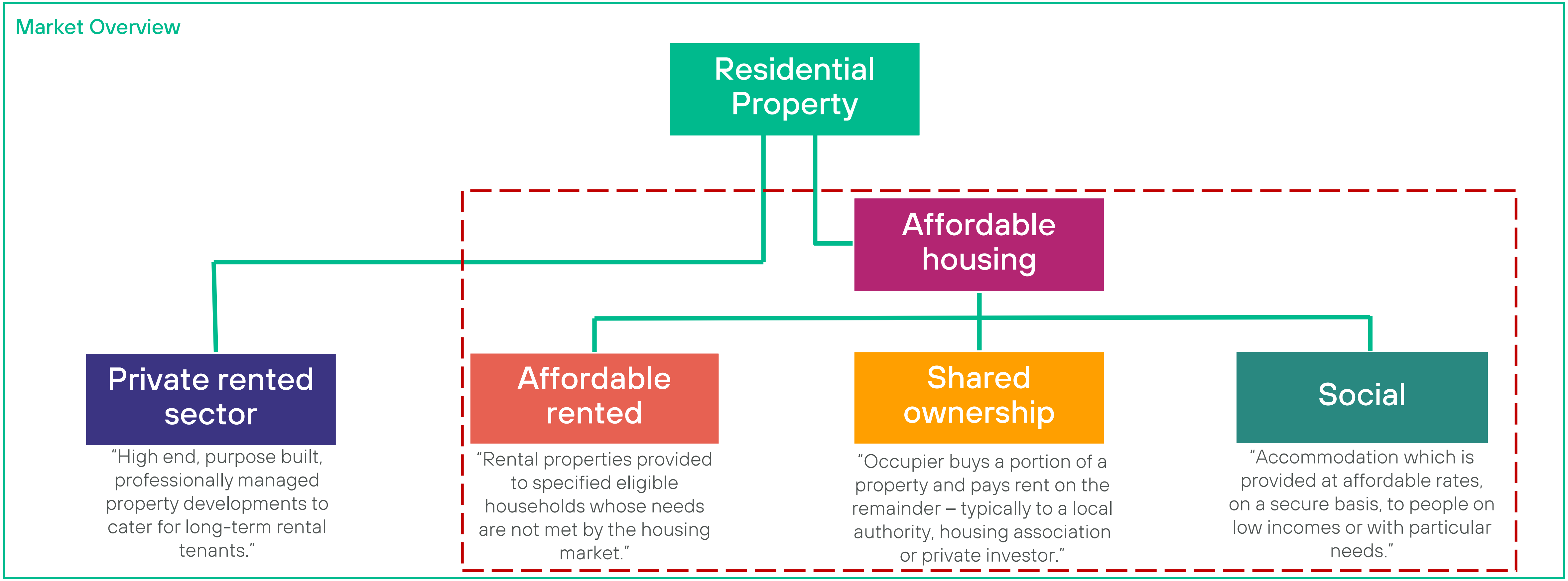
Assets are not immediately operational with time taken to deploy capital and develop sites, carrying the risk of potential time and cost overrun or constructor default.

Illiquidity

Underlying assets are illiquid and cannot easily be sold on the secondary market.

Current Investable Market in the UK

Spectrum of Investment Approaches



- Overall, we view residential property as an attractive asset class, however at a sub-asset class level we believe affordable and social housing offer the most attractive investment proposition. These areas of the market offer a blend of an attractive risk-adjusted return, inflation linked income, a high tenant credit quality profile and attractive ESG characteristics.
- Private rented sector type assets target the higher end of the market and rely on more aggressive rental growth and price assumptions to drive return. We feel these assets are less suited to the current market environment.
- Under the classification of "affordable housing" we view shared ownership less favourably due to a higher reliance on property values to drive returns alongside income.

High Level Comparison of Sectors

	Private rented sector	Affordable rented	Shared ownership	Social
	Typically new apartment blocks let to young professionals at 100%+ market rent	Accommodation let at 60-100% of market value rent, targeting ordinary working families and key workers	Occupants buy a share of a property (typically 25-50%) and pay market level rent on the remainder	Accommodation let at 60% or lower of market rent, to social housing tenants and in-need members of society
Target expected, unlevered, net return	7-8% p.a.	6-7% p.a.	6-7% p.a.	5-6% p.a.
Inflation linkage	Indirect	High	Mixed – rental element inflation linked with some exposure to house prices	High
Net income yield	5%	3-4%	4-5%	3-4%
Typical lease length	1-2 years	Varies 10-40 years depending on underlying contract		
Credit quality	Medium – private tenant backing	Mixed – some backed by local UK councils and housing associations and some by private tenants	Medium - private tenant backing but longer-term incentives due to house ownership	High – backed by local UK councils and central government
ESG factors	Environmental – more energy efficient homes being built to reduce emissions			
	Social – helps increase overall housing stock but at the less affordable end	Social – delivering homes to those who would not be able to access the market privately		Social – helping to support the most in need in society.

Source: Investment Managers

LCIV UK Housing Fund Overview

LCIV UK Housing Fund - Overview

Name of Fund	LCIV UK Housing Fund
Inception date	March 2023
Fund size (committed/invested)	£195m / £100m
No. of underlying investors	3 London Borough Local Government Pension Schemes
Investment target, net of fees (p.a.)	5-7%
Distribution income target (p.a.)	3-4%
Team size	13 investment professional at LCIV
Geography	UK
Currency	GBP
Leverage	0% structure ongoing leverage expected, 30% permissible, primarily for liquidity management
Fund structure	London CIV Unit Trust structured as an Exempt Unauthorised Unit Trust
Open/closed-ended	Open-ended
Liquidity	5-year lock-up period per investor Quarterly redemptions thereafter
Minimum investment size	n/a
LCIV management fee p.a.	5bps until end of ramp-up period (4 years from 1st close) and 4bps thereafter

Overview of the LCIV UK Housing Fund

- LCIV has recently launched a UK Housing Fund which raised £150m from two London Borough LGPS clients for its first close in Q1 2023. They also raised a further £45m from another London Borough client, with another three LGPS clients (excluding the Camden Fund) considering investment into the Fund in Q4 2024. If successful, the LCIV Fund will end the year with six LGPS clients having committed a total of £305m (excluding the Camden Pension Fund).
- Following the Fund's first close, LCIV made an initial commitment of £100 million to the CBRE Affordable Housing Fund in Q2 2023. This is the seed investment for the LCIV Fund. They are also looking to close on further investments later this year – Octopus, which is the most progressed in due diligence and for which they expect to allocate £50m. They are also currently undergoing due diligence on Resonance, which is expected to be completed by the end of the year.
- The LCIV UK Housing Fund will have a fund of funds approach, which will focus on investing in affordable housing managers whilst maximising diversification benefits and minimising overlap between underlying holdings. The Fund largely aims to take exposure through primary investments but does have the scope to enter secondary and co-investment arrangements, although we understand these will not be used in the initial build up phase.
- The Fund will solely invest in UK residential property across 1) General needs, social and affordable housing (the main focus), 2) Specialist housing (e.g. specialist support care, assisted living etc.) and 3) Transitional supported housing (e.g. homelessness).
- None of the Fund's £100m of committed capital to CBRE has yet been drawn down. The first drawdown is expected to occur in Q2 2024, with the remaining capital to be deployed within 15 months after, meaning the £100m is expected to be fully deployed in c.2 years. When the Fund allocates £50m to Octopus, they expect capital to be fully drawn down within 15 months from the date of commitment.
- LCIV are also currently in discussions with two other investment managers; Savilles IM and Man Group, which, if due diligence progresses, will diversify the LCIV Fund further.

Underlying Managers

Investment Rating	Meets Criteria	Partially Meets Criteria	Fails to Meet Criteria	Unrated
ESG Rating	Above satisfactory	Satisfactory	Below satisfactory	

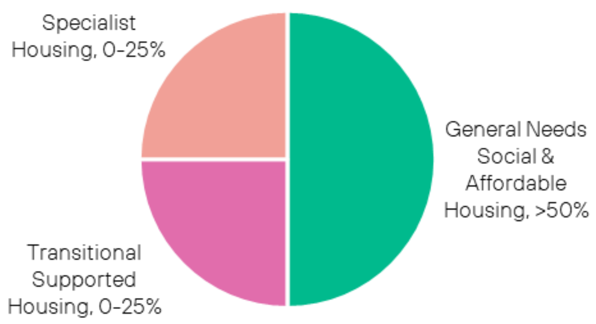
- Over 2022, LCIV performed a whole of market search of the UK residential market, shortlisting two Affordable Housing funds – CBRE UK Affordable Housing Fund (appointed in May 2023), for which the Fund allocated £100m and Octopus Affordable Housing Fund (currently at final stages of operational and tax due diligence), for which the Fund will allocate £50m in the coming months.

	CBRE	Octopus
Name of Fund	UK Affordable Housing Fund	Affordable Housing Fund
Team size	6 professionals	5 professionals
Fund size (current/target)	£300m / no target	Not yet launched / £300m (LCIV expected to be cornerstone investor)
Inception date	December 2018	Not yet launched
Fund structure	Open-ended	Open- ended
No. of underlying investors	22 investors	n/a (Initially 3 – LCIV UK Housing Fund, Big Society Capital and Homes England)
Investment target (p.a.)	6%	7%
Distribution income target (p.a.)	3-4%	3-4%
Inflation linked income target	100%	TBC
Average lease length	26 years	TBC
Leverage (current/target)	0% / 30% permissible, primarily for liquidity management.	40% target (50% permissible)
Geography	UK	England
Liquidity	5-year lock-up period Quarterly redemptions with 2 quarters' notice plus one Business Day	5-year lock-up period Redemptions available thereafter (period TBC)
Minimum investment size	£2.5 million	£10 million
Annual management fee	0.50%	0.75% (TBC in negotiation)
Transaction fee	1.25%	1.00%
Isio's ESG view		
Isio's investment rating		

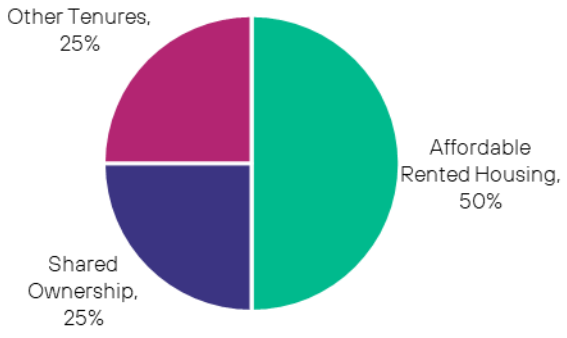
Target Portfolio Allocation by Housing Type

Target Portfolio Allocation by Housing Type

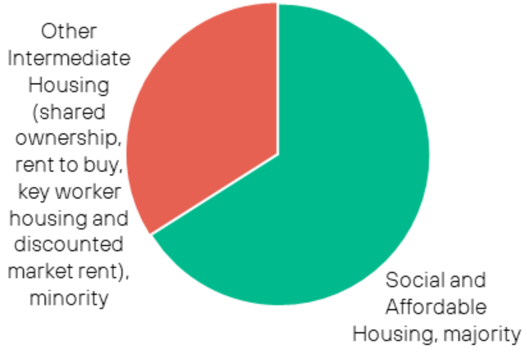
LCIV



CBRE



Octopus



Comments

- The LCIV UK Housing Fund aims to be well diversified across the UK residential property market, and as such, it intends to invest across numerous UK housing funds once fully established. It is currently allocated to CBRE, it is likely to allocate to Octopus by the end of the year and they are in the latter stages of due diligence with Resonance. LCIV are also in discussions with two other investment managers; Savilles IM and Man Group. These funds are both diversified approaches, similar to that of CBRE and Octopus, so allocating to these funds will diversify the LCIV Fund further.
- The Fund will be more weighted towards general needs, social & affordable housing because LCIV believe the risks are lower here relative to the wider residential property space. This is broadly in line with the target allocations of CBRE and Octopus. We are supportive of this approach given it aligns to our market views. The LCIV Fund will have exposure solely to the UK, and all underlying funds will also be focused on investing in the UK. Some of the underlying funds may be diversified across the UK, though some may be focused on investing in particular areas within the UK, i.e. Octopus is focused on investing solely in England.
- The CBRE fund was established with the purpose of increasing housing supply through the development and delivery of affordable housing assets to the UK market. The fund has a diversified target allocation for housing tenures (50% in social & affordable housing, 25% in shared ownership and 25% in other tenures (such as hostels for the homeless, specialised key worker housing and PRS)). This fund offers the greatest diversification relative to the other funds and is the most established fund in the market.
- Octopus will invest in a portfolio of older persons and general needs affordable homes across England, with no specialist supported housing allocation. The majority of the fund will be allocated to social and affordable housing, while a minority will be allocated to other intermediate housing (shared ownership, rent to buy, key worker housing and discounted market rent). It is worth noting that specific target percentages have not yet been determined for the fund.

Key Terms

	LCIV		CBRE		Octopus	
Fund Terms	Open/closed-ended	Open-ended	Open/closed-ended	Open-ended	Open/closed-ended	Open-ended
	Lock-up period	5-years (per investor)	Lock-up period	None (3 years at fund level now expired)	Lock-up period	5-years (fund level)
	Liquidity thereafter	Quarterly	Liquidity thereafter	Quarterly	Liquidity thereafter	Quarterly
	Standard fees	5bps + underlying fund fees	Standard fees	50bps	Standard fees	75bps
	Discounts	LCIV management fees to fall to 4bps after 4 years from 1st close)	Discounts	A commitment of £100m qualifies investors for a fee of 40bps (LCIV has made a £100m commitment).	Discounts	10bps discount available for first close investors. LCIV in process of negotiating an additional discount

Comments

- The LCIV UK Housing Fund is an open-ended fund and can provide liquidity to investors following a 5-year lock-up period (calculated on an individual investor basis).
- The Fund will invest in underlying funds with similar or more generous liquidity terms than its own, so that there is an alignment of liquidity and redemption terms to ensure there is no risk of a liquidity mismatch between the LCIV Fund and the underlying funds.
- CBRE's fund had a 3-year lock-up period, which ended in 2021 and so it is now able to offer quarterly redemptions. The Octopus fund has identical liquidity terms to the LCIV Fund, which further negates the risk of a liquidity mismatch.
- LCIV charge a management fee, though this is low, and at 4-5bps is more than offset by the savings that LCIV are able to obtain for their clients through better fees due to pooling and additional fee negotiations.
- For CBRE, the standard fees are 50bps, but due to pooling they are able to benefit from a fee of 40bps. If LCIV allocate a further £50m to the fund, they will obtain a further discount.
- Octopus charge 75bps, but as LCIV will be a first close investor, they will obtain a fee saving of 10bps. LCIV is also currently negotiating a tiered fee structure and is also in discussions to try to negotiate a further "rack rate" fee discount.

Isio Views

LCIV UK Housing Fund

- LCIV's Fund achieves social impact through its philosophy of addressing the UK's housing challenges and it aims to do this through three angles – general needs, social and affordable housing, specialist housing and transitional supported housing.
- Given the fund of funds approach, they will largely invest in other funds (at least in the initial portfolio ramp-up stage) to benefit from diversification, though they have the ability to co-invest should there be an opportunity to do so.
- The Fund, through its underlying investments, should be able to provide resilient long-term returns due to its inflation linked income as well as the structural supply/demand imbalance in the market, which should continue to support valuations.
- LCIV has a thorough manager selection process in which they look for managers with specific qualities (potential to raise capital at scale, alignment of interests, partnerships with reputable housing associations, track record, pipeline, well-resourced team, necessary expertise etc.).
- Whilst LCIV are unable to exert meaningful ESG influence at an underlying asset level, they do focus on partnering with managers with strong ESG capabilities and an impact framework. We do believe LCIV have scope to improve their ESG reporting. Please see next section for more detail on this.
- LCIV has currently committed £100 million to CBRE, with a further £50 million commitment expected to be made to Octopus (subject to operational and tax due diligence). Isio has a favourable view on both managers, with CBRE being one of Isio's highly rated managers for UK affordable housing.
- With respect to deployment, CBRE expect to deploy all £100m of committed capital in c.2 years (first drawdown in Q2 2024) and Octopus by 15 months from the date of the commitment, which we believe is a reasonable timeframe for the ramp-up of this Fund.

CBRE

- CBRE has a strong track record within the affordable housing space, investing in this sector for 4+ years with over £670 million raised across 23 investors, including 10 LPGS clients. We also believe CBRE are a market leader in terms of their approach to ESG in this space.
- Andrew Davey has been the Fund Manager of CBRE UK Affordable Housing since November 2021. He has over 15 years' real estate experience and portfolio management expertise, having joined CBRE in 2018 as Fund Manager of the CBRE UK Long Income Fund. He also spent 10 years at Aviva Investors on a range of residential and long income funds, most recently he was the portfolio manager for the Aviva Social Housing Fund.
- The UK affordable housing team has been active in the affordable housing space for several years and has established relationships and connections with reputable and qualified providers, which will enhance deal flow to them.

Octopus

- Octopus manages over £13bn across asset classes (renewables, real estate, venture capital and sustainable infrastructure) to drive sustainability and impact. They are a real estate investor and lender, with £3.7bn currently managed across debt and equity, particularly in the care homes space.
- Jack Burnham is the Fund Manager, joining Octopus in 2022 from Thrive Homes. He was also previously Head of Partnerships at leading housebuilders and a RICS registered valuer. Whilst he may not have the track record of portfolio management expertise (which will come from the broader team), he comes with an extensive network, which will enhance their sourcing capabilities.
- Octopus owns a Registered Provider with a small seed portfolio, and has a tenant direct-let model which serves as a complement to CBRE's lease model.
- Big Society Capital and Homes England will be investing in the Fund for its first close alongside the LCIV Fund.

Environmental, Social and Governance Analysis

Meets Additional Impact Criteria Score = 4-5	Meets Additional Sustainable Criteria Score = 3-4	Meets Traditional Criteria Score= 2-3	Partially Meets Criteria Score = 1-2	Significantly Fails to Meet Criteria Score = 0-1

LCIV UK Housing Fund – ESG Summary

Overview

ESG Score: 1.5 **Climate Score:** 0.9

At a firm level, the London Collective Investment Vehicle (LCIV) are signatories to key organisations such as the 2020 UK Stewardship Code and they have commitments to be net-zero by 2050.

However, at a fund-level, ESG integration is limited, largely due to the fund of funds approach. This means the Fund has minimal ESG-related involvement or influence on the underlying assets.

The ESG analysis that takes place will be through the manager selection part of the process. LCIV will allocate to fund managers that have a strong impact framework and good ESG credentials. As a result, we are not concerned with the LCIV Fund's low ESG score.

Proposed Actions

Investment Approach – consider putting in place a firm-wide pathway to net-zero plan.

Voting & Engagement - provide more details of engagements with the underlying fund managers.

Reporting – provide examples of how ESG reporting would look to clients

Assessment Criteria	Score	Overview
Investment Approach	2.3	– LCIV have a clear approach to ESG by selecting managers for the Fund that have a strong impact framework and ESG credentials. – LCIV has made a commitment to be net-zero by 2050, however there is no temperature pathway plan in place.
Risk Management	1.7	– There are only a few dedicated ESG specialists in a team of 13 people and some team members have completed the CFA ESG certificate. – LCIV does not employ external providers for ESG data but relies on the underlying managers it selects to provide any data required. Once the Fund's commitments are invested, reporting is expected to include scoring.
Voting & Engagement	1.1	– The Fund invests indirectly in social housing, through its selection of managers. This means it is more restrictive in terms of its ability to instil stewardship, engagement and voting practices. – LCIV however, do engage closely with the managers on ESG issues and have a monitoring framework in place to encourage managers.
Reporting	0.2	– With the Fund still early in its development stage, it is unable to provide any evidence of how its reporting will look. However, it is able to provide fund-level engagement data.
Collaboration	2.3	– LCIV are signatories to key organisations such as the 2020 UK Stewardship Code and regularly engage with the wider market on ESG, climate and broader impact issues.
Climate	0.9	– LCIV considers how the Fund affects the climate and through its discussions with managers, aims to reduce any negative impacts on the climate.

Note: View expressed by Isio are based solely on information provided by the investment managers.

LCIV UK Housing Fund – Proposed Actions

✓ Action completed
Action in progress
× Action not yet started

Mandate	Proposed Action Category	Proposed Action
LCIV UK Housing Fund	Investment Approach	• Would like to see a plan for the pathway to net-zero as the Fund has made a commitment to achieve net-zero by 2050.
	Risk Management	• Update its ESG scorecard at least annually. • Calculate an implied temperature pathway metric for the Fund and demonstrate how various climate scenarios may affect the Fund value (i.e. Climate Value at Risk).
	Voting & Engagement	• Provide more details on how they look to engage with the underlying fund managers.
	Reporting	• Provide fund-level quarterly ESG reporting and examples of how it would look for clients.

Meets Additional Impact Criteria Score = 4-5	Meets Additional Sustainable Criteria Score = 3-4
Meets Traditional Criteria Score= 2-3	Partially Meets Criteria Score = 1-2
Significantly Fails to Meet Criteria Score = 0-1	

CBRE UK Affordable Housing Fund - ESG Summary

Overview

Overall Rating: 3.5 **Climate Score:** TBC

The Fund seeks to target 5 social impact objectives, with quantitative social targets to measure progress. An ESG scorecard and other supporting processes ensure a consistent ESG approach. CBRE IM actively engages with third parties to bring about the social impact objectives of the fund, as well as improve environmental performance of assets. The manager collaborates widely with the market on ESG issues and social impact. Whilst ESG reporting is generally strong (including externally verified impact reporting) improvement could be made in engagement reporting.

Proposed Actions

Investment Approach/ Framework – develop a Fund-specific ESG policy

Risk Management – develop climate scenario analysis for low carbon transition risks

Voting & Engagement – link compensation to engagement activities and outcomes

Reporting – provide TCFD-aligned emissions reporting and improve engagement reporting

Assessment Criteria	Rating	Overview
Investment Approach/ Framework	3.3	– A social impact framework is applied to the Fund, with 5 social objectives, and underlying quantitative targets to drive outcomes. – The Fund plans to achieve net-zero emissions by 2040 or earlier, and is in the progress of developing the pathway to net-zero.
Risk Management	3.6	– The ESG Team and ESG Committees are responsible for driving ESG integration across the firm, with training available for all staff. – The Investment Committee evaluates whether ESG risks have been properly addressed by investment staff, with investment staff basing ESG investment decisions on the proprietary ESG risk toolkit (scorecard).
Voting & Engagement	3.6	– Fund engagement activities are aligned with the social impact objectives of the Fund, including with third-party residential providers and tenants. – The Fund scores highly in stakeholder engagement, according to GRESB scores received.
Reporting	3.4	– CBRE IM can provide engagement data to satisfy Implementation Statement requirements, however engagement data is limited in regular reporting. – Within regular reporting, the Fund provides reporting against the social impact objectives of the Fund and GRESB scores.
Collaboration	3.7	– CBRE IM actively participate in a range of ESG initiatives and organisation which are in-line with the Fund's social impact objectives. – The manager develops white papers on their social impact objectives and links to investment outcomes.

Note: View expressed by Isio are based solely on information provided by the investment managers.

CBRE UK Affordable Housing Fund - Proposed Actions

Mandate	Proposed Action Category	Proposed Action
CBRE UK Affordable Housing Fund	Investment Approach/Framework	• Develop a Fund-specific ESG policy. • Set out a pathway for achieving net zero emissions by 2040.
	Risk Management	• Develop climate scenario analysis for low carbon transition risks for Fund assets. • Use this as a basis to calculate the implied temperature rise of the Fund.
	Voting & Engagement	• Link compensation to engagement activities and outcomes. • Provide an example of engagement reporting for clients to meet Implementation Statement requirements.
	Reporting	• Provide TCFD-aligned emissions data. • Increase the granularity of engagement reporting within regular reporting, for example, providing an overview on the number of engagements, engagement outcomes and case study examples.

Summary & Areas to Consider

Summary

Managers in a Nutshell

- **LCIV UK Housing Fund:** This will be a fund of funds investing across various UK affordable housing managers to benefit from diversification. The Fund's overarching target will be to invest >50% in general needs, social and affordable housing (typically new builds targeting individuals who cannot afford to rent or buy on open market), 0-25% in specialist housing (bespoke/adapted new builds for people with specific long-term care requirements) and 0-25% in transitional supported housing (refurbishing existing housing for homeless people or people with vulnerabilities or in crisis). LCIV are targeting a net return of 5-7% with a distributable income of 3-4%. The Fund will have a 5-year lock-up period, offering quarterly liquidity thereafter. At a Fund level, we do not expect the use of leverage, though leverage may be used within the underlying funds.
- LCIV has a shortlist of favoured managers with the aim of designing a portfolio which will allow investors access to the affordable/social residential housing and broader social real estate markets in the UK. We believe this proposition will deliver an attractive total return and inflation linked cash yield, as well as providing ESG benefits for UK residents and institutional investors. We have provided a summary of the two managers appointed and/or considered for the LCIV fund below.
- **CBRE UK Affordable Housing Fund:** CBRE are well established global real estate investors. The fund will focus on the development and delivery of socially focused and environmentally friendly affordable housing assets to the UK market. The fund is open-ended and has a diversified target allocation on the basis of residential tenure type, set at 50% affordable rented, 25% shared ownership and 25% other or specialist residential. This balanced approach provides broad access to the market in terms of sourcing and investment with the fund, also having full flexibility to invest in assets across the UK, unconstrained by regional targets.
- **CBRE UK Affordable Housing Fund (continued):** The Fund targets a return of 6% and a cash yield of 3-4%. It is an open-ended fund with no active lock-up period, offering quarterly redemptions. Leverage is not expected to be a significant driver of return, mostly serving as an operational liquidity tool. CBRE integrate a sector-leading approach to ESG in this product.
- **Octopus Affordable Housing Fund:** Octopus Real Estate is a specialist real estate investor with a team of 90 professionals, though they do not have a track record in affordable housing (their expertise lies in care homes and healthcare). They are a Registered Provider of Social Housing, which has regulatory oversight enabling the Affordable Housing Fund to draw on grant funding to support the delivery of new homes.
- Octopus has a target of allocating the majority of its fund towards social and affordable housing. The minority will be allocated to other intermediate housing including shared ownership, rent to buy, key worker housing and discounted market rent, thus offering some diversification in the portfolio. The fund will be focused primarily on England, and specifically, it will find areas to invest into based on needs and affordability, using deprivation score indices to identify housing needs around England.
- The Fund will target a return of 7% with a yield of 3-4%. It is an open-ended fund, with a 5-year lock-up period, though redemption terms thereafter are yet to be determined.
- **Overall, we are comfortable with the LCIV proposition and support an allocation by the Camden Fund.**

Areas To Consider

- There are several areas we believe should be considered when forming a view on the LCIV UK Housing Fund and the managers appointed/under consideration by LCIV. These are outlined below:

LCIV UK Housing Fund:

- **Lack of ability to be nimble** – The team may not be nimble enough to access specific/focused investable themes, which may have a short window of opportunity. Instead, they will focus on diversified funds which they believe can exploit such opportunities.
- **Liquidity Mismatch** – While they have favourable lock-up periods and liquidity terms which match those of the underlying funds, they are still susceptible to a liquidity mismatch should the underlying funds have any issues and enact the gating, deferral or suspension of redemptions.
- **Exposure replication** – LCIV have selected managers which they believe give them non-overlapping, diversified exposure, however as the underlying funds are open-ended and still deploying capital there is a risk that over time look-through exposures could begin to overlap in terms of risk.
- **Approach to ESG –** Given LCIV's fund of funds approach they are unable to exert meaningful ESG influence at an underlying asset level, however they do focus on partnering with managers with strong ESG capabilities and an impact framework. We do believe LCIV have scope to improve their ESG reporting and believe the Committee could engage with them on this.

CBRE UK Affordable Housing Fund

- **Changes to Investment Team** - Andrew Davey was appointed fund manager in November 2021, succeeding DJ Dhananjai and Ian Wilson who jointly established the fund in 2018 and who have decided to leave CBRE. While this team change is significant, we take comfort in Andrew's experience, both at CBRE and in the wider affordable housing space, and his management of the fund over the past 2 years. The fund has continued to grow and perform in-line with expectations over this period.

Octopus Affordable Housing Fund

- **Team Size** – The team is smaller than others in the market and is made up of 5 professionals with the lead portfolio manager yet to be determined. This creates a degree of uncertainty in relation to the fund's senior management and the future direction of the strategy.
- **New Area** – Octopus Real Estate has little exposure to affordable housing. They have previous expertise in UK Elderly Care Homes and Specialist Care, though this differs from social/affordable housing.
- **Unconfirmed Terms** – A few aspects of the fund are undetermined given it is yet to be launched. This leads to a degree of uncertainty, but also scope for negotiation. The fund intends on being structured as open-ended, with a 5 year lock-up period, but redemption terms are yet to be determined. Inflation linkage targets and length lease targets have also not yet been confirmed.

Next Steps

Next Steps

- The Committee should consider the suitability of the LCIV UK Housing Fund and its fit in the context of the Camden Fund's wider investment strategy.
- If the Committee decide to proceed with an allocation, they should work with LCIV to implement the allocation in an efficient manner.
- If proceeding, we would also recommend that the Committee engage with LCIV on their approach in relation to ESG for the LCIV Fund. We note that we view CBRE as best-in-class in this respect.

Appendices

A1: ESG Assessment Criteria

Assessment Criteria		Weighting (Active Funds)	Weighting (Passive Funds)	Weighting (LDI and derivatives)
We have used a 'Traffic Light' system throughout this report to capture the fund manager's ESG capabilities against each criteria. The criteria are summarised below:				
Approach/framework	There is a clear approach/framework for integrating ESG factors.	25%	10%	10%
Risk Management	ESG factors are integrated holistically in the manager's risk management framework.	25%	10%	25%
Voting & Engagement	There is evidence of exercising voting rights (where applicable) and ongoing engagement with companies and other parties on ESG issues to help initiate change.	20%	50%	20%
Reporting	The manager provides meaningful and regular reporting on ESG metrics, including voting and engagement activities.	20%	20%	25%
Collaboration	The manager has signed up to relevant ESG organizations and can provide evidence of engagement with other stakeholders and market participants to encourage best practice on various ESG issues	10%	10%	20%

Manager Reviews vs Criteria

We have begun by assessing the mandate against the criteria described above. Our assessment is based on the information provided to us by the investment manager and the ESG score which is calculated by our ESG scorecard. We have provided our view on the mandates using the rating system as illustrated on the next page.

A1: ESG Assessment Process

To develop the **ESG Score**, we have assessed the fund managers' ESG capabilities against each of the five following criteria.

1. **Investment Approach** – There is a clear approach/framework for integrating ESG factors.

2. **Risk Management** – ESG factors are integrated holistically in the manager's risk management framework.

3. **Voting & Engagement** – There is evidence of 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 ESG issues.

We also separately develop a **Climate Score**, which assesses the managers for their climate-related capabilities across these five pillars.

A1: ESG Manager Review Framework

Score > 4	**Meets additional impact criteria:** The fund qualifies as a specialist ESG/climate fund with specific environmental or social impact objectives being equal in importance to more traditional financial objectives such as risk and return targets. The fund will need to fulfil additional impact evaluation criteria.
Score > 3	**Meets additional sustainability criteria:** The fund qualifies as a specialist ESG/climate fund with ESG and/or climate-focused objectives being equal in importance to more traditional financial objectives such as risk and return targets. The fund will need to fulfil additional sustainability evaluation criteria.
Score = 2-3	**Meets traditional criteria:** The manager scores highly on our ESG and/or climate scorecard and is in line with best practice in terms of ESG and/or climate integration.
Score = 1-2	**Partially meets criteria:** The manager has scored strongly on some (but not all) of the ESG/climate assessed criteria and ESG and/or climate integration is on par with the majority of investors.
Score = 0-1	**Significantly fails to meet criteria:** The manager fails to meet most of the criteria on our ESG and/or climate scorecard and is significantly behind best practice in terms of ESG and/or climate integration.

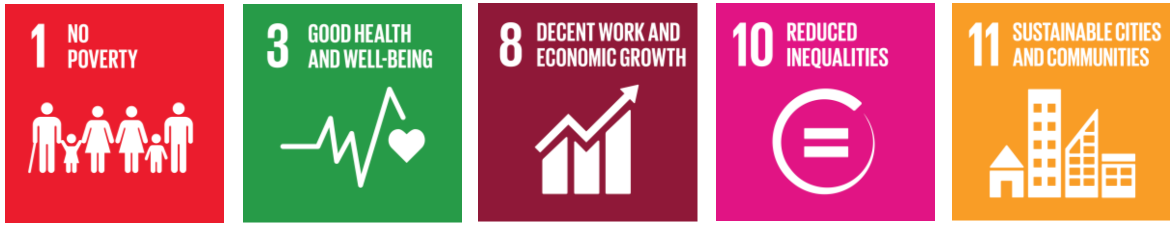
A2: Asset Class Summary – UK Affordable Housing

Sub-sector of residential property investment focused on affordable housing and socially focused housing. As well as the attractive investment characteristics of broader residential property, affordable housing has strong ESG characteristics by addressing structural housing market imbalances which currently exist in the UK and additionally socially focused housing, supporting those most in need in society, whilst addressing a number of UN SDGs.

Key features include:

- Risk-adjusted returns from funds are attractive and often supported either partially or fully by government-backed payments, thus subject to very low defaults historically.
- Social housing has a low correlation to other property markets and the wider economy due to support from central government bodies. In recent years, the social housing sector has proven itself to be more resilient to economic downturns than some other property sectors, such as commercial property and retail.
- Whilst some investment funds use leverage, it is capped at reasonable levels to achieve the desired return.
- Investing in social housing strategies makes a tangible positive impact on social issues in the UK. The funds can either target a range of social issues or attempt to solve a particular social problem, such as child services.
- An allocation to this asset class would allow investors to meet the UN SDGs shown below:

Applicable UN SDGs:



Typical Characteristics

Expected Return	Low	High	**Gilts +4.0-6.0%p.a.**
Credit Quality	Low	High	**High**
Shape of Outcomes	0% Contractual	100% Contractual	**Contractual**
Lease Length	Short	Long	**Long**
Diversification	Concentrated	Highly Diversified	**Diversified**
Management Fee	Low	High	**0.75% to 1.00% p.a.**

Implementation Considerations

Availability	Limited number of pooled funds currently available
Governance	Initially high due to long queues and drawdowns, moderate ongoing
Trading costs	2-3% investment costs and 1-2% disinvestment costs
Turnover	Low
Lock-ins	Initial lock-ins during development or ramp-up phase
Geography	UK-Focused
Past Performance	TBU – asset class relatively new.

A3: Disclaimers

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