

LONDON BOROUGH OF CAMDEN		WARD: All
REPORT TITLE: Performance Report		
REPORT OF: Executive Director Corporate Services		
FOR SUBMISSION TO: Pension Committee		DATE: 5 March 2024
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 31 December 2023.		
<p>Local Government Act 1972 – Access to Information No documents required to be listed were used in the preparation of this report.</p> <p>Contact Officer: Nigel Mascarenhas Head of Treasury and Financial Services Finance Corporate Services Dennis Geffen Annexe Camley Street London. N1C 4DG</p> <p>Telephone: 0207 974 1904 Email: nigel.mascarenhas@camden.gov.uk</p>		
RECOMMENDATIONS: The Committee is requested to note the contents of this report.		
Signed by		
Executive Director Corporate Services		Agreed
Date		22/02/2024

1. INTRODUCTION

- 1.1. This report presents the performance of the Pension Fund investments up to 31 December 2023 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 31 December 2023 is shown in Table 1 below, in percentages.

TABLE 1: FINANCIAL MARKET RETURNS

Market Returns		Quarter	Year	3 years (annualised)
EQUITIES	FTSE all world	6.3	15.7	8.8
	UK FTSE All Share	3.2	7.9	8.6
	Europe (ex UK)	7.6	15.7	7.2
	North America	7.1	19.4	11.8
	Japan	3.3	13.3	3.4
	Asia (ex Japan)	8.5	8.3	3.5
	Emerging Markets	2.1	2.9	-0.9
UK gilts		8.1	3.7	-9.1
ILGs		8.7	0.9	-11.3
Corp bonds		8.2	9.7	-4.6
UK property		-1.2	-0.1	2.5
Commodities (approx.)		-12.1	-12.2	9.4
Cash - 3m LIBOR		1.3	5.0	2.3
RPI (UK) Inflation		0.2	5.2	8.7
US CPI (Inflation)		-3.8	-2.5	8.1

- 1.3. In Quarter 4, The global markets generally showed strength, despite pressure from the Israel and Hamas conflict which started in October and disrupted the geopolitical landscape. The US reported its strongest growth of GDP growth in nearly two years, while the economic data throughout Europe and China was mixed. Inflation in both the US and the UK declined during the quarter, leading central banks across the globe to keep interest rates at a steady level with potential cuts on the horizon especially in the US and Europe.
- 1.4. In the UK, despite inflation reducing, tax cuts and updated welfare benefits announced in the Autumn statement, the economic outlook is downbeat with GDP growth expected to be flat or slight improved in 2024.
- 1.5. Among the sectors detailed in Table 1, equities performed strongly in the quarter, boosted by the robust performance of the US economy and anticipation of impending interest rates cuts by the major central banks responding to falling inflation. European equities outperformed global equities mainly due to a fall in Eurozone inflation. However, concerns about a potential recession linger due to weak economic data.
- 1.6. UK equities underperformed Global equities due to downbeat news on economic growth. Emerging markets equities also underperformed mainly due to China, where policy meetings offered pro-growth signals but lacked specific plans to achieve this. In Japan equities saw an increase in the quarter, but underperformed global equities as the Japanese yen reversed its trend in recent quarters and gained value against the dollar.

- 1.7. UK gilts yields fell from 4.44% to 3.6% and so prices rose over the fourth quarter of 2023. This was due to fall in UK inflation as costs for consumer products fell, with expectations of interest rates cuts, however these expectations were dampened as the governor of the bank of England stated that it was “too early to be thinking about rates cuts”. Commodity price reduction is significantly driven by falling energy costs. UK property continues to experience worsening price trends especially in the UK housing market.
- 1.8. In the one year and three year periods most equity markets have shown very positive increases (>+10%).

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 £2.018bn at 31 December 2023, which represents an increase of 4.3%, or £83.1m, over the quarter.

TABLE 2: PORTFOLIO SUMMARY

Manager	Mandate	Target	Date Appointed	Value 30/09/23	Value 31/12/23	30/09/23	31/12/23
Baillie Gifford (LCIV)	Global Equity	+2-3%	01/12/16	£220m	£238m	11%	12%
Harris	Global Equity	+2-3%	14/05/15	£184m	£98m	10%	5%
L&G	Global Equity	0%	10/08/11	£418m	£445m	22%	22%
L&G	Future World Global Equities	0%	01/02/21	£290m	£311m	15%	15%
CQS & Pimco (LCIV)	Multi Asset Credit	4-5%	01/05/19	£231m	£245m	12%	12%
L&G	Index Linked Gilts	0%	17/03/09	£60m	£153m	3%	8%
Stepstone	Infrastructure Global	8-10%	31/10/19	£85m	£96m	4%	5%
Partners	Property	15%	04/06/10	£83m	£75m	4%	4%
CBRE	UK Property	+1%	26/07/10	£84m	£85m	4%	4%
Aviva (LCIV)	UK Property	1.5-2%	10/12/21	£70m	£68m	4%	3%
HarbourVest	Private equity	+8%	28/07/16	£55m	£49m	0%	0%
HarbourVest	Private equity	+8%	28/07/16	£55m	£49m	3%	2%
Baillie Gifford (LCIV)	Diversified Growth	+3%	23/03/22	£84m	£90m	4%	4%
Cash & other				£69m	£66m	4%	3%
Fund				£1,935m	£2,018m	100%	100%

- 2.2. The current asset allocations compared to target weights are set out in Table 3 below. The July 2023 Investment Strategy Review recommended reducing equity and increasing exposure to index-linked gilts, Multi-asset credit, affordable housing and infrastructure. This transition has been split in four phases as follows (phase 1 transacted in December and phases 2 and 3 were executed on 31 January) after the quarter end and so are not reflected in these numbers. The phases are structured:

Phase 1 Sell Harris (active equity) and buy Index-Linked Gilts (L&G) – Dec 23

Sell £92m Harris

Buy £84m Index-linked gilts

Phase 2 Baillie Gifford (active equity), buy Multi Asset Credit (CIV) – Jan 24

Sell £94m Baillie Gifford

Buy £62 Multi-Asset Credit

Phase 3 invest in Affordable Housing – Jan 24

£97m commitment

Phase 4 Infrastructure – decision at March Pension Committee

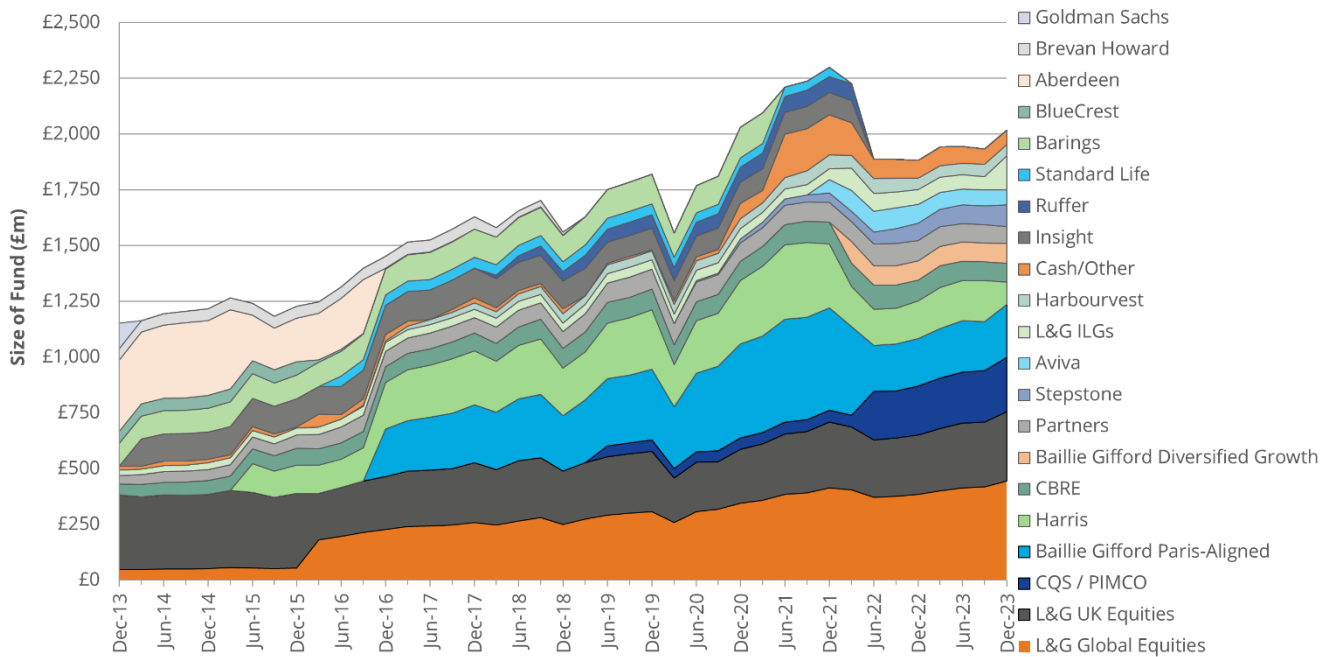
£92m commitment

- 2.3. The Fund is currently overweight to equity but has reduced this dramatically from c65% to 54% currently. Phase 2 of the transition, reducing equity by £94m with Baillie Gifford will reduce this allocation (to c50%). Bonds are currently 20% against a 23% target but with £62m (3%) imminently set to add to this asset allocation this will mean bonds will be on target.
- 2.4. Infrastructure is 5% against a target of 9% but with the imminent new commitment to this asset class will also be on target. All other asset classes are close to target except for cash which is 3% of assets and is important to fund revenue expenditure.

TABLE 3: ASSET CLASS ALLOCATIONS

	Value as at 31 Dec 23	Current Weight %	Target Weight %
Baillie Gifford (LCIV)	£238m	12%	
Harris	£98m	5%	
L&G Global passive	£445m	22%	
L&G UK passive / Future World Global Equities	£311m	15%	
Equity	£1,091m	54%	45%
CQS (LCIV)	£245m	12%	
L&G Ind.Lkd Gilts	£153m	8%	
Bonds	£398m	20%	23%
CBRE	£85m	4%	
Partners Group	£75m	4%	
Aviva (LCIV)	£68m	3%	
Property	£228m	11%	11%
HarbourVest	£49m	2%	
Private Equity	£49m	2%	2%
Stepstone (LCIV)	£96m	5%	
Infrastructure	£96m	5%	9%
Ruffer (LCIV)	£0m	0%	
Baillie Gifford (LCIV)	£90m	4%	
Standard Life	£0m	0%	
DGF	£90m	4%	5%
Affordable Housing	£0m	0%	5%
Cash & other	£66m	3%	0%
TOTAL	£2,018m	100%	100%

2.5. 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; Apex

- 2.6. The Infrastructure fund made a capital calls of £6.3m in Q4 2023. Partners Group Real Estate Secondary fund had no capital calls during the quarter. HarbourVest made a total distribution of \$6.0m at the end of Q3.
- 2.7. The Fund's active equity allocations are close to the strategic asset allocation levels. As Table 5 shows, the Fund remains above the target in active and passive equities and cash, but is below target for fixed income, infrastructure, and affordable housing. As a reminder, the ultimate position targeted is shown in the final column of Table 5.

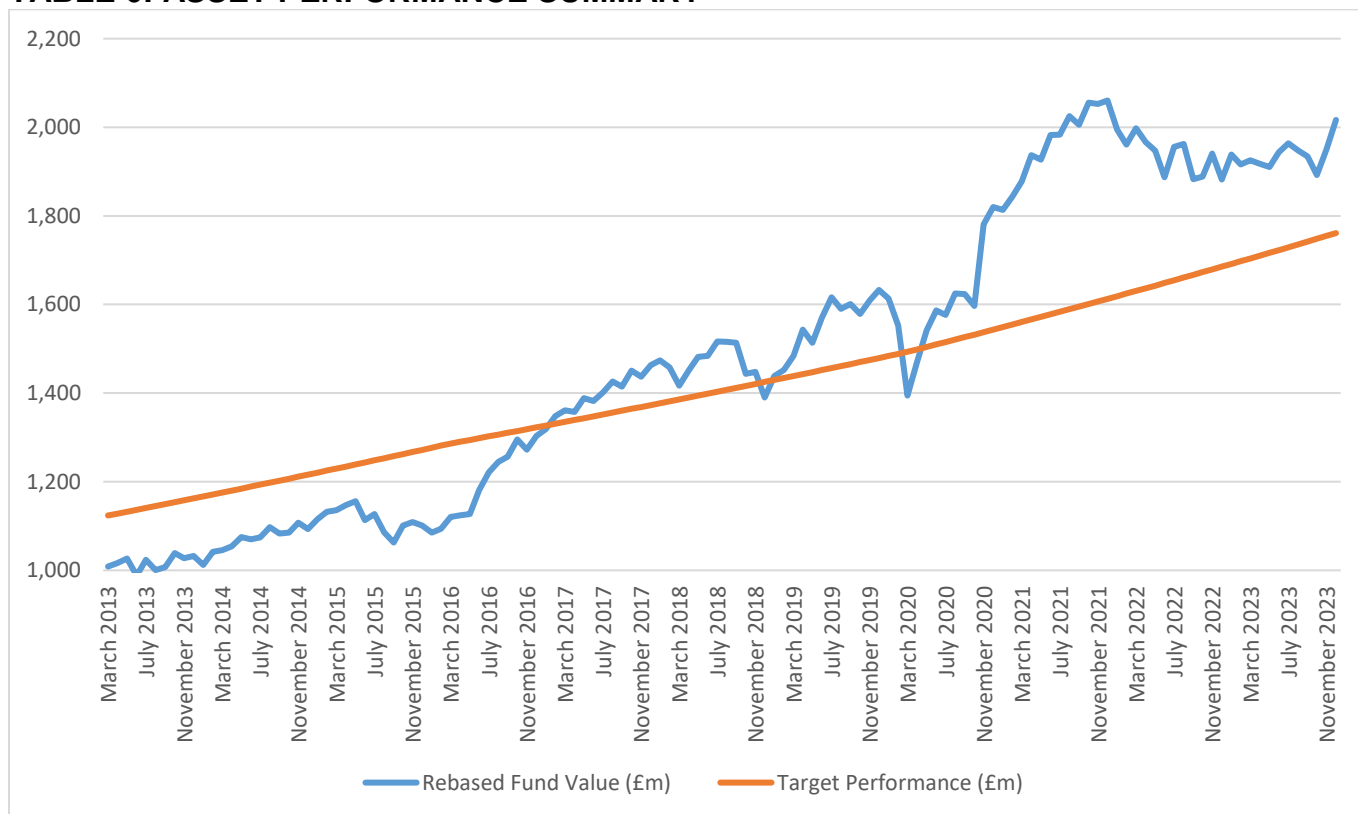
TABLE 5: ASSET CLASS OPERATING RANGES

Asset class	Value	Actual	Target
Active equities	£336m	17%	10%
Passive equities (ESG focused)	£755m	37%	35%
Fixed Income/Multi Asset Credit	£245m	12%	15%
Passive Index linked gilts	£153m	8%	8%
Property	£228m	11%	11%
Private equity	£49m	2%	2%
Infrastructure	£96m	5%	9%
Diversified growth fund	£90m	5%	5%
Affordable Housing	£0m	0%	5%
Cash	65m	3%	0%
Fund	£2,018m	100%	100%

3. LIABILITY MONITORING

- 3.1. The actuary (Hymans Robertson) valued the liabilities at 31 March 2022 at £1.741bn, as part of the Triennial Valuation. This figure was calculated by discounting future liabilities with a discount factor equal to the assumed average annual return on assets (4.4% per annum). This gave a funding ratio of 113% at that date.
- 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 ($4.4\%/4 = 1.1\%$), rather than using the movement in gilt yields as a means of extrapolating.
- 3.3. This gives a theoretical estimated funding ratio in December 2023 of 107% (£1.880bn 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 a rough approximation, however. Long-term asset performance remains considerably above the actuary's historic expectations, as shown below in Table 6.
- 3.4. The Treasury confirmed in January that the annual revaluation of pensions from April 2024 will be 6.7% in line with the consumer price index for the year to September 2023.

TABLE 6: ASSET PERFORMANCE SUMMARY



4. **ASSET PERFORMANCE**

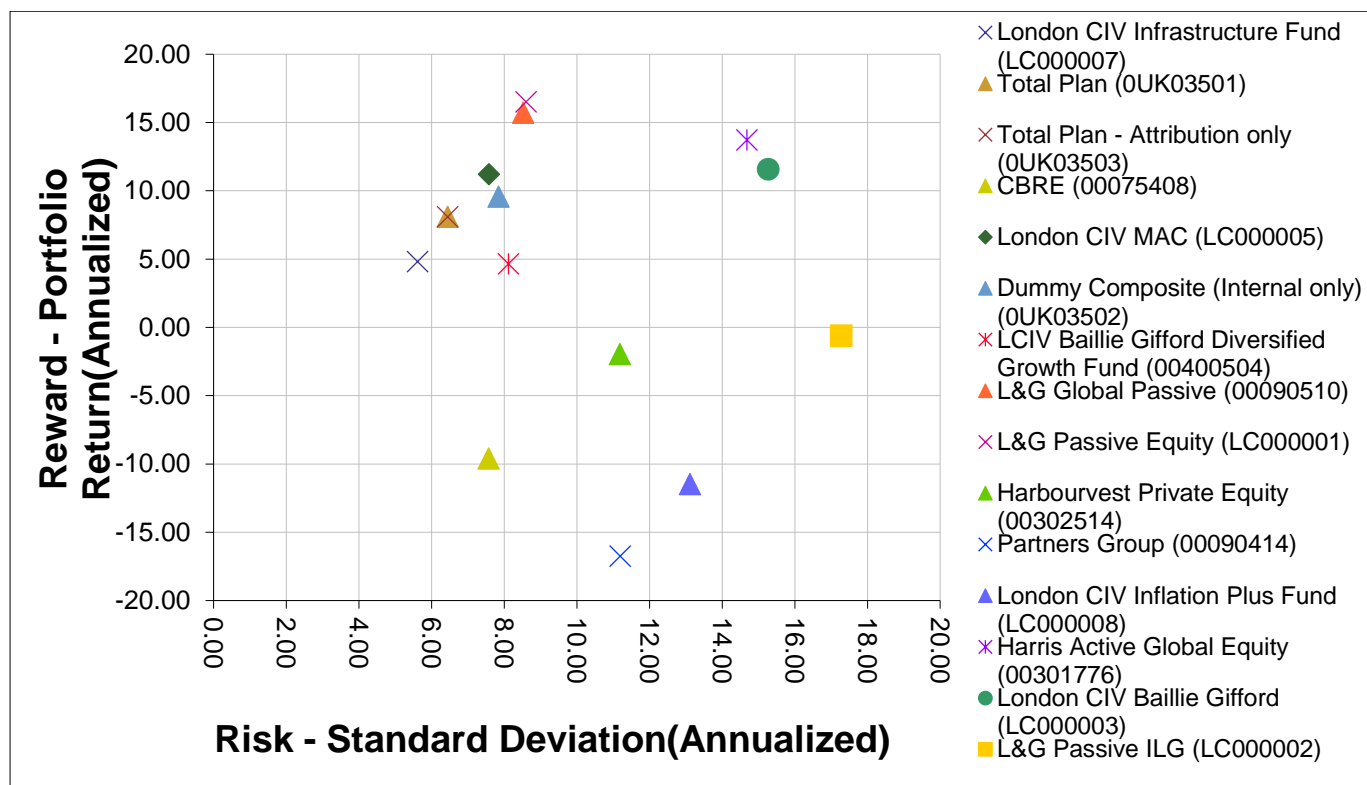
- 4.1. Comparative benchmarking data from a universe of 63 local authority pension funds (valued at £243bn) indicates that average Local Government Pension Scheme (LGPS) fund return was 4.6% in the quarter. The Fund's returns were 4.4% for the quarter and so slightly underperformed this benchmark.
- 4.2. Over 12 months the PIRC universe was 8.0% with the Camden Fund out-performing against the benchmark at 8.1%. Over three years the comparison with the PIRC universe is the Fund returning 4.0% with the PIRC universe averaging 4.8%.
- 4.3. Examining the individual investment manager returns in Table 7, this quarter the Fund has slightly overperformed its target by 0.2% and but has had a difficult twelve months (-3.4% behind target). The one-year performance has been driven largely by the marked underperformance in Baillie Gifford (-7.2%) and Harris -5%. To a lesser extent, as they are smaller allocations, CBRE (-9.1%), HarbourVest (-9.9%) and Partners (2009, 2013 and 2017) (-34.9%, -34.7% and -30.2% respectively) have also contributed to the overall Fund under performance. The two outperforming funds over one year were CQS & PIMCO and L&G Future World global equity fund.

TABLE 7: MANAGER PERFORMANCE VS TARGET

Investment Manager	Trailing 3 Months	Trailing 1 Year	Trailing 2 Years	Trailing 3 Years	Since Inception
Harris	2.5	13.7	4.5	9.5	10.2
Global Equities (Gross) + 2.5%	7.1	18.8	6.0	11.5	13.9
Excess Return	-4.6	-5.0	-1.5	-2.0	-3.8
Baillie Gifford (London CIV)	8.1	11.6	-5.9	-1.3	10.2
Global Equities (Gross) +2.5%	7.1	18.8	6.0	11.5	13.3
Excess Return	1.0	-7.2	-11.9	-12.7	-3.0
L&G Future World global equity	7.1	16.5	2.9	-	5.7
Solactive L&G ESG Global Markets	7.0	16.2	2.6	-	5.4
Excess Return	0.1	0.4	0.3	-	0.3
L&G global equity	6.4	15.7	3.6	8.8	12.3
FTSE All-World + 0%	6.3	15.7	3.6	8.8	12.3
Excess Return	0.0	0.0	0.0	-0.0	-0.0
CQS & PIMCO (LCIV)	5.9	11.2	1.2	2.9	2.8
3 Month SONIA +4.50%	2.4	9.6	8.0	6.9	6.2
Excess Return	3.5	1.7	-6.8	-3.9	-3.4
L&G passive ILG	9.7	-0.6	-22.0	-14.1	3.9
FTSE > 5yr Index Linked Gilts + 0%	10.4	-0.5	-21.6	-13.9	3.8
Excess Return	-0.7	-0.1	-0.4	-0.2	0.1
CBRE	-2.0	-9.6	-4.8	1.4	5.7
All Balanced Property Funds + 1%	-0.9	-0.4	-4.6	3.1	6.6
Excess Return	-1.1	-9.1	-0.2	-1.7	-0.9
Partners 2009 Euro fund	-11.0	-19.9	-4.4	-2.1	5.4
Absolute 15%	3.6	15.0	15.0	15.0	15.0
Excess Return	-14.5	-34.9	-19.4	-17.1	-9.6
Partners 2013 USD fund	-12.0	-19.7	-5.5	-1.5	8.2
Absolute 15%	3.6	15.0	15.0	15.0	15.0
Excess Return	-15.6	-34.7	-20.5	-16.5	-6.8
Partners 2017 USD fund	-9.1	-15.2	0.9	5.5	4.7
Absolute 15%	3.6	15.0	15.0	15.0	15.0
Excess Return	-12.7	-30.2	-14.1	-9.5	-10.3
HarbourVest	-7.8	-1.9	4.6	20.2	21.2
Absolute 8%	1.9	8.0	8.0	8.0	7.9
Excess Return	-9.7	-9.9	-3.4	12.2	13.3
Stepstone (London CIV)	5.3	4.8	10.1	7.6	4.5
9% p.a net	2.2	9.0	9.0	9.0	8.8
Excess Return	3.1	-4.2	1.1	-1.4	-4.4
Aviva (London CIV)	-1.0	-11.5	-12.1	-	-11.6
RPI + 1.75%	0.6	7.0	11.1	-	11.3
Excess Return	-1.6	-18.5	-23.2	-	-22.9
Baillie Gifford Diversified Growth Fund (LCIV)	6.9	4.7	-	-	-2.9
SONIA +3.5%	2.2	8.3	-	-	7.0
Excess Return	4.8	-3.6	-	-	-9.9
Total Fund	4.4	8.1	-0.6	4.0	8.6
Total Fund Composite Target	4.2	11.5	5.4	8.5	10.6
Excess Return	0.2	-3.4	-6.0	-4.4	-2.0

- 4.4. 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 December 2023 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.
- 4.5. Table 8 below shows that the best performing fund was the L&G Future World global Equity Fund. At the other end of the scale, some of the poorest performers in the portfolio are the partners group fund, the CIV Inflation plus Fund and CBRE fund (mainly due to increases in interest rates). The most volatile fund is the L&G Index linked Gilts fund.

TABLE 8: RISK VS REWARD GRAPH



- 4.6. **Harris** underperformed against target. For the quarter it has underperformed against target by -4.6%, and their one-year return has also underperformed against target (-5.0%). The worst detractor was Worldline due to weaker than expected company results brought about by the negative headwinds from the German economy and impact of new regulatory standards. The top performer was Capital One financial due its strong third quarter results.
- 4.7. **Baillie Gifford (CIV)** overperformed against target for the quarter by 1% however has also underperformed against the one-year benchmark by -7.2% and in the 2 and 3 year periods is -12% behind target. Three out of five top detractors were stocks that had direct exposure to China or had an indirect exposure to Chinese consumers. Shopify and Meta have been the top performing stocks in the portfolio due to a focus on reducing costs and improving efficiencies. The CIV still have Baillie Gifford on normal monitoring.

- 4.8. **Legal & General** equities have tracked their benchmarks in the quarter as expected. The Future World global equity fund is a sustainable passive fund which is more closely aligned to the Pension Fund's investment beliefs. The Future World fund is benchmarked against the Solactive index.
- 4.9. **L&Gs future world global fund** slightly overperformed against target for the quarter and one year benchmark by +0.1% and +0.4% respectively. The top sector holding is financial with 18.1% and top equity holding is Shell accounting for 8.5% of the fund.
- 4.10. The **CQS and PIMCO Fund** outperformed against target for the quarter by +3.5% and has also outperformed against the one-year target by +1.7%. The CIV recently reported to clients that CQS have announced that Manulife Financial Corporation, a Canadian public insurance, wealth and asset management business will acquire 100% of the firm. The transaction is subject to regulatory and shareholder approval and is expected to close in Q1 2024. CQS had a difficult 2022 being -14.5% behind target but this reversed in 2023 with +3% out performance against target. Against their peers CQS have been top or 2nd quartile over various timeframes from year to date out to 10 years. Based on the CIV's review the manager remains on normal monitoring status.
- 4.11. **CBRE** underperformed against the quarter and one year target by -1.1% and -9.1% respectively. Significant detractors this quarter were the standard life, fieria, ardstone and curlew student funds.
- 4.12. **Partners Group** funds' performance deteriorated over Q3 2023, but it is important to bear in mind that these valuations lag by three months due to the nature of the fund of fund arrangement. Partners Group funds' performance is viewed individually for the three funds as follows:
- i. The 2009 Euro fund has underperformed the target by -14.5% over Q3 2023 and is -9.6% below its ambitious target since inception. This fund is fully invested.
 - ii. The 2013 Dollar fund's performance has dropped in Q3 2023 and now registers -19.7% over the past twelve months. Since inception, the fund has returned +8.2% per annum compared to its target of 15.0%. This performance was mainly due to the decrease in the valuation of project Whetstone – US office portfolio, mainly driven by the headwinds impacting the office sector and interest rates increases.
 - iii. The 2017 Dollar fund, the newest of the three funds, also suffered lower returns in the previous quarter, a fall of -9.1%, -12.7% below the target for the quarter. Since inception, it has achieved +4.7% growth against an ambitious 15% target. This poor performance reflects downward pressure on office properties in the portfolio as capital markets present continue to present major headwinds.
- 4.13. **HarbourVest** investment fund significantly underperformed against target for the quarter by -9.7% but and has also underperformed against target for one year by -9.9%. The largest three underlying investments in this fund are Figma Inc and web application for interface design based in the US, Roland Foods – also based in the US and Solace systems manufacturer of message-oriented middleware appliances and Odoo based in Belgium.
- 4.14. **Stepstone (CIV)** increased in value (5.3%) over the quarter, +3.1% above the target, but these figures also lag by three months, as is typically the case with private market investments. The portfolio expansion is ongoing as the fund approaches the conclusion of its ramp-up phase, and most of the portfolio is now operational. The increase on net asset value was driven mainly by capital call activity as well as unrealised gains on investments offset by Investment income distributions.

- 4.15. **Aviva (CIV) real estate long income fund** received initial investment from the Fund in December 2021. Performance over the quarter saw a fall of -1.0%, and heavily underperformed the target over twelve months by -18.5%. The quality of the Fund's income – rated BBB with an average term of 22.2 years and 98% inflation-linkage – remains strong. Its performance is not formally assessed until after the end of the four-year ramp up period which will be June 2024. However, the performance was due to the fund sensitivity to volatile gilt movements, weaker outlook for the property market and concerns over covenant strength. However, the UK real estate markets remained flat across Q2, recent interest raised have squeezed risk may suggest that there could be further declines in fund valuation if interest remained as high as they are now.
- 4.16. **Baillie Gifford Diversified Growth Fund (CIV)** out-performed against the Q4 target by +4.8%, however they underperformed against the one year target by -3.6%. The status of LCIV Diversified Growth Fund was downgraded to 'Enhanced Monitoring' in December 2022. This rating was confirmed in July 2023, and the CIV initiated another in-depth review in December 2023. The CIV kept the Sub-fund on 'Enhanced' monitoring in January 2024, and investors have been updated in February. BG have had some serious risk management issues to fix during 2022 and 2023. Against their peers in the multi asset space that have been 3rd or 4th quartile over 3 and 5 years. Based on the CIV's monitoring framework over 9 areas of assessment they are rated amber or red in all but 1. There have been 2 client outflows in the quarter.

5. FOSSIL FUEL EXPOSURE

- 5.1. All Investment managers were asked about the Fund's exposure to fossil fuels in general. The results for all our investment managers, at 31 December 2023, are as shown in Table 9 below.
- 5.2. It is important to remember that all companies have slightly different definitions of fossil fuel companies and so this is only an estimate. In 2012 the Fund had 7.2% of its equity assets invested in fossil fuels. In the report to the December 2023 Committee the fossil fuel proportion of all assets was 2.2%, and this has now decreased slightly to 2.1% as at 31 December 2023.
- 5.3. **TABLE 9 TOTAL FUNDS INVESTED IN FOSSIL FUELS**

Mandate		Total Fund	Fossil Fuel Holdings	Fossil Fuel Holding
Legal & General	Global equity	£445m	£18m	
	Future World global equity	£311m	£4m	
	Index-linked gilts	£153m	£0m	
Harris		£98	£4m	
Baillie Gifford	Global equity	£238m	£1m	
CBRE		£85m	£0m	
HarbourVest		£49m	£1m	
Partners Group		£75m	£0m	
Aviva		£68m	£0m	
Stepstone		£96m	£0m	
CQS		£245m	£10m	
BG DGF		£90m	£4m	
Cash - JPM		£66m	£0m	
Total (as at 30 September 2023)		£2,019m	£42m	2.10%

- 5.4. Investment managers were also asked what percentage of our portfolio was invested in the Carbon Underground 200 Index of companies at 31 December 2023. This is a more consistent definition of fossil fuel companies, and the results are below. This has reduced from 1.67% to 1.42% this quarter.

TABLE 10: CARBON UNDERGROUND 200 COMPANIES

Investment manager and mandates	% invested
Legal and General Global equity	0.91%
Legal and General Future World Global equity	0.23%
Legal and General (Over 5y Index-Link Gilts)	0.00%
Harris Global equity	0.19%
Baillie Gifford - LCIV Global equity	0.01%
CBRE UK property	0.03%
HarbourVest private equity	0.00%
Aviva long lease property	0.00%
Partners global property	0.00%
Stepstone Infrastructure(LCIV)	0.00%
CQS & PIMCO multi-asset credit (LCIV)	0.05%
Baillie Gifford DGF (LCIV)	0.00%
NAV invested as at 31 December 2023	1.42%

6. RESPONSIBLE INVESTOR COMMENT

- 6.1. This report covers performance of several kinds, not only financial performance, but also the extent to which the Fund's assets are moving away from highly-polluting or carbon dioxide-intense holdings over time. This report also demonstrates that good financial returns are not incompatible with responsible investment.

7. ENVIRONMENTAL IMPLICATIONS

- 7.1. There are numerous environmental implications to the performance of the Fund; in terms of the carbon impact, these have been set out in tables 9 and 10.

8. FINANCE COMMENTS OF THE EXECUTIVE DIRECTOR CORPORATE SERVICES

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

9. LEGAL Comments of the BOROUGH SOLICITOR

- 9.1. 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.

10. APPENDICES

APPENDIX A – Detailed Market and Manager Performance Review

APPENDIX B – Camden Client ranking by Manager



Q4 2023 Portfolio Valuation Report

London Borough of Camden

31 December 2023

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<u>London CIV – MAC fund (blended fund - CQS/Pimco)</u>	Error! Bookmark not defined.
<u>London CIV – Infrastructure Fund - Stepstone</u>	Error! Bookmark not defined.
<u>London CIV – Real Estate Long Income Fund - Aviva</u>	Error! Bookmark not defined.
<u>London CIV – Diversified Growth Fund – Ballie Gifford</u>	Error! Bookmark not defined.
<u>Summary of Concerns</u>	Error! Bookmark not defined.
<u>Appendix A</u>	Error! Bookmark not defined.

Contacts

Karen Shackleton
Senior Advisor
+44 20 7079 1000

karen.shackleton@apexgroup-fs.com

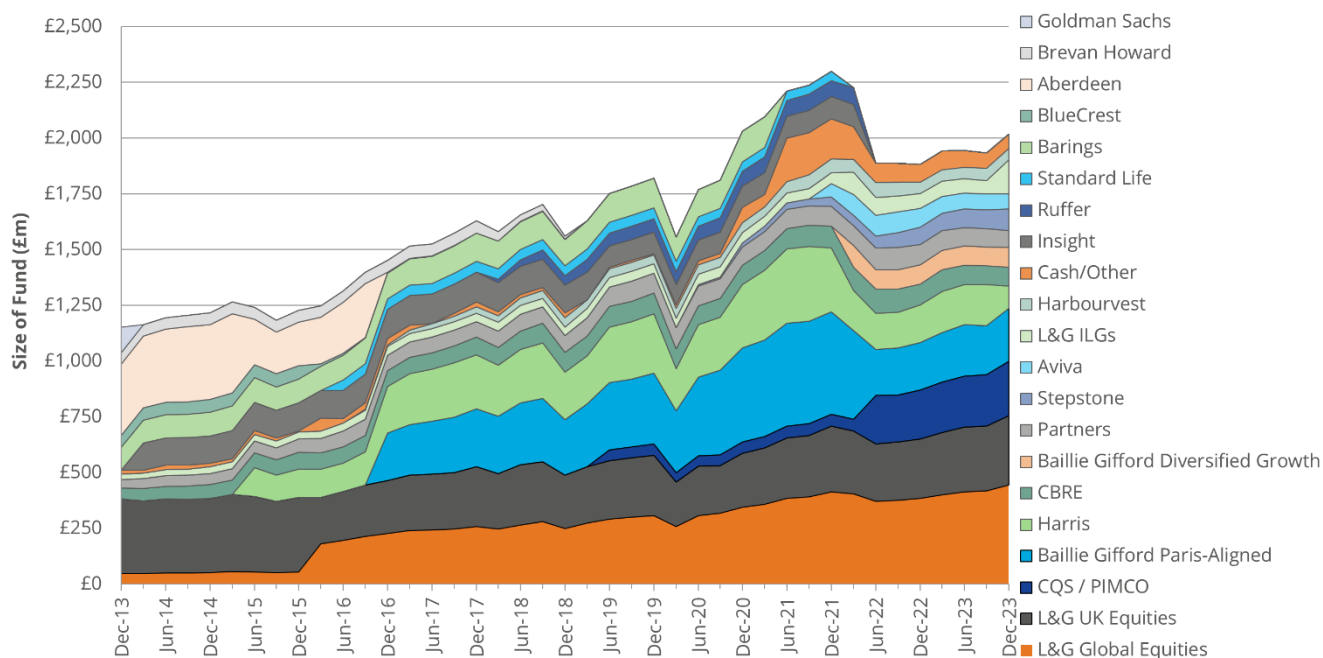
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Total Fund Valuation

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

CHART 1: VALUE OF LONDON BOROUGH OF CAMDEN PENSION FUND (£M) OVER 10 YEARS



Source: London Borough of Camden; Apex

Independent Advisor Market Review

The Global Economy

Inflation (including core inflation) fell again in Q4 and allayed many market fears over it proving stickier than expected. As a result of this continued fall, central banks have taken a more dovish stance and indicated that rates will be cut sooner in 2024 than previously expected. Lower inflation and peaking rates have shifted the concern more on the side of stagnating growth and recessionary risk, with UK and Europe showing declining GDP growth and China still feeling the effects of the property crisis. The notable exception to this is the US, where resilience in the domestic job market and a healthy consumer market have led to steady GDP growth. Labour markets continue to remain robust, especially in the US (unemployment at 3.7% and job openings up 5.3% YoY in November).

Q4 delivered a rally in almost all markets, following the Q3 correction, returning to the positive trend of the first half of the year. Global equities (MSCI World) rose sharply by 12.1% in local currency terms over the quarter, with Growth (+13.2%) rising more sharply than Value (+8.8%). Japanese and UK equities notably lagged behind other markets, with broad Japanese equities returning 2.0% (TOPIX Index) and 5.5% (Nikkei 225) in local currency and UK equities returning 4.6%. Following a spectacular year, Japanese equities lagged, due to the lesser impact of changes in rate policy combined with yen appreciation acting as a headwind. UK equities suffered from the drops in oil and gas prices and sterling strength. US equities (+11.7%) rose after the more dovish stance taken by the Fed allayed fears of 'higher for longer' rates. Bonds enjoyed a reprieve in the fourth quarter, as markets discounted 1.5-2% cuts in rates during 2024. All government bonds performed strongly over the quarter, with long dated gilts showing the biggest recovery. Investment grade mildly underperformed government bonds, with

spreads tightening as refinancing concerns decreased, and slightly outperformed high yield, due to a greater sensitivity to rates. Alternatives all showed a strong recovery, with private equity (+20.6%) as measured by the S&P Listed Private Equity Index showing particularly strong performance.

TABLE 1: QUARTERLY GDP GROWTH RATE

	US GDP	UK GDP	Eurozone GDP	Japan GDP
Q4 2023*	0.8%*	-0.1*	0.0%*	-0.7%*
Q3 2023	1.2%	-0.1%	-0.1%	-0.7%
Q2 2023	0.5%	0.0%	0.1%	0.9%
Q1 2023	0.5%	0.3%	0.1%	1.2%

Source: Bloomberg. *Forecast based on leading indicators. N/A not available at time of publication.

Notes: UK Real GDP (Ticker: UKGRABIQ Index), US Real GDP (Ticker: GDP CQOQ Index) de-annualised, Eurozone Real GDP (Ticker: EUGNEMUQ Index), Japan Real GDP (Ticker: JGDPQGGDP)

Global equities rose in Q4, returning to the rally of the first half of the year. The VIX decreased over the quarter from 18 to 12.

In the US, the S&P 500 rose by 11.7% and the NASDAQ composite also rose by 13.8%. The Fed's more dovish stance and addition of a third predicted rate cut in 2024, signalled a move from the 'higher for longer' rates predicted last quarter and resulted in a positive market reaction.

UK equities increased by 4.6%, underperforming global equities. Inflation fell noticeably from 6.7% in August to 3.9% in November, however sterling strength detracted from returns. Significant falls in oil and natural gas prices contributed strongly to underperformance given the UK stock market's energy sector exposure.

The Euro Stoxx 50 rose by 9.6% in Q4. Inflation continued to move downwards, with core inflation proving less sticky than feared. The ECB continued to loosen hawkish rhetoric.

Japanese equities continued their positive run in Q4 but underperformed other equity markets in part due to yen appreciation. Growth companies outperformed, with the Nikkei returning 5.5% relative the broader TOPIX index's more muted returns (+2.0%).

Emerging market equities rose by 8.0% in Q4, whilst Chinese equities fell (-4.8%) over mounting growth concerns. The rest of the emerging markets performed strongly, with MSCI EM LATAM returning 17.8% over the quarter. Poland was another strong performer following Donald Tusk's election as prime minister, Taiwan and South Korea benefitted from tech-related performance and overall expectations of more and sooner US rate cuts helped overall emerging market performance.

Yields generally fell over the quarter, as a result of more dovish stances taken by central banks (mainly the Fed) and predictions of rate cuts in 2024 which resulted in strongly positive performance across the main government bond markets. The inversion of US yield curve, as measured by the 10 year–2 year yields, reduced slightly, ending the quarter at around -40bps, as mid and long term yields rose more than shorter bond yields. In corporate bonds, credit spreads tightened as default rates remain low and recessionary fears reduced over the quarter.

The US 10-year Treasury yield fell in Q4 from 4.57% to 3.88%, while the 2-year yield fell from 5.05% to 4.25%. Fed policy rates remained the same, but the Fed took a more dovish stance and indicated there would be more rate cuts and sooner in 2024.

The UK 10-year Gilt yield fell from 4.44% to 3.53% while 2-year yields fell from 4.90% to 3.95%. The BoE is more divided over its stance but, with the latest inflation measures being lower than expected, the market rallied and yields fell.

European government bonds rose in Q4, the ECB was also more cautious than the Fed, but continues to unwind the Pandemic Emergency Purchase Programme (PEPP) support and the market is still pricing in several rate cuts in 2024. Italian – German spreads tightened.

US high-yield and investment grade credit performed strongly, returning 7.2% and 8.5% respectively. European high-yield and investment grade bonds returned 5.6% and 6.0%, respectively, with UK investment grade returning 8.1%.

Energy prices declined during Q4, with crude oil falling -19.2% from the highs of Q3 to finish the calendar year -10.3% down. Similarly, natural gas was down -14.2% and ended the year -43.8% down, the largest annual percentage decline since 2006.

US gas prices fell in Q4 due to record production coupled with abundant inventories and relatively mild winter temperatures.

OPEC+ supply cuts had little impact on falling crude oil prices as the International Energy Agency forecasted softening global oil demand to continue into 2024. The quarter saw weaker than anticipated demand in Europe, Russia and the Middle East, which was paired with an increase in supply from non-OPEC+ sources.

Gold and copper rose 12.1% and 4.1% respectively over Q4. Precious metals prices (particularly Gold) generally rose following concerns around geopolitical stability, while industrial metals were more mixed.

Global listed property rebounded this quarter, with the FTSE EPRA Nareit Global Index rising 9.9% in Q4.

The Nationwide House Price Index in the UK has increased after its decrease last quarter, with the seasonally adjusted price index up 1.1% for the quarter, and down -1.7% for the last 12 months.

European commercial property has also continued to decline in the face of higher interest rates, with the Green Street Pan European Commercial Property Price Index down by -2.8% this quarter and -10.9% over the past 12 months.

In currencies, US dollar weakened generally throughout the quarter (DXY -4.6%), weakening against sterling, the euro and the Japanese yen. Bitcoin and Ethereum saw strong performance in Q4 (57% and 37% respectively) with a main driver being the increasingly likely approval of the US spot bitcoin ETF by the SEC.

Asset Allocation

The diversification benefits of having equity managers in both growth and value strategies has continued through 2023 as Value and Growth Style Indices have seesawed. This quarter it was the Growth Style which performed well. Inflation continues to fall across the world, but a focus on inflation-linked assets to provide a hedge against inflation-linked liabilities still seems prudent. The strategy review undertaken by Isio continues to be rolled out which will result in some additional asset allocation changes.

Individual Manager Performance Review

London CIV – Baillie Gifford

The Independent Advisor comments that, the London CIV – Baillie Gifford sub-fund delivered a return of +8.06% in Q4, outperforming Harris by +5.58% for the quarter but underperforming the Growth Index which returned +8.45%. Over a 12-month period, the Baillie Gifford sub-fund underperformed Harris by -2.13%. The return in Q4 was also behind the MSCI ACWI Index, which delivered +9.38%. The manager is underperforming its performance target over 12

months, with an absolute return of +11.61% vs the target of +18.77%. The manager is also behind the target over 3 years by -12.72% per annum.

London Borough of Camden has been invested in the Global Alpha Paris-Aligned Fund since September 2021. This fund aligns more closely with the pension fund's investment beliefs around climate change. The objective of the Paris Aligned sub-fund is to exceed the rate of return of the MSCI All Country World Index by 2-3% per annum on a gross fee basis over rolling five-year periods. The sub-fund also aims to have a weighted average greenhouse gas intensity that is lower than that of the MSCI ACWI Climate Paris Aligned Index.

Microsoft, Moody's and Amazon were Baillie Gifford's best-performing positions in the Paris-Aligned fund during the quarter, contributing +1.8% to the quarterly return. Ping An Insurance Group, Trade Desk and Albemarle were the largest detractors. The fund added six new positions to the portfolio in Q4 including: Block (Financial Services), Pinduoduo (Chinese e-commerce) and CATL (Chinese Lithium-ion battery manufacturer). Three sales were completed during the quarter: Rio Tinto, Illumina and Farfetch Ltd. The beta on the Paris Aligned portfolio as at quarter end stood at 1.22. This means that if the market falls 10%, the portfolio is expected to fall by 12.2%.

Baillie Gifford's 12-month performance has produced weak returns on a relative basis, underperforming the performance target by -7.17%. The manager is also underperforming the performance target since inception by -3.03% per annum.

LCIV note that the fund outperformed the benchmark in Q4, returning to the positive performance in the first half of the year, largely due to a market that again favoured growth. LCIV is pleased to see some stronger performance and stock selection this quarter but ongoing performance remains a watch point and LCIV maintained the overall monitoring status at 'Normal Monitoring'.

LCIV's annual investment due diligence (IDD) was completed last quarter in late August. 'Performance', 'Value for Money' and 'Risk Management' were all kept at amber as performance is still lacking and further progress and consistency is required to evidence the lessons learned regarding portfolio construction. However, positive steps have been made. The next investment deep dive will be conducted ahead of schedule in February 2024.

At a quarterly meeting between the adviser and Baillie Gifford, the manager confirmed that the Paris Aligned strategy had underperformed the broader Global Alpha fund in Q4. This was somewhat contrary to expectations given that oil and gas stocks fell (a Paris Aligned approach could be expected to have lower allocations to this sector). The manager confirmed that the Paris Aligned fund had underperformed the broader fund by some 2%, as a result of some specific company holdings in the broader strategy doing particularly well, including CRH and Ryanair.

The Paris Aligned fund held 95 companies at quarter end, across 19 different countries, and had an active risk of 5.37% (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). LCIV have noted that the active risk is marginally lower than the median active risk in a group of peers. The fund is overweight in consumer discretionary, communication services, financials, healthcare, and cash and other net assets. It was underweighted in information technology, consumer staples, industrials and other investments.

The Paris Aligned Baillie Gifford sub-fund aims to have a weighted average greenhouse gas intensity that is lower than that of the MSCI ACWI Climate Paris Aligned Index. However, London CIV compares the portfolio against the full market capitalisation index for carbon intensity purposes. As at end December 2023, the weighted average carbon intensity of this portfolio was roughly 51% of the intensity of the MSCI All Country World Index. The fund had a 2% exposure to fossil fuel companies (compared with the MSCI All Country World benchmark which had a 7.5% in fossil fuels).

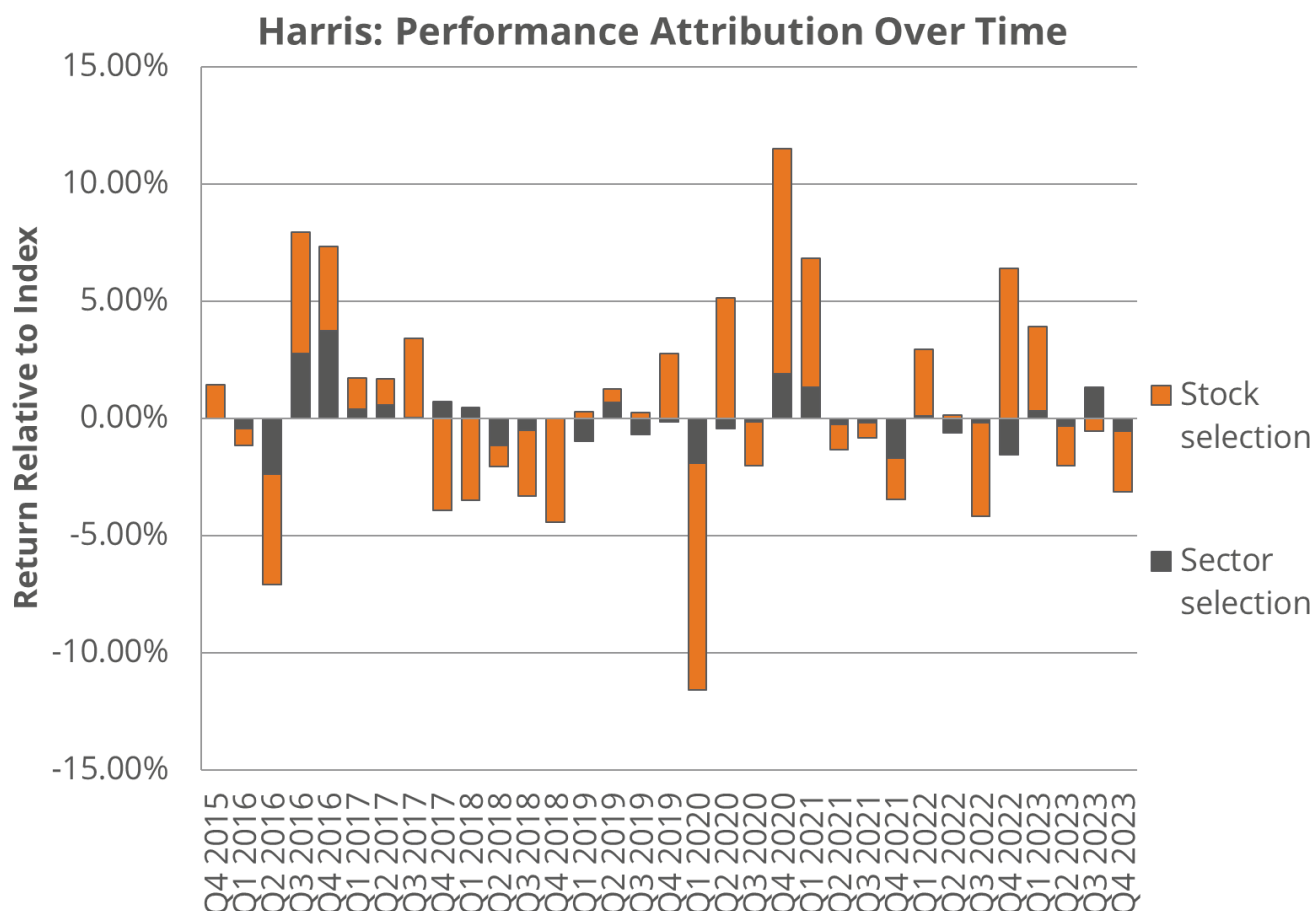
In terms of assets under management, the LCIV Paris Aligned sub-fund stood at £2,211.5 million as at end December. London Borough of Camden’s investment represents 10.75% of the fund.

Tim Gooding, who has previously presented to the committee on the Paris Aligned Fund, is changing focus within the firm to specialise on ESG, and climate action in particular. Going forward, Claire Phillips will take over the relationship with London Borough of Camden, with Ben Drury continuing to meet with the committee as an investment specialist on Global Alpha.

Harris

Chart 2 shows the contribution to performance, relative to the index, from asset allocation and stock selection. Chart 2 shows that sector selection was a significant detractor to the relative return of the fund during Q4 2023, with -0.57% attributed to sector selection, while -2.58% was attributed to stock selection.

CHART 2: HARRIS PERFORMANCE ATTRIBUTION



Source: Harris; Apex

The Independent Advisor comments that, Growth outperformed Value in Q4. The MSCI World Growth Index (GBP) returned +8.45% whereas the MSCI World Value Index (GBP) delivered +4.71%. Harris has underperformed the Value Index by -2.23% and the MSCI World Index (GBP) by -4.19%, resulting in a poor quarter for the manager on a relative basis. Positive contributions from sector selection came mainly from Energy (+0.34%) and Financials (+0.21%) and Consumer Staples (+0.17%), while IT (-0.86%) and Healthcare (-0.22%) as sectors contributed negatively. Stock selection in Communication Services (-1.06%) and Consumer Discretionary (-1.00%) negatively contributed, while stock selection in

Consumer Staples (+0.15%) positively contributed. Harris is underperforming the performance target for the past 12 months by -5.04% and underperforming the target by -1.98% over three years.

The top contributor during Q4 was Capital One Financial which added +1.09% to the total return. Worldline was the worst performing stock, detracting -0.95% from the portfolio.

As at quarter end, the fund had a 44.24% allocation to Europe, 49.26% to the US, and the balance of 6.51% in Asia/Emerging markets.

Legal & General

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 2. As the tracking is still in line with expectations, there are no concerns.

TABLE 2: TRACKING ERROR

	Three-Month Tracking	One-Year Tracking	Three-Year Tracking
World – Future World	0.12%	0.36%	N/A
World – Market Capitalisation	0.04%	0.10%	0.04%
Gilts	0.00%	0.00%	0.00%

Source: Legal & General; Apex

The manager no longer allocates to the UK Equity Index Fund, with the £65m investment being switched into 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 Q4, the sustainable Solactive Index, against which the Future World global equity index fund is benchmarked, delivered a return of +7.0% compared with the full global equity market capitalisation index – MSCI World (GBP) - which returned +6.67%.

CBRE

The CBRE report from which this is updated was not prepared on time for the print deadline and as such the commentary and data have been italicised to show they are as at Q3 2023.

Chart 3 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 negative returns. The main detractors from performance in Q3 were Ardstone UK Regional Office (-11.3%), Hermes Property Unit Trust (-2.4%) and Standard Life Long Lease Property Fund (-2.3%) contributing -0.7% between them.

Ardstone saw a valuation decrease. Rising interest rates and inflationary costs continued to put pressure on commercial assets.

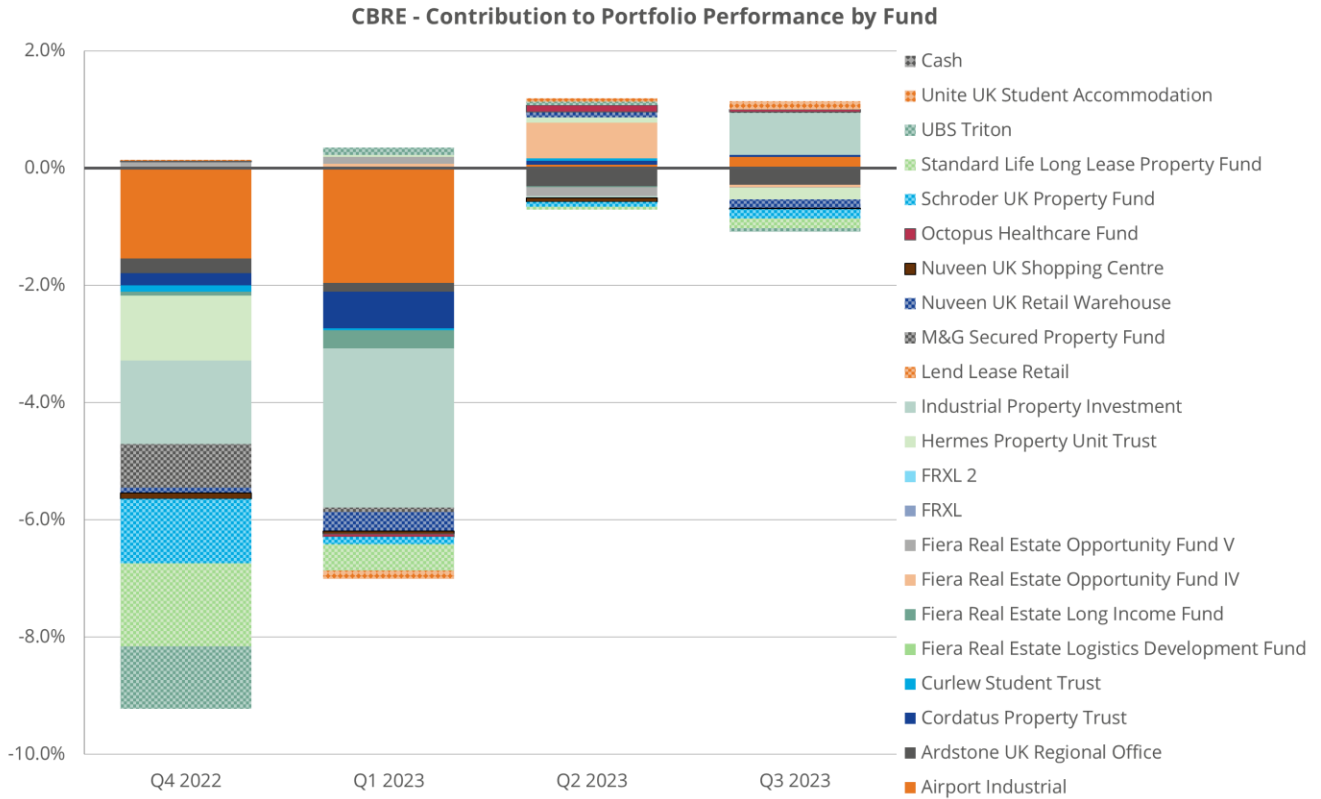
Hermes Property Unit Trust saw a NAV decline due to valuation declines in regional office, leisure and retail assets. Industrial assets remained stable.

Standard Long Lease Property Fund poor performance was driven largely by the office and, to a lesser extent, the industrial portfolio, with ground rent holdings also suffering considerably from legislative changes.

Meanwhile, the top contributors to returns for the quarter came from the investments in Industrial Property Investment, Airport Industrial and Unite UK Student Accommodation which delivered returns of +6.9%, +2.2% and +2.5% respectively, contributing +1.0% to the fund's return in Q3.

For the 12 months to September 2023, Fiera Real Estate Opportunity Fund IV, Octopus Healthcare Fund and Unite UK Student Accommodation were the strongest contributors to returns, contributing +0.65%, +0.12% and +0.08% respectively to the one-year portfolio return. Most other contributions were small or negative. Industrial Property Investments (the lightest green bar in Chart 3) and Airport Industrial Property Unit Trust (the darker orange bar in Chart 3) were the biggest detractors over the last year (-3.46% and -3.24% respectively) despite the latest quarter more in line with previously strong performance.

CHART 3: CBRE PERFORMANCE ATTRIBUTION



Source: CBRE; Apex

Rental growth accelerated slightly in Q3 2023 across the different sectors within property. At the All-Property level, rents grew by 0.9%, driven by rental growth in industrial assets (1.5%). Despite an office rental growth increasing to 0.6% in Q3, CBRE continue to expect hybrid working and ESG compliance to remain the main headwind for the sector, mainly affecting average quality, non-prime, office space. Private residential rents continue to show double digit increases with a 10.5% year-on-year increase as at September 2023.

As at quarter end the portfolio had 21 investments and leverage on the portfolio stood at 10.6%, a slight decrease from last quarter at 11.2%.

Partners

The commentary from the manager was not available at the time of going to print, so a verbal update will be provided at the meeting. For information, last quarter's commentary is shown below in italics.

PG Real Estate Secondary 2009 (EUR) SICAR fund, to which Camden has committed capital, has invested in a total of 61 investments, with 59 investments having now been realised. This fund is fully invested and Partners Group have called down 95.3% of committed capital. The manager has distributed 131.5% of the invested money since inception and is continuing to "focus on exits and distributions as several investments in the portfolio are in the realisation phase of their lifespan". Of the 2 remaining assets, 1 is outperforming or above plan, and 1 is below plan. The portfolio's allocation is 100% Europe.

The pension fund has committed capital to PG Real Estate Secondary 2013 (USD). The Fund had made 42 investments, with 21 having been realised. The Fund was 72.0% contributed and has distributed 91.9% of the invested money since inception. Investment activity will be focused on the existing portfolio assets, while evaluating divestment opportunities for the mature assets. Of the 21 remaining assets, 7 are outperforming or above plan, 3 are performing in line with plan and 11 are below plan. The portfolio's allocation is split as follows: 60% Europe, 36% North America and 4% Asia-Pacific.

Of the 11 below plan, the manager has provided the following commentary:

Project Camino (US retail & mixed use portfolio) - *Three assets (Richwood, The Wharf and Asbury Park), are remaining in the portfolio. The Richwood asset is being prepared for sale and target to be sold in 2025 after appropriate approvals have been received. The Wharf, which is the largest non-control asset in the portfolio is now stabilised and ready for sale, target to market the asset will be done as soon as real estate markets have normalised. Asbury Park is performing well, but an exit is not planned in the near term and will likely take place in 2025 or later.*

Sveafastigheter Fersen I - *The portfolio holds retail assets in Sweden and Estonia. There is limited value-creation outstanding for underlying assets, and assets are being marketed for exit. Partners anticipate that the portfolio will be fully exited by end of 2025. The performance has mainly been attributed to structural headwinds (e.g. low to negative rent growth and cap rate expansion) in a physical retail market in Sweden and Finland.*

Sveafastigheter Fersen II - *The portfolio consists of a mix of retail, hospitality and logistics assets primarily located in Sweden. There is currently limited value creation outstanding for underlying investments. The hospitality assets have performed very well over the summer and occupancy reached all-time-high, and Partners are targeting an exit during H1 2024. The complete portfolio is anticipated to be fully exited by December 2025. As for Fersen I, the investment has lagged for similar reasons, in addition the illiquidity in the regional Finnish office market made it challenging to exit the underlying Finnish office assets (now all exited).*

Project Whetstone (US Office Portfolio) - *The portfolio is partially realised with three investments remaining in the portfolio, Campus at Legacy, Trinity Centre and Flour Mill. The Campus at Legacy's existing loan was extended for two years in December 2022. Partners have recently received interest for a potential sale of the asset in a strategic buyer, at the same time they are considering a marketed sales process, anticipating an exit the investment in Q4 in 2024. Trinity Centre's 6-year lease extension was signed with the anchor tenant in Q1 2023. The asset is a value-add office type of property, given the current market conditions Partners have opted for discussing a loan modification with the existing lender rather than pursuing an exit at this point in the market. Flour Mill's existing loan is maturing in August 2024, given that the property is a value-add office type of building, a sale is not in favour at this point in time, therefore Partners have pursued discussions with the lender with the goal of modifying the loan.*

Project Rain - The asset in the portfolio, DV4, is structured as an evergreen fund focused on long-term value creation in UK property. DV4's portfolio currently consists of nine investments across various property types in the UK, the largest of which is The Alpha Plus Education Group and the Here East office complex on the former Olympic Park in Stratford. DV4 has a liquidity mechanism under which investors in DV4 have the option to redeem their shares in the Fund on an annual basis. Despite submitting a redemption request for 100% of PG's remaining investment in 2022, the Fund was not able to honour any redemption requests due to liquidity constraints. A new redemption cycle is expected to begin in November 2023 at which time the next redemption price and quantum will be assessed.

The pension fund has also committed capital to PG Real Estate Secondary 2017 (USD). The Fund had drawn 61.0% of commitments and had 55 investments, with 5 having been realised. Of the 50 investments, 12 are outperforming or above plan, 28 are on plan or recently acquired, and 10 are below plan. The portfolio's allocation is split as follows: 54% North America, 24% Asia-Pacific and 22% Europe. At the end of the period, the 2017 Fund remained in its value creation stage.

Harbourvest

The Independent Advisor comments that, the London Borough of Camden pension fund has committed \$86.3 million to HarbourVest's Global Fund 2016. Around 84% had been drawn down as at 31 December 2023. A total of \$74.2m has been distributed back to investors (1x capital paid in).

In terms of how investments are performing relative to expectations at 30 September 2023, 33% are above expectations, 46% are meeting expectations, and 21% are currently below expectations (as a % of commitment dollars).

As far as the above goes, that 21% is largely comprised of the direct portfolio. More specifically, investments such as Albany Molecular, D4C Dental, Ministry Brands, and MultiPlan appear to be performing slightly below expectations.

London CIV – MAC fund (blended fund - CQS/Pimco)

The Independent Advisor comments that, London CIV's Multi-Asset Credit (MAC) sub fund returned +5.90% in Q4 2023, which was ahead of the performance target return of +2.43%. The one-year return for the fund is now ahead of the target by +1.66%. However, the three-year return was behind the target by -3.93% as a result of legacy issues prior to the blended fund being set up.

LCIV commented that sub-investment grade debt was a key detractor in the medium term due to negative changes in mark to market pricing, exposure to interest rate risk in a period of rising yields also detracted. However, losses from default have not yet had a material negative impact. Investment grade, high yield debt and financials were the largest contributors over the quarter, with exposure to interest rate risk in high duration asset classes (investment grade and emerging market debt) being a strong positive driver over the quarter. Both Managers believe that, with default rates expected to rise and recovery rates expected to fall, the focus should be on resilience, with one manager more focused on high income and the other on high quality instruments.

Both managers remain on 'normal monitoring' overall, with LCIV's review of CQS scheduled for May 2024. This may be brought forward if their concerns over the acquisition of CQS by Manulife Financial Corporation materialise.

In a meeting between the adviser and CQS, the manager confirmed that the sale has been prompted by the existing owner, Lord Hintze, who will be stepping away and selling his 100% ownership. The entire business is being sold (with the exception of a team of 11 who ran Lord Hintze's family money) to Manulife. The sale is expected to go through in Q1 2024, with the new business being known as Manulife CQS Investment Management.

In terms of the MAC strategy, there will be no change to people or process. The capacity of the strategy remains \$15-20 billion and current assets under management for the strategy stand at \$8 billion. The portfolio managers will continue to focus on investments. There is a six year Long Term Investment Plan (LTIP) for around 25 of the senior team, including Jason and Craig, which will pay out after 3 and 6 years. This will incentivise staff retention in the medium term, at least.

One slight concern is that the emphasis of the business shifts away from pension fund institutional asset management towards retail in the US and Asia, which is where CQS are looking to expand (CQS were attracted to Manulife because of their US/Asia presence). This is something to monitor over time as the new strategy unfolds.

The value of the fund's investment in CQS and PIMCO stood at £244.7 million as of end December 2023, which represents 15.80% of the London CIV sub-fund, the total value of which stood at £1,548.8 million.

The carbon intensity of the sub fund was less than 1% below that of the benchmark as at end-December.

London CIV – Infrastructure Fund - Stepstone

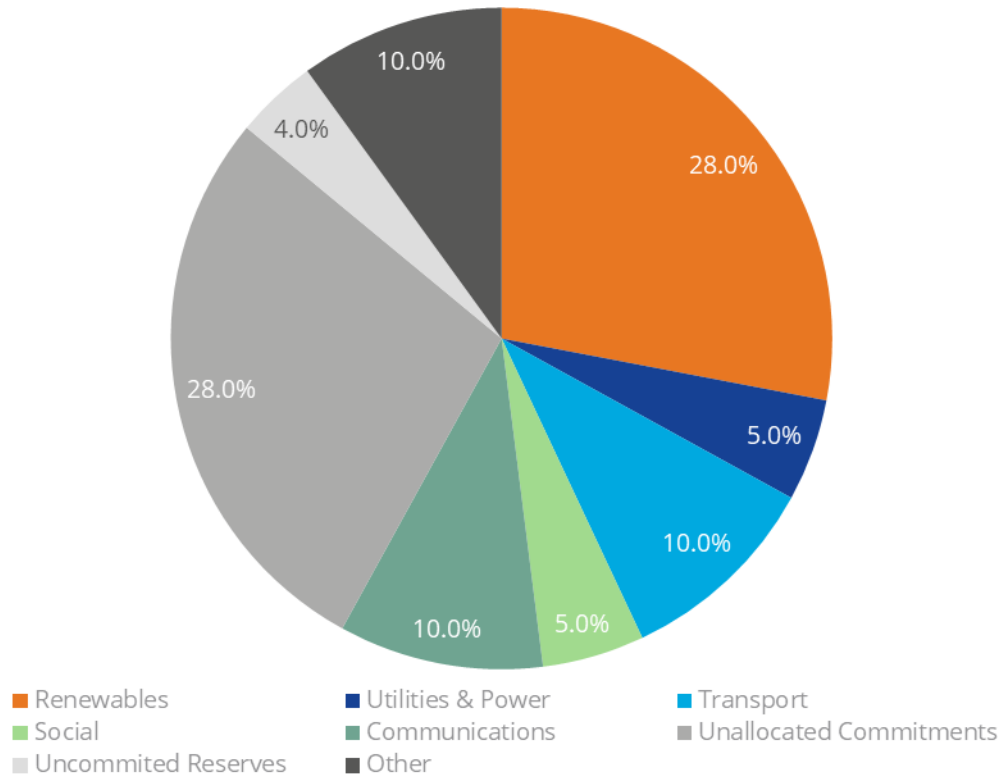
The Independent Advisor comments that, the London Borough of Camden pension fund had committed £106 million of capital to London CIV's infrastructure fund, as at end September 2023 (report for December not available at the time of writing this report). The total fund value was £333.0 million, although in total there are commitments of £399 million. London Borough of Camden's valuation as of 30 September 2023 was £88.5 million and represents 26.57% of the Fund. The Fund has invested in seven primary funds and one secondary fund (Meridiam Infrastructure North America Fund II).

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.

The sub-fund had three capital calls to investors during the quarter, totalling £12 million. These together with distributions were used to cover underlying capital calls to the fund.


There have been no additions to the portfolio since Q3 2022. Chart 4 shows the current split by sector of underlying allocations, including funds committed but not yet allocated to an underlying investment and uncommitted reserves.

CHART 4: SECTOR ALLOCATION BY FUND COMMITMENTS



Source: LCIV

London CIV continues to monitor deployment speed but reported that the deployment rate was ahead of expectations as at quarter end. They also reported that the Fund was still expected to meet its return targets over the long term, and announced their first income distribution just after quarter end.

Underlying Fund	Quarterly change in NAV	Comments
Macquarie GIG Renewable Energy Fund 2 (MGREF 2)	+0.7%	63% committed across 7 investments.
Arcus European Infrastructure Fund 2 (AEIF 2)	+0.3%	88% committed across 9 investments. Received annual GRESB assessment - 4-star rating.
Equitix VI (EF VI)	+11.7%	Q2 report: 94% invested across 52 assets. Working towards TCFD alignment.
Basalt Infrastructure Partners III (BIP III)	+15.8%	93% committed (88% invested) across 8 investments.
European Diversified Infrastructure Fund III (EDIF III)	+4.7%	67% invested across 4 investments. Manager is still fundraising with a hard cap target of €5 billion
Capital Dynamics Clean Energy and Infrastructure VIII (CE VIII)	+1.0%	81% invested. Received a 4-star GRESB ranking.
Brookfield Global Transition Fund (BGTF)	+12.0%	90% committed.
Meridiam Infrastructure North America II (MINA II)	-6.4% 	13 investments. Decrease in NAV attributed to increase in discount rates plus a distribution made.

London CIV – Real Estate Long Income Fund - Aviva

The Independent Advisor comments that, the London Borough of Camden pension fund committed £95 million of capital to London CIV's Inflation Plus fund in August 2021. The total fund value as at end September 2023 was £155.1 million, with total fund commitments of £213.0 million. London Borough of Camden's valuation as of 30 September 2023 was £68.3 million, representing 44.05% of the fund.

Long-term, the fund will aim to achieve a net return of RPI + 1.5 - 2% p.a. over a rolling five-year period. The expected yield is 3% p.a from the end of the four-year period after the first closing date.

As of end of September 2023 (latest report available), the percentage deployed is 100%.

The Fund invests in properties with long leases and strong tenants, with returns driven by the focus on secure, long-term, contractual inflation-linked cashflows, which are reflected in the key fund terms: 20yr+ cashflows, minimum 80% inflation-linked, and minimum 80% investment grade. Currently, 98% of these leases have rents that are linked to inflation (58% CPI-indexed, 40% RPI-indexed, 2% open-market rents).

The portfolio of loans remains high quality, despite having to re-rate the portfolio in response to interest rates, with an average credit rating of BBB, an average term of 22.1 years and 98% inflation linkage. Its performance is not formally assessed until after the end of the four-year ramp up period which will be June 2024. The Fund made its first distribution to investors in March 2023 with the intention to make regular quarterly distributions yielding 3% per annum (currently well on track). During Q3 2023 it made a further quarterly distribution of £2.4 million.

The Fund is improving its environmental credentials. The inaugural GRESB submission made in Q3 achieved a 64 point rating, scoring very well in the Management section (strategy, governance, risk management etc) and less well in the Performance section (underlying asset data and certifications) with the latter being harder to control as it largely relates to how tenants operate the buildings. Key areas of focus for 2024 will be additional data collection and further information on technical building assessments as well as continued focus on its tenant engagement program.

London CIV – Diversified Growth Fund – Baillie Gifford

The Independent Advisor comments that, London CIV's Diversified Growth sub fund returned +6.92% in Q4 2023, which was ahead of the target of +2.16%. The London Borough of Camden invested £96.3 million into this fund on the 23 March 2022.

The Sub-fund is managed by Baillie Gifford & Co. The objective is to achieve long term capital growth at lower risk than equity markets, targeting an annualised return over rolling 5-year periods that is at least 3.5% more than the UK base rate, whilst maintaining annualised volatility below 10% over the same period.

The fund invests across a broad array of asset classes, and derivatives are used to help dampen the volatility of the fund. As at December-end 2023, the fund had an allocation of 40.55% to Alternatives, 45.22% to Fixed Income, and 14.23% to Equities.

The value of Camden's investment in Baillie Gifford Diversified Growth stood at £90.2 million as of end December 2023, which represents 13.37% of the London CIV sub-fund, the total value of which was £674.8 million at December-end.

London CIV had downgraded Baillie Gifford's monitoring status to 'Enhanced Monitoring' in December 2022 and they then reviewed the fund in June and again in December 2023. As a result of this, just after the quarter end, they decided to maintain 'Enhanced Monitoring' of this manager. They have been pleased with the manager's response to their concerns and

enhancements to the investment process but they feel it is too early to conclude whether those enhancements have had a sustained positive impact on performance.

As at end December 2023 the weighted average carbon intensity of the sub-fund was 129.1% of that of the MSCI All Country World Index, which is the same as last quarter. The fund had a higher exposure to fossil fuel companies than the benchmark (c.9% compared with the benchmark's c8.5%) which is in line with last quarter. The calculation of carbon footprint includes only listed equity and corporate fixed income instruments within the fund.

The top contributors to the Weighted Average Carbon Intensity (WACI) were NextEra Energy, Orsted and Cemex. Without these three holdings, the WACI would fall by around 25%.

At a meeting between the adviser and Baillie Gifford, the manager explained that the positive returns in Q4 were across the spectrum of a number of asset classes. This was a result of the change in narrative, post October, with expectations of inflation falling and the central banks becoming less under pressure. Yields on bonds were falling quickly and this helped the manager's long duration assets. Listed equity and property also performed well. There was only one slightly negative return which came from active currency positions (-0.1%).

The manager's outlook is that inflation is now under control and growth is resilient, with wage inflation tempering. They consider that a soft landing is possible, rather than a global recession, but they are at the cautious end relative to the consensus in the market. They still believe there is some inflationary pressure so are not allocating significantly to equities and have reduced government bond exposure. They believe duration is now fairly priced.

They currently have a higher allocation to emerging markets where they are seeing growth opportunities.

Following recent press articles about Baillie Gifford closing four fixed income funds and losing staff, the manager confirmed that these closures were a result of a firm-wide review, but will have no impact on the DGF strategy. The fund did invest in these underlying funds historically, mainly via the Emerging Market Debt fund. The fixed income specialists are still able to manage fixed income for the DGF team, but rather than accessing it via the pooled funds it will be via a portfolio of direct, individual investments. This will reduce costs slightly, since administrative expenses charged to the pooled fund will no longer apply.

In terms of the transition out of the pooled fund into the new direct investments, these will in specie transfers so there are no transition costs involved. The allocation to hard currency emerging market debt was around 8% at quarter end.

It is anticipated that there will be some staff departures from the fixed income team, but there will be more clarity on this through February. The press were reporting that other teams would be also be seeing staff departures and the manager has confirmed that there was a broader firmwide expenditure review taking place. This followed a period of four years when assets under management remained at roughly the same level, but costs (e.g. staff costs) had risen. However, the manager reiterated that this would not impact the DGF team.

Summary of Concerns

Date raised	Concern	Update
Q1 2022	LCIV – Global Alpha Paris Aligned (Baillie Gifford)	Improved performance in Q4, but still trailing targets over the longer term. Continued ongoing monitoring recommended with the advisor meeting the manager quarterly.
Q3 2022	LCIV – Diversified Growth – Baillie Gifford	Performance improved in Q4 but LCIV still have the fund on enhanced monitoring. Continued ongoing monitoring recommended with the advisor meeting the manager quarterly. Following closure of fixed income funds monitoring of this allocation recommended in the short term.
Q4 2023	Baillie Gifford	Staff departures likely to be a result of the firmwide review. Continued engagement with the manager on this to ensure continuity and sufficient resources on the investment teams managing Camden's portfolios.
Q4 2023	London CIV MAC Fund – CQS	Acquisition of CQS by Manulife Financial Corporation – continued dialogue with the manager recommended, as the acquisition rolls out, to ensure continued commitment to the MAC strategy.

Karen Shackleton
 Senior Advisor, Apex
 7th February 2024

Appendix B

Manager	AUM (£m)	Fund or Strategy	Number of investors	Camden's rank	Size of Camden's portfolio (£m)	Percentage of Fund or Strategy	Comment
Baillie Gifford Paris-Aligned	2,212	Fund	11	Not provided by London CIV	237.72	10.75%	£164m increase in AUM. The number of investors remain unchanged.
Harris*	6,911	Strategy	18	16th	98.05	1.42%	£108 increase in AUM. The number of investors and Camden's rank remain unchanged.
Legal & General - UK equity (World)**	19	Fund	1	1st	18.25	97.31%	<£1 increase in AUM. The number of investors and Camden's rank remain unchanged.
Legal & General - North America**	742	Fund	5	2nd	264.12	35.57%	£38 decrease in AUM. The number of investors and Camden's rank remain unchanged.
Legal & General - Europe**	872	Fund	7	6th	51.86	5.95%	£32 increase in AUM. The number of investors and Camden's rank remain unchanged.
Legal & General - Japan**	599	Fund	8	7th	27.20	4.54%	£9 decrease in AUM. The number of investors and Camden's rank remain unchanged.
Legal & General - Asia Pacific**	432	Fund	8	7th	17.80	4.12%	£23 increase in AUM. The number of investors and Camden's rank remain unchanged.
Legal & General - Middle East**	0	Fund	1	1st	0.36	97.89%	<£1 increase in AUM. The number of investors and Camden's rank remain unchanged.
Legal & General - World Emerging Markets**	1,215	Fund	10	7th	38.48	3.17%	£2 increase in AUM. The number of investors and Camden's rank remain unchanged.
L&G ILGs**	2,079	Fund	10	6th	60.26	2.90%	£282 increase in AUM. The number of investors has decreased by 1 and Camden's rank has decreased by 1.
Legal & General - FW Global Equity Index**	4,258	Fund	12	4th	290.12	6.81%	£271 increase in AUM. The number of investors remains unchanged. Camden's Rank has decreased by 1.
CBRE	3,237	UK separate accounts	35	10th	84.76	2.62%	£237m increase in AUM. The number of investors has increased by 1 and Camden's rank has decreased by 2. (Q3 data)
Partners 2009 fund*	244	Fund NAV	53 (EUR SICAR sleeve)	3rd	14.99	6.14%	£61m increase in AUM (Annually updated, as at December 2022). As the fund is a closed-ended vehicle, neither the number of investors nor Camden's rank will change over time.
Partners 2013 fund*	661	Fund NAV	39 (in the USD C LP sleeve)	5th	30.33	4.59%	£189m increase in AUM (Annually updated, as at December 2022). As the fund is a closed-ended vehicle, neither the number of investors nor Camden's rank will change over time.
Partners 2017 fund*	248	Fund NAV	11 (in the USD D LP sleeve)	3rd	57.51	23.18%	£15m increase in AUM (Annually updated, as at December 2022). As the fund is a closed-ended vehicle, neither the number of investors nor Camden's rank will change over time.
Harbourvest	147	Fund NAV	8	2nd	49.43	33.67%	As the fund is a closed-ended vehicle, neither the number of investors nor Camden's rank will change over time.
OQS/ PIMCO	1,549	Fund	14	Not provided by London CIV	244.73	15.80%	£140m increase in AUM. The number of investors has increased by 1.
Stepstone	333	Fund	6	Not provided by London CIV	95.82	28.77%	£23m increase in AUM. The number of investors remains unchanged.
Aviva	155	Fund	3	Not provided by London CIV	68.30	44.03%	£4m decrease in AUM. The number of investors remains unchanged.
Baillie Gifford Diversified Growth	675	Fund	6	Not provided by London CIV	90.25	13.37%	£9m decrease in AUM. The number of investors has decreased by 1.

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 exceptions basis.

**AUM and Portfolio figures given in local currency and converted using exchange rates at the date of the data.*

***LGIM have changed how they report this data last quarter, for details on methodology see the Q3 2023 report.*

****CBRE data is as at Q3 as Q4 data had not come in at the time of production.*

N.B. Partners group data in as at 2022 as the 2023 update had not come in at the time of production.