

London Borough of Camden Pension Fund

LCIV Infrastructure Equity and Renewable Energy
Briefing Paper

February 2024

Part 1 – FOR PUBLICATION

isio.



Appendix A Introduction and Background

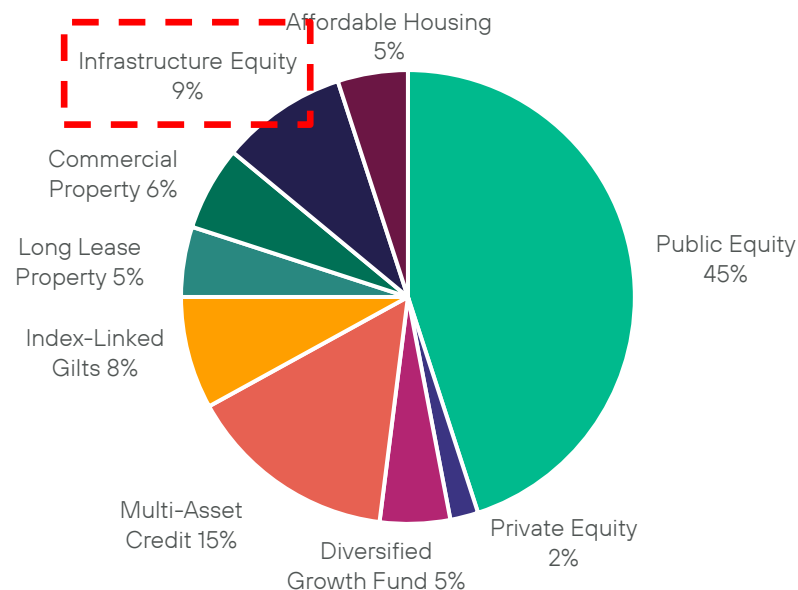
Addressee

- This report is addressed to the London Borough of Camden Council (“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 investment characteristics of the infrastructure equity and renewable energy markets, and a reviews the propositions currently available in the space on the Camden Fund’s investment pool - the London Common Investment Vehicle (“LCIV”). We set out our views on both of LCIV Infrastructure Fund (“the Infrastructure Fund”) and the LCIV Renewable Infrastructure Fund (“the Renewable Fund”) that the Committee is considering for investment, as well as a recommendation on the most suitable allocation.

Background

- As part of the investment strategy review conducted in July 2023, the Committee agreed a new strategic asset allocation for the Camden Fund. This includes an increase to the target allocation to Infrastructure Equity within the Camden Fund’s investment strategy, with a revised target of 9% of the Camden Fund’s total assets, increased from 5%. Based on the December 2023 asset valuation this is an increase of c. £76m. This is shown in the diagram on the right.
- The decision around the new target allocation 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 further, increase the ESG credentials, and increase the overall level of inflation-linked assets within the portfolio.
- Isio has been instructed by the Committee to review the Infrastructure Fund and the Renewable Fund to assess their relative appropriateness as the implementation vehicle for the proposed increase to the infrastructure equity allocation.

Future Strategic Benchmark



Scope of Report

- This paper sets out an overview of the key characteristics of the investable infrastructure equity market and the Renewable Energy market, and reviews the propositions currently available on the LCIV Pool. We set out our views on each of the LCIV funds as well as areas of consideration for the Committee.

Investment Rationale for Infrastructure Equity and Renewable Energy

Infrastructure Equity – An Overview (1)

Strategic Case

- Infrastructure equity is an alternative to traditional public equity for institutional investors looking to diversify their allocation to growth asset classes and take advantage of the reduction to risk that it may bring. Infrastructure investments are typically equity stakes in large scale public or private facilities that are essential for economic activity (e.g. energy, utilities, transport) or provide societal benefits (e.g. hospitals, prisons, schools).
- Infrastructure equity fits well with the approach used in Isio's portfolio construction:
 - **Spread of Outcomes** – generates returns primarily from contractual income.
 - **Liquidity** – can be open or closed, underlying assets are illiquid and therefore benefit from an illiquidity premium.
 - **Diversification** – underlying diversification varies by geography and industries.

Investment Structures Available

- When investing in infrastructure equity two fund structures exist, open and closed. Which structure to invest in depends on the specific requirements. Due to closed ended funds having a fixed term of c.10 years +, we believe that open-ended structures provide greater flexibility to both scale up and redeem allocations. Investing in an open-ended fund is the more liquid of the two options and affords the investor the ability to disinvest or increase exposure within constraints.
- We believe open ended funds are also lower governance over the longer term given investors to do not need to "re-up" to subsequent vintages of close ended vehicles in order to maintain exposure, but can simply increase the £ allocation to the existing open-ended fund.

Investment Structures Available (cont.)

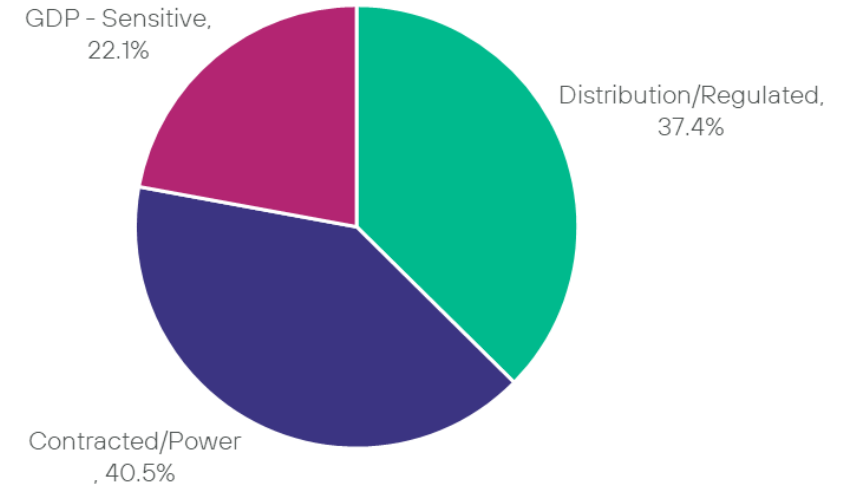
- It is important to note that there may be a time lag from commitment to the manager investing deploying capital given the private market nature of underlying investments.

Infrastructure Equity – An Overview (2)

Infrastructure Equity Overview

- Infrastructure equity offers different fundamental return drivers to equity and bond markets and therefore provides additional diversification. Other potential benefits include:
 - Infrastructure equity offers investors an opportunity to access high yielding assets which can provide long term and secure cashflows with some inflation-linkage.
 - While some assets do contain elements of demand risk, they typically produce stable revenues. Assets which are regulated in some way e.g. energy transmission or utilities tend to have lower demand risk and more stable income profiles.
 - Some investments offer natural monopolistic qualities and defensive characteristics and some offer niche opportunities and higher income and return potential.
 - The investment manager will purchase all or part of the physical infrastructure asset i.e. owning a toll road – providing them some level of control over the asset.
- Underlying portfolio composition and fees can vary depending on mandate.
- There are managers and funds available which offer strong ESG alignment through the selection of underlying investments and strongly ESG focused asset management.

Example Portfolio Breakdown



Investment Rationale and Risks

Strategic Case

Attractive risk-adjusted returns

Due to current supply and demand dynamics, investing in infrastructure offers attractive risk-adjusted returns.

Inflation linkage

Although dependant on the specific nature of an underlying asset, many infrastructure assets have RPI and or CPI linked revenue streams.

Diversification

Historical analysis shows that infrastructure offers a genuinely low correlation to other asset classes such as equities and bonds.

Income resilient to economic downturns

As many infrastructure assets provide essential services, revenue generation is expected to continue in an economic downturn.

Illiquidity premium

Given the size/nature of infrastructure assets, they are long-term, illiquid assets. This provides additional return premium to compensate illiquidity.

Cashflow generative

Infrastructure assets typically produce a stream of steady cashflows, which can be used to help meet pension schemes' liability payments.

Risks

Liquidity risk

Unless accessing through a semi-open ended fund structure, infrastructure is a long term investment leading to liquidity risk.

Large sunk costs and development risk

Due diligence in potential investments is extensive, and therefore costly. Furthermore, greenfield assets can result in overrun costs and project delays.

Political/Regulatory changes

For some assets the return is based on the existing tariffs/regulatory regime. Changes in governments priorities could erode this return.

Operational risk

Funds typically have a relatively low number of investments, meaning risks associated with running each asset represents a larger proportion of a fund.

Leverage

Some funds can use leverage, or invest in leveraged deals, meaning any revenue produced by the asset first goes to satisfy the needs of the debtholders

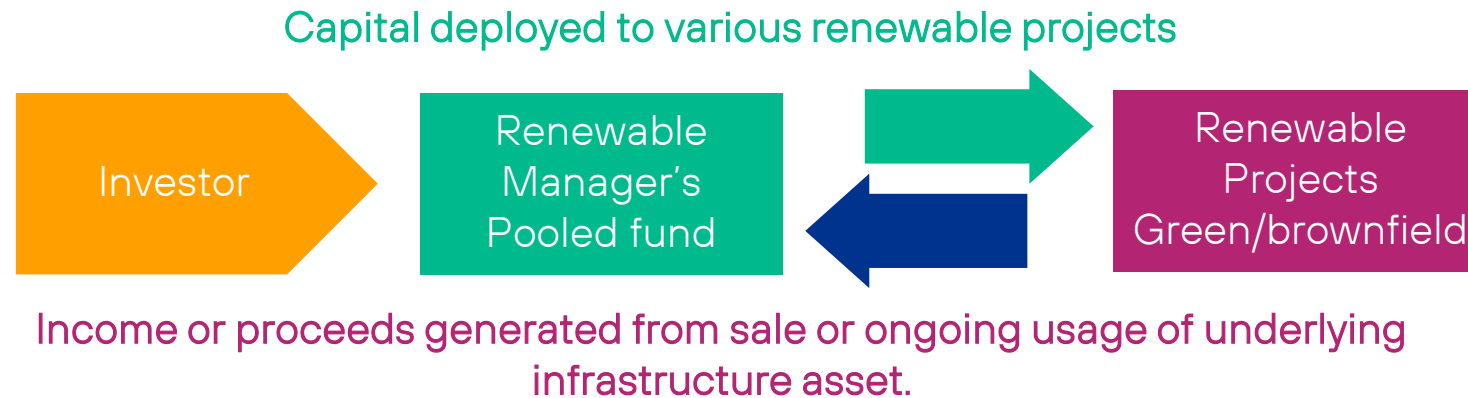
Counterparty risk

Income reliant assets require reliable counterparties (e.g. tenants, contractors). This is largely mitigated through contractual and/or collateralised nature of the asset.

Appendix A Renewable Energy – An Overview

An Overview

- Infrastructure assets are required for economic, industrial and social development. Renewable Energy Infrastructure is a sub-sector of the broader infrastructure market focusing on renewable energy generation and the energy transition movement.
- As well as the attractive investment characteristics of broader infrastructure, Renewable Infrastructure has **strong ESG characteristics** for investors looking to create a positive climate impact, alongside addressing a number of UN SDGs.
- **Drivers of growth** in the sector include:
 - Government regulation and incentives (subsidies) encouraging the global move towards net zero carbon emissions target.
 - Renewable energy is a cheaper way to generate electricity in the longer term.
 - Increase in demand for alternative sources of energy due to rising fossil fuel costs, limited supply of finite energy resources and regulatory pressures.
- **Access:** Investors can access through both open and close ended structures but generally allow for a period of drawdown as the pipeline is realised (expect a 5 years+ holding period)
- Investment managers gain access through investing in companies who manage renewable assets or directly invest in renewable assets.



Renewable Energy – Market Opportunity & Subsidy Regime

Market Opportunity

- Using the UK as an example, rapid growth is forecast in UK population (6% in next 10 years) and there is increased public awareness about climate change and fossil fuels in the aftermath of the COP26 Climate Summit
- The UK's energy mix is still somewhat reliant on finite resources such as gas, nuclear and coal infrastructure. But in 2020, for the first time ever, the UK went 2 months without burning any fossil fuels for electricity, relying purely on renewables to meet demand. **By 2050, approximately half of global energy is expected to come from renewables.**
- **The future demand side is clear but this needs to be balanced with supply and specifically the building of renewable energy assets to provide future energy. The current market dynamics are that significant capital has flowed in to the speak for these opportunities.**



Sources: UK Government, US Energy Information Administration
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/904503/UK_Energy_in_Brief_2020.pdf
<https://www.eia.gov/todayinenergy/detail.php?id=41533>

Subsidy Regime

- The UK government and also worldwide are incentivised to support the transition away from fossil fuels through financial support (subsidy).
- The **Feed-in Tariff** is a scheme where you can be paid a fixed price (the tariff) for the electricity you generate from solar, wind, hydro or Anaerobic Digestion power. This gets paid if you use it yourself as well as for any surplus electricity you export to the grid.
- The **Renewables Obligation** came into effect in 2002 in England and Wales, and Scotland, followed by Northern Ireland in 2005. It places an obligation on UK electricity suppliers to source an increasing proportion of the electricity they supply from renewable sources.
- **Government support has driven down the cost of renewable energy significantly** in recent years by paving the way for private investment. As costs continue to fall it becomes easier for parts of the industry to survive without large subsidies.
- **Subsidy regimes differ by geography and renewable sector and change over time** depending on industry dynamics. As such a mandate with geographical and sector flexibility is important.

Environmental, Social and Governance Analysis

Isio ESG Summary Views

- The next pages provide a summary of LCIV's ESG approach for both the Infrastructure and Renewables funds and our ESG views on both funds..

LCIV Funds Overview

- We have carried out a review on LCIV's approach to ESG and how that is applied to the Infrastructure Fund and Renewables Fund.
- Since both funds have a fund of funds approach, direct influence from LCIV is limited, and much of the ESG framework and implementation will be considered by the underlying manager.
- We note that overall both funds have a similar ESG rating ("Meets Traditional Criteria") but there are key differences between the two Funds are:
 - The Infrastructure Fund rating is driven by its support from Stepstone which provides an additional layer of ESG overview** – this increases the risk management assessment score.
 - The **Renewables Fund** itself has been designed to target renewable infrastructure assets which is taking advantage of the shift away from fossil fuels and carbon intensive energy sources to achieve net zero Therefore **achieves a higher climate scoring overall**. We note that the LCIV fund does not have specific climate goals but the underlying managers do.

Isio View

We are comfortable that both funds are acceptable from an ESG point of view and note the limitations inherent in the fund of funds structure. The Renewables Fund is clearly the highest impact, given the investment focus of the mandate, however we do take comfort in the added ESG input and analysis provided by Stepstone in the broader fund. This is not the case in the Renewables Fund with LCIV solely responsible for ongoing investment selection and monitoring. The broader fund also has potential to influence in terms of ESG in the other infrastructure markets in which it invests.

Views on impact should be balanced with the time taken to implement which is significantly longer for the Renewables Fund (current estimate is c. 4-5 years to be fully invested).

Underlying Managers

- We have not carried out a detailed review of the underlying managers the Infrastructure and Renewable Funds are invested in as part of this due diligence. However, based on LCIV's recent TCFD report as December 2022:
 - The **Infrastructure Fund** has 8 managers of which 4 (50%) were listed as Article 8 (which promote investments or projects with positive environmental or social qualities, or a combination of such characteristics) and 2 **(25%) were listed as Article 9** (funds with distinct sustainability objectives, where majority of the portfolio consists of ESG-focused investments).
 - The **Renewable Fund** has 5 managers (now 6) of which 1 (20%) were listed as Article 8 and 2 **(40%) listed as article 9**. However, the remaining 2 which do not directly have a classification are also impact funds.
 - We are comfortable with the approach of the underlying managers and see no red flags or significant issues in terms of ESG.**

LCIV Infrastructure Fund – ESG Summary

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

Overview

See Part 2 Additional Information for comment.

Reference page 11 comment 1.

Proposed Actions

Investment Approach - set fund-specific ESG objectives

Stewardship - Give examples of fund-level engagement with stewardship priorities.

Reporting – provide fund level engagement reporting with outcomes and case study examples (even at manager level) in regular reporting.

Assessment Criteria	Score	Overview
Investment Approach	2.5	<ul style="list-style-type: none"> While there is no specific ESG objectives set by LCIV, ESG is integrated in the investment process by StepStone which applies an ESG scorecard to assess investments. LCIV have made a commitment to, and have a pathway to be net-zero by 2040 with an interim target in place,
Risk Management	2.5	<ul style="list-style-type: none"> The Fund obtains support from both LCIV's Responsible Investment team of 6 individuals alongside StepStone's Responsible Investment team. The Fund utilises ESG data to assess climate risk and StepStone provide further support through their scorecard which reflects market standards.
Stewardship	2.1	<ul style="list-style-type: none"> LCIV have a Stewardship policy which covers a wide range of ESG risks and applies to the underlying funds. These are updated every 3 years and are available publicly. LCIV's top stewardship priority is climate change risk; this Fund supports this through its 25% minimum allocation to renewable assets (currently 40%).
Reporting	2.0	<ul style="list-style-type: none"> LCIV work with external data providers / managers to improve its data quality for private markets data, where data coverage is low. However, there is no direct ESG rating or fund level engagement reporting. LCIV have an annual Responsible Investment Stewardship and TCFD report which reports on Scope 1 and 2 GHG emissions.
Collaboration	3.5	<ul style="list-style-type: none"> LCIV are signatories to key organisations such as the 2020 UK Stewardship Code and regularly engage with the wider market on ESG. Their UNPRI score in 2021 was 5 stars out of 5.
Climate	2.0	<ul style="list-style-type: none"> LCIV is committed to net zero (at firm and fund level) however the fund overall only has a portion of its allocation focused on renewable infrastructure.

LCIV Infrastructure Fund – Proposed ESG Actions

- ✓ Action completed
- 🕒 Action in progress
- ✗ Action not yet started

Mandate	Proposed Action Category	Proposed Action
LCIV Infrastructure Fund	Investment Approach/Framework	<ul style="list-style-type: none"> • Develop a fund-specific ESG policy and objectives. • Set out a fund-specific pathway for achieving net zero emissions by 2040.
	Voting & Engagement	<ul style="list-style-type: none"> • Link compensation to engagement activities and outcomes. • Set fund-specific stewardship priorities • Provide an example of engagement reporting for clients
	Reporting	<ul style="list-style-type: none"> • 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 even if at manager level in regular investment reporting.

LCIV Renewable Fund – ESG Summary

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

Overview

See Part 2 Additional Information for comment.

Reference page 13 comment 1.

Proposed Actions

Investment Approach - set fund-specific ESG objectives.

Risk Management – implement climate scenario analysis and temperature pathway alignment and implement scorecard to assess managers.

Stewardship - Give examples of fund-level engagement with stewardship priorities.

Reporting – provide fund level engagement reporting, with outcomes and case study examples (even at manager level)

Assessment Criteria	Score	Overview
Investment Approach	2.9	<ul style="list-style-type: none"> While there is no specific ESG objectives set by LCIV the Fund is designed to target renewable infrastructure assets which inertly focus on a shift away from fossil fuels and carbon intensive energy sources. LCIV has a commitment to be net-zero by 2040 with an interim target in place.
Risk Management	2.0	<ul style="list-style-type: none"> LCIV's Responsible Investment team of 6 individuals, conduct ESG reviews of all funds on a quarterly basis. LCIV will implement climate risk scenario analysis for each fund in 2024.
Stewardship	2.2	<ul style="list-style-type: none"> LCIV have a Stewardship policy which covers a wide range of ESG risk and applies to the underlying funds. These are updated every 3 years and are available publicly. LCIV's top stewardship priority is climate change risk, hence this Fund supports this through its entire dedication to renewable assets.
Reporting	2.0	<ul style="list-style-type: none"> LCIV work with external data providers / managers to improve its data quality for private markets data, where data coverage is low. However, there is no direct ESG rating or fund level engagement reporting. LCIV have an annual Responsible Investment Stewardship and TCFD report which reports on Scope 1 and 2 GHG emissions.
Collaboration	3.8	<ul style="list-style-type: none"> LCIV are signatories to key organisations such as the 2020 UK Stewardship Code and regularly engage with the wider market on ESG. Their UNPRI score in 2021 was 5 stars/ out of 5.
Climate	2.7	<ul style="list-style-type: none"> LCIV is committed to net zero and has a Firm-Wide Climate Change policy in place. The strategy is a 100% focused on renewables hence fully aims to provide low carbon solutions, with underlying manager having climate objectives related to this.

LCIV Renewable Fund - Proposed Actions

Mandate	Proposed Action Category	Proposed Action
LCIV Renewable Fund	Investment Approach/Framework	<ul style="list-style-type: none"> • Develop a fund-specific ESG policy and objectives. • Set out a fund-specific pathway for achieving net zero emissions by 2040.
	Risk Management	<ul style="list-style-type: none"> • Providing regular training to team on ESG. • Consider setting a ESG scorecard for the Fund • Review launch of LCIV's Climate Change Risk Policy and Net Zero Strategy in 2024.
	Voting & Engagement	<ul style="list-style-type: none"> • Link compensation to engagement activities and outcomes. • Set fund-specific stewardship priorities • Provide an example of engagement reporting for clients to meet Implementation Statement requirements.
	Reporting	<ul style="list-style-type: none"> • 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 even if at manager level

Investment Overview of LCIV Infrastructure and Renewable Infrastructure Funds

Appendix A Key Characteristics

Investment Rating ● Meets Criteria ● Partially Meets Criteria ● Fails to Meet Criteria ● Unrated

ESG Rating ● Above satisfactory ● Satisfactory ● Below satisfactory ● Unrated

	LCIV Infrastructure Fund	LCIV Renewable Infrastructure Fund
Name of Fund	Infrastructure Fund	Renewable Infrastructure Fund
Team size (LCIV)	3 professionals	3 professionals
Fund size (current/commitment)	£333m / £399m (86% invested)	£437m/£984m (37% invested)
Inception date	October 2019	March 2021
Fund structure	Open-ended fund of fund (open and close ended underlying)	Open-ended fund of fund (open and close ended underlying)
No. of underlying investors	6 investors	14 investors (+2 committed to next close expected 31 January 2024)
Investment target net (p.a.)	8-10%	7-10% (LCIV expect towards the lower end of range given current market pricing)
Distribution income target (p.a.)	4-6%	3-5%
Sector	Traditional renewables, transport, utilities & power, communications, social and other enablers.	Wind, solar, other generation, including biomass, biogas and hydroelectricity / transmission , distribution and other enablers
Geography	US, UK, Europe ex-UK, OECD, non-OECD	UK, Europe ex-UK, North America, Latin America, Asia Pacific
Liquidity	5-year lock-up period per investor and redemptions thereafter every quarter	5-year lock-up period per investor and redemptions thereafter every quarter
Minimum investment size	£5 million	£5 million
Annual management fee p.a.	<i>See Part 2 Additional Information for comment. Reference page 16 comment 1.</i>	<i>See Part 2 Additional Information for comment. Reference page 16 comment 2.</i>
Current brownfield/greenfield/unallocated investments	79%/ 17%/ 4%	77% / 23% (greenfield % expected to increase as further capital deployed).
Isio's ESG view	●	●
Isio's investment rating	●	●

Appendix A Underlying Allocations

	LCIV Infrastructure Fund – Portfolio Breakdown	LCIV Infrastructure Fund – Sector Breakdown	LCIV Renewable Infrastructure Fund – Portfolio Breakdown	LCIV Renewable Infrastructure Fund – Sector Breakdown																																																																
Allocations	<table border="1"> <caption>LCIV Infrastructure Fund – Portfolio Breakdown</caption> <thead> <tr> <th>Investor</th> <th>Percentage</th> </tr> </thead> <tbody> <tr><td>Mendham Infrastructure North America Fund II</td><td>9.7%</td></tr> <tr><td>Macquarie GIG Renewable Energy Fund 2</td><td>17.1%</td></tr> <tr><td>Arcus European Infrastructure Fund 2</td><td>11.3%</td></tr> <tr><td>Equitix VI</td><td>13.1%</td></tr> <tr><td>Basalt Infrastructure Partners III</td><td>10.3%</td></tr> <tr><td>European Diversified Infrastructure Fund III</td><td>17.3%</td></tr> <tr><td>Capital Dynamics Clean Energy and Infrastructure VIII</td><td>10.5%</td></tr> <tr><td>Brookfield Global Transition Fund</td><td>10.7%</td></tr> <tr><td>Other</td><td>11.0%</td></tr> </tbody> </table>	Investor	Percentage	Mendham Infrastructure North America Fund II	9.7%	Macquarie GIG Renewable Energy Fund 2	17.1%	Arcus European Infrastructure Fund 2	11.3%	Equitix VI	13.1%	Basalt Infrastructure Partners III	10.3%	European Diversified Infrastructure Fund III	17.3%	Capital Dynamics Clean Energy and Infrastructure VIII	10.5%	Brookfield Global Transition Fund	10.7%	Other	11.0%	<table border="1"> <caption>LCIV Infrastructure Fund – Sector Breakdown</caption> <thead> <tr> <th>Sector</th> <th>Percentage</th> </tr> </thead> <tbody> <tr><td>Renewables</td><td>41.0%</td></tr> <tr><td>Transport</td><td>21.0%</td></tr> <tr><td>Utilities & Power</td><td>12.0%</td></tr> <tr><td>Other</td><td>11.0%</td></tr> <tr><td>Social</td><td>3.0%</td></tr> <tr><td>Uncommitted Reserves</td><td>4.0%</td></tr> </tbody> </table>	Sector	Percentage	Renewables	41.0%	Transport	21.0%	Utilities & Power	12.0%	Other	11.0%	Social	3.0%	Uncommitted Reserves	4.0%	<table border="1"> <caption>LCIV Renewable Infrastructure Fund – Portfolio Breakdown</caption> <thead> <tr> <th>Investor</th> <th>Percentage</th> </tr> </thead> <tbody> <tr><td>BlackRock UK Income Fund</td><td>13.0%</td></tr> <tr><td>Quinbrook Renewables Impact Fund</td><td>13.0%</td></tr> <tr><td>Foresight Energy Infrastructure Partners</td><td>19.0%</td></tr> <tr><td>Stonepeak Global Renewables Fund</td><td>25.0%</td></tr> <tr><td>BlackRock Global Renewable Power Fund III</td><td>15.0%</td></tr> <tr><td>Macquarie GIG Energy Transition Solutions</td><td>16.0%</td></tr> </tbody> </table>	Investor	Percentage	BlackRock UK Income Fund	13.0%	Quinbrook Renewables Impact Fund	13.0%	Foresight Energy Infrastructure Partners	19.0%	Stonepeak Global Renewables Fund	25.0%	BlackRock Global Renewable Power Fund III	15.0%	Macquarie GIG Energy Transition Solutions	16.0%	<table border="1"> <caption>LCIV Renewable Infrastructure Fund – Sector Breakdown</caption> <thead> <tr> <th>Sector</th> <th>Percentage</th> </tr> </thead> <tbody> <tr><td>Onshore Wind, Solar PV and Battery</td><td>6.7%</td></tr> <tr><td>Solar PV</td><td>13.3%</td></tr> <tr><td>Synchronous Condenser</td><td>8.3%</td></tr> <tr><td>Other</td><td>25.0%</td></tr> <tr><td>Battery Storage</td><td>5.0%</td></tr> <tr><td>Offshore Wind</td><td>11.7%</td></tr> <tr><td>Onshore Wind</td><td>23.3%</td></tr> </tbody> </table>	Sector	Percentage	Onshore Wind, Solar PV and Battery	6.7%	Solar PV	13.3%	Synchronous Condenser	8.3%	Other	25.0%	Battery Storage	5.0%	Offshore Wind	11.7%	Onshore Wind	23.3%
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Comments	<ul style="list-style-type: none"> The Infrastructure Fund is a fund of funds approach and was launched in October 2019. LCIV appointed StepStone on an advisory basis to source the underlying managers for this mandate. As of 30 June 2023, £399m has been committed across six investors. The Infrastructure Fund invests in a range of sectors such as social, transport, communications, utilities & power sectors, through investments in brownfield and greenfield investments. There is also a large allocation in core traditional renewables (c.40%) such as wind and solar. The Infrastructure Fund has seven primary market and one secondary investment. The allocation to demand driven underlying sectors drives the higher relative return in this fund. The Infrastructure Fund has approximately two thirds of the portfolio invested across the UK and Europe, with the remainder split across US, OECD and non-OECD countries. The Infrastructure Fund has invested into ESG focused investments such as social infrastructure and renewable infrastructure. However, LCIV see more opportunities in traditional infrastructure for this Fund going forward, and in particular implementation via secondaries.. 		<ul style="list-style-type: none"> The Renewable Fund is a fund of funds approach and was launched in March 2021. As of 31 March 2023, £984m has been committed across six underlying investors, there is an additional eight other investors whose commitments have not yet been invested (two additional investors committed at the last close on January 2024). The Renewable Fund invests in renewable energy infrastructure assets such as generation, transmission and distribution assets through brownfield and greenfield investments. There is a specific focus on the energy transition (or renewables 2.0) investments rather than traditional renewables. The Renewable Fund currently has five primary investments and one secondary investment across North America, UK, Europe, Asia and Latin America. The Renewable Fund sees further opportunities within the renewable space which is being driven by regulatory tailwinds, a strong fundraising environment and a consistent pipeline with six further potential investments under consideration. This fund is focused on supporting the movement away from fossil fuels and carbon intensive energy sources for better ESG credentials. 																																																																	

Appendix A Key Fund Terms

	LCIV Infrastructure Fund	LCIV Renewable Infrastructure Fund																
Fund terms	<table border="1"> <tr> <td>Open/closed-ended</td> <td>Open-ended</td> </tr> <tr> <td>Lock-up period</td> <td>5-years (per investor allocation)</td> </tr> <tr> <td>Liquidity thereafter</td> <td>Quarterly redemptions with 30 days' notice</td> </tr> <tr> <td>Standard fees</td> <td>5bps + Stepstone fees (currently discounted by 33%) + underlying management fees</td> </tr> </table>	Open/closed-ended	Open-ended	Lock-up period	5-years (per investor allocation)	Liquidity thereafter	Quarterly redemptions with 30 days' notice	Standard fees	5bps + Stepstone fees (currently discounted by 33%) + underlying management fees	<table border="1"> <tr> <td>Open/closed-ended</td> <td>Open-ended</td> </tr> <tr> <td>Lock-up period</td> <td>5-years (per investor allocation)</td> </tr> <tr> <td>Liquidity thereafter</td> <td>Quarterly redemptions with 30 days' notice</td> </tr> <tr> <td>Standard fees</td> <td>5bps + management underlying fund fees</td> </tr> </table>	Open/closed-ended	Open-ended	Lock-up period	5-years (per investor allocation)	Liquidity thereafter	Quarterly redemptions with 30 days' notice	Standard fees	5bps + management underlying fund fees
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Underlying manager fees	<i>See Part 2 Additional Information for comment. Reference page 18 comment 1.</i>	<i>See Part 2 Additional Information for comment. Reference page 18 comment 12.</i>																
Comments	<ul style="list-style-type: none"> Both, the Infrastructure Fund and the Renewable Fund are open-ended and can provide liquidity to investors following a 5-year lock-up period (calculated on an individual investor/investment basis). Both 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 limited risk of a liquidity mismatch between the LCIV mandate and the underlying funds. LCIV charge a management fee of 5bps which is more than offset by the savings that LCIV are able to obtain for their clients, compared to standard manager fee rates, through better fees due to pooling scale and additional fee negotiations. The Infrastructure Fund has an additional fee for Stepstone. Currently there is a 33% discount on the management fee. This is because the Infrastructure Fund is fully committed and Stepstone is not currently sourcing/originating investment opportunities. However, if Camden were to invest then a top-up means all investors would get a pro-rata share of the new investment made, the discount would no longer apply until the new capital is invested. The more attractive fee structure would then revert. Please note that this fee discount is reviewed quarterly, and fees are paid on a pro-rata basis. Overall the Renewable Fund will have the higher overall fee structure on an ongoing 																	

LCIV Infrastructure Fund

- The Infrastructure Fund was **launched in 2019** and is invested across eight managers in both greenfield (limit of 20%) and brownfield (predominant portfolio exposure). While the **limit to greenfield is lower than the Renewables Fund** the current construction/development assets within both is similar in magnitude.
- **Two-fifths of the current portfolio mandate is invested across renewable assets** with the remainder of the mandate invested across social, transport, communications, utilities & power sectors. The **renewable assets are however mainly traditional and core** in nature. Although we believe these to be stable investments we believe a higher impact is made by investing in energy transition assets like the Renewable Infrastructure Fund, where greenfield or development renewables add green energy capacity to the system, This approach comes with higher (development) risk but also drives a higher return in this market.
- **The overall return for this fund is higher than the Renewable Fund**, This is driven by the current pricing pressure in the Renewable Energy markets. This Fund has the mandate to target other market sectors where they are able to generate higher returns. In particular, LCIV believe there is **currently a strong opportunity in secondary market infrastructure** to realise “core +” returns with “core” level risk. They have this is where they will deploy any newly raised capital. Given the market dynamics we see we agree with this view.
- The **investment and ESG process is driven by StepStone who provide support in selecting investments for the mandate**. The involvement of StepStone creates another layer of fees (which LCIV have negotiated down significantly). Therefore, although the fees charged by LCIV are lower than other infrastructure managers, the fund of funds approach and use of StepStone adds to total cost. **Compared to the Renewables Fund (which also follows a fund of fund approach) the expected fees are lower.**
- LCIV have indicated any new commitments would be drawn when opportunities when found and expected within 3 months to 1 year

LCIV Renewable Infrastructure Fund

- The Renewable Fund was **launched in 2021** with a focus on renewable energy assets in both greenfield (limit of 60%) and brownfield investments. Isio view renewables attractively as providing inherently positive ESG characteristics but **prefer developing new renewable opportunities due to the higher impact and higher returns this approach drives**. Currently the split of construction/development assets within both portfolios is similar.
- While the fund of fund structure places additional reliance on underlying managers, the 6 current managers have strong track records in renewable infrastructure.
- The **return is lower than the Infrastructure Fund**. This is due to pricing pressures faced in renewable market currently as significant capital enters the space.
- The open-ended structure of the funds allows for changes to the mandate as market opportunities evolve. The lock-up period is 5 years (per investor) is typical for this type of investment.
- **Unlike the Infrastructure Fund, StepStone does not support LCIV with the investment decisions**. The only fee that applies is therefore the LCIV fee and underlying manager fees.
- Although LCIV had help from an external consultant in the initial selection of managers for the Renewables Fund, **LCIV own the underlying portfolio construction and manager selection decisions for this portfolio. We view them as having limited capabilities in this space.**
- The Fund currently has **significant commitments from 16 London Boroughs waiting for to be invested**, as such there is a **long lead time for future investors (4-5 years for new allocations to the fund to be fully invested)**. There is also a structural time lag element to the fund given the construction/development focus.
- The overall fees for the Renewable Fund are expected to be higher than the Infrastructure Fund,

Areas For Consideration (1)

Consideration	LCIV Infrastructure Fund	LCIV Renewable Fund	Isio Preferred Approach
Potential liquidity mismatch	While both funds have favourable lock-up periods and liquidity terms which match those of the underlying fund investments, they are still susceptible to a liquidity mismatch should the underlying funds have any issues and enact the gating, deferral or suspension of redemptions.		Infrastructure Fund - Both funds equivalent in terms however Renewable Fund liquidity lower in practice given expectation of higher greenfield allocation
Costs	The fund of funds approach means there is an additional layer of fees compared to direct investment. This fund also has StepStone as advisor. We note that LCIV have negotiated an attractive fee with Stepstone and this, combined with the lower underlying manager fees makes the Infrastructure Fund the lower cost proposition.	The fund of funds approach means this approach has an additional layer of fees compared to direct investment in these funds. There is no third-party advisor on the structure but underlying management fees are higher reflecting the more focused nature of the strategy	Infrastructure Fund - the option has lower overall costs.
Approach to ESG	Given LCIV's fund of funds approach they are unable to exert meaningful ESG influence at an underlying asset level. We do believe LCIV have scope to improve their ESG reporting and believe the Committee could engage with them on this. StepStone bring another layer of ESG strategy integration and risk management which benefits.	Given LCIV's fund of funds approach they are unable to exert meaningful ESG influence at an underlying asset level, The Renewable Fund can be expected to be the highest impact given the clear climate focused approach and we see this demonstrated in the underlying managers.	Balanced - The Renewable Fund can be expected to be the highest impact (highest rating on our climate assessment) with the Infrastructure Fund scoring more highly on the ESG risk management element due to the involvement of StepStone.
Fund size	Smaller of the two, but reasonable in size and diverse by investor and portfolio. Further capital flows are not visible or anticipated in the near term.	Larger assets under management and grown materially over the recent period. .	Renewables Fund - the Renewables Fund is currently larger than the Infrastructure Fund has attracted recent AuM. Although we believe the Infrastructure Fund is adequately diverse (in assets and investors) there is a question mark about the level of additional capital, if any, is raised going forward..

Areas For Consideration (2)

Consideration	LCIV Infrastructure Fund	LCIV Renewable Fund	Isio Preferred Approach
Deployment timescale	LCIV have indicated any new allocations will be drawn within 3 months to 1 year and most likely to invest in secondary opportunities where they are currently seeing attractive deal flow.	With a number of potential investors ahead of LCIV in the queue, the Renewable Fund currently has a long queue of investors waiting for capital to be committed, There is also a structural element of developing assets which increases the lead time (currently 4 – 5 years) for new investors to see any capital invested committed.	Infrastructure Fund – expected deployment time is significantly shorter at a matter months rather than 4-5 years for new clients to be fully invested in the Renewables Fund
Target return	Target return higher and we believe the attractive broader market opportunities support this.	Target return for this fund is lower, reflective of current market pricing, and we believe continued pressure on market pricing mean that realised returns could be towards the lower end of the range quoted.	Infrastructure Fund – expected returns higher reflective of broader opportunity set, although it is noted the Camden Fund does not necessarily need to drive returns given the strong funding position.
Exposure replication	Limited potential for overlap given broad mandate and current limited deployment	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.	Infrastructure Fund – not anticipated for either but less likely for the Infrastructure Fund
Ongoing management capabilities	LCIV have appointed an infrastructure specialist, StepStone, to aid the continued running of the fund.	Although a third-party consultant aided the initial manager selection, LCIV will wholly own the ongoing monitoring, portfolio construction and manager selection for this fund on an ongoing basis. We question their expertise here without a third party (such as Stepstone) for support.	Infrastructure Fund – the appointment of StepStone in the management of the Infrastructure Fund gives an added layer of comfort in both investment and ESG management compared to the Renewables Fund.

Appendix A

Summary & Next Steps

Appendix A Summary

LCIV Infrastructure Fund

- This will be a fund of funds investing across broad global infrastructure managers to benefit from diversification and the attractive opportunity set. The Fund's overarching target will be to invest 80-100% in primary investments and 0-20% in secondary investments with a focus on operating assets.
- Approximately 40% of the portfolio is invested in traditional renewables, with the remainder of the portfolio invested across social, transport, communications, utilities & power sectors. However, LCIV do not expect the allocation to renewables to grow over time as they see more opportunity in broader sectors and in secondary infrastructure.
- LCIV are targeting a net return of 8-10% with a distributable income of 4-6%. The Fund will have a 5-year lock-up period, offering quarterly liquidity thereafter.
- LCIV work with Stepstone to determine the allocations with the aim of designing a portfolio which will allow investors access a diversified range of infrastructure exposures across various regions.

Pros and Cons

- Achieves a higher return by investing in a wider range of infrastructure sectors - more diverse and facilitates access to currently attractive opportunities e.g. secondaries
- No queue – investment would be deployed within 3 months to 1 year
- Lower overall fees
- Existing investment for the Camden Fund so top up would be “governance light”
- StepStone's involvement is additive from an investment and ESG point of view
- Broad sectors don't all have obvious ESG characteristics .
- Additional fees due to Stepstone involvement – also additional layer of due diligence
- Renewables exposure is lower impact (operating and traditional)
- Lower AuM than Renewables fund with limited future growth anticipated

LCIV Renewable Fund

- Like the Infrastructure Fund, this will also adopt a fund of funds approach, investing in renewable infrastructure assets through both brownfield and greenfield investments. The Renewable Fund targets a net return of 7-10% with a distributable income of 3-5%. It will have a 5-year lock-u period, offering quarterly liquidity thereafter.
- Investing in renewable energy infrastructure assets means the Renewable Fund is supporting the movement away from fossil fuels and carbon intensive energy sources and is high impact.
- There is currently a number of London Boroughs who have committed capital and are awaiting it to be drawn. This combined with the structural development element means there is a long-lead time for potential investments.

Pros and Cons

- High impact – focus on adding renewable energy capacity
- Higher AuM and number of London Bourgh investors, and growing
- ESG approach driven by strong climate approach.
- Lower expected returns due to pricing pressures in this market sector
- No third-party specialist involved – all decision making taken by LCIV who we believe have limited resource/capabilities (contained to a degree by the fund of funds structure)
- Long time to deployment (current estimate for newly committee capital is 4-5 years to be fully invested)
- Would be a new addition to the Camden Fund range leading to higher governance
- Higher overall fees

Recommendation and Next Steps

Isio Recommendation

- On balance, we propose the increased infrastructure equity allocation (of 4% of total asset or c. £76m) is implemented via the LCIV Infrastructure Fund. This is primarily due to:
 - the higher expected return
 - higher diversification (with a significant allocation to renewable energy holdings)
 - currently attractive market opportunity compared to standalone renewable energy
 - Significantly short timeframe for implementation (months rather than years)
 - Added investment and ESG comfort derived from the involvement of StepStone.
- If the Committee were focused on maximising impact (in exchange for a lower expected return and a longer implementation timeframe), or were particularly concerned by the Infrastructure Fund's size and limited prospective growth of assets under management, we would also be comfortable with an allocation to the Renewable Infrastructure Fund given the attractive climate characteristics it offers.

Next Steps

- The Committee should consider the suitability of the Infrastructure Fund and the Renewable Fund and it's fit in the context of the Camden Fund's wider investment strategy and objectives. As part of this they Committee should consider how much emphasis they wish to place on impact in their investment decision making.
- If the Committee decide to proceed with an allocation they should work with LCIV to implement the allocation in an efficient manner.
- A suitable funding source for the c.£76m allocation would be and excess cash holdings currently held, with the remainder taken from the other asset allocation positions which are currently overweight relative to target.
- Isio are happy to support as needed.

Appendices

Appendix A

A1: ESG Assessment Additional Information

A2: Infrastructure - Additional Information

A3: Asset Class Summaries

A3: Disclaimers

Appendix A A1: ESG Assessment Criteria

Assessment Criteria

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:

		Weighting (Active Funds)	Weighting (Passive Funds)	Weighting (LDI and derivatives)
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.

Appendix A 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	<p>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.</p>
Score > 3	<p>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.</p>
Score = 2-3	<p>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.</p>
Score = 1-2	<p>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.</p>
Score = 0-1	<p>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.</p>

Appendix A A2: Infrastructure Market Options

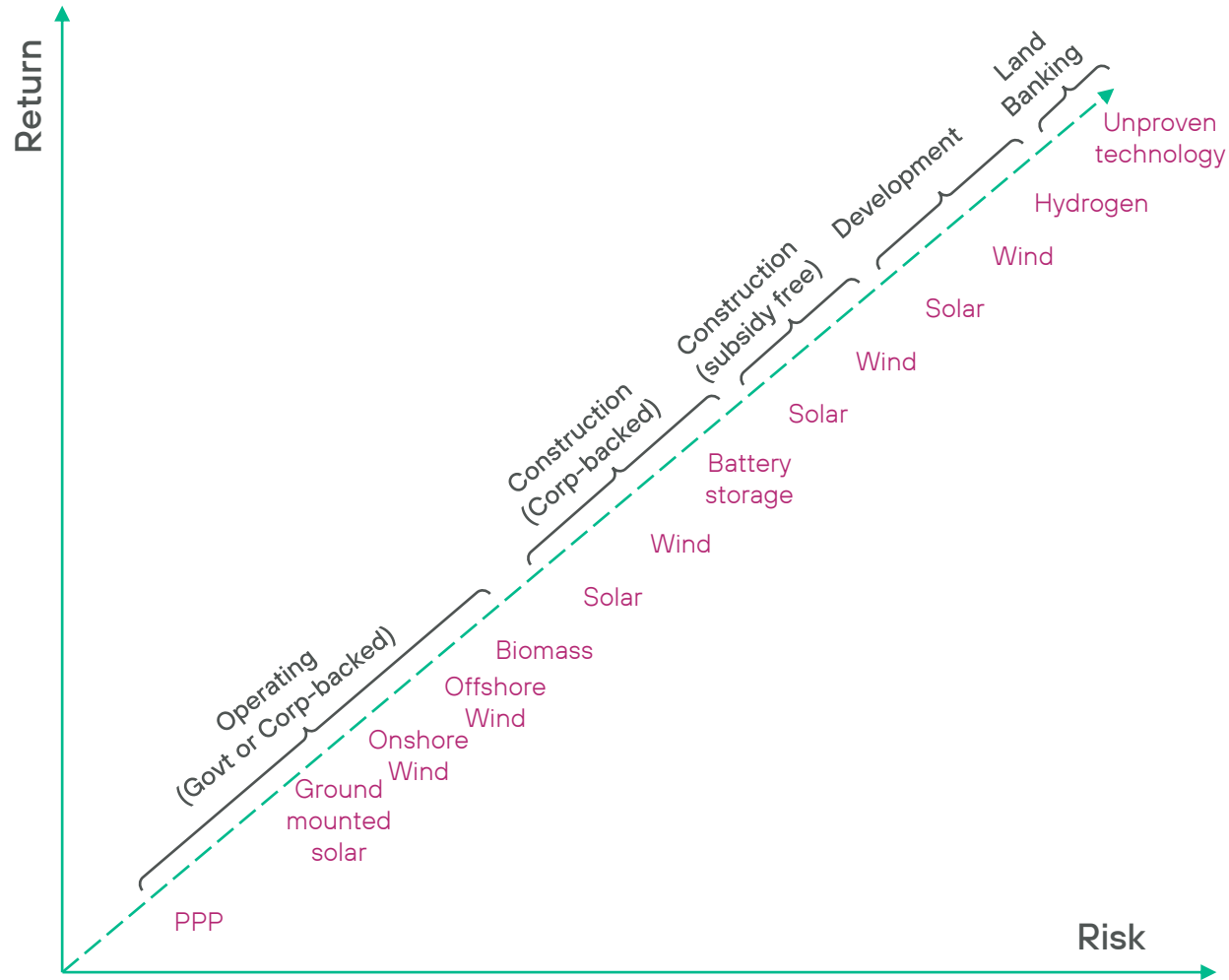
Balanced
Core / Core +

Renewables

Renewables 2.0
(Energy Transition)

	<p>Infrastructure assets required for economic, industrial and social development</p> <p>Core + assets have a higher demand driven element to returns</p>	<p>Renewable energy specific exposure.</p> <p>Main focus on traditional renewable energy markets.</p> <p>Strong ESG angle.</p>	<p>Looking to capture new renewable energy opportunities in a rapidly evolving market.</p> <p>Greater focus on newer technologies and energy transition.</p> <p>Full spectrum of ESG available</p>
Typical Sector Exposure	Toll roads, telecom, airports, utilities, traditional energy and some renewable energy.	Wind, solar, biomass, energy from waste and infrastructure leases..	Renewable power, electrification, low carbon fuels, carbon capture.
Typical Expected Return (Gross IRR)	8 – 12%	6 – 8%	7 – 9%
Expected Yield	4 – 6% p.a.	4 – 5% p.a.	4 – 6% p.a.
ESG Factors	Some environmental factors, focus on improving existing assets	Strong environmental factors	Strong environmental factors

A2: Renewable Energy – Expected Risk and Return



Sources: Greencoat Capital LLP.

Appendix A A3: Asset Class Summary – Infrastructure Equity

Investments into large scale public or private facilities that are essential for economic activity (e.g. energy, utilities, transport) or provide societal benefits (hospitals, prisons, schools) that deliver long-term contractual income and inflation protection.

Within infrastructure assets, there are two broad types:

'Brownfield' assets – mature projects that are already in operation. Brownfield infrastructure is considered to be lower risk, as projects are already operating and provide a reliable stream of cashflows.

'Greenfield' assets – projects which are still in the development stage. Greenfield infrastructure is often associated with higher risk, as the investor is exposed to the construction risk of the asset, so there is less certainty of outcome and no immediate cashflows.

Infrastructure equity is considered an attractive investment due to:

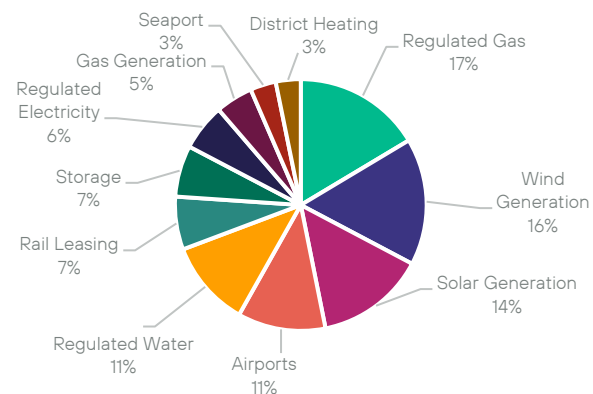
Long duration: many of the underlying assets provide long-term, predictable revenue streams, which can act as a broad match for a pension scheme's liabilities;

Inflation protection: asset revenues often rise with inflation thus providing protection for pension schemes' inflation-linked liabilities;

Attractive income yield: brownfield infrastructure assets are relatively low risk and can provide high yielding income with a high degree of certainty.

Historically infrastructure equity investments were implemented via private equity styled closed-ended structures. However, the market has developed and the open-ended funds offer more choice for pension scheme investors.

Sector allocation for an example fund



Typical Characteristics

Expected Return	Low	————●————	High	Gilts + 4.9% p.a.
Expected Volatility	Low	————●————	High	12% p.a.
Shape of Outcomes	0% Contractual	————●————	100% Contractual	>50% contractual
Liquidity	Immediate	————●————	Long	Long
Diversification	Concentrated	————●————	Highly Diversified	Concentrated
Management Fee	Low	————●————	High	0.5%-1.0% p.a.
Performance Fee	No	————●————	Yes	5%-15%

Note: Based on our preferred way to access this asset class. *Performance fees tend to be subject to a return hurdle.

Implementation Considerations

Availability	Segregated and pooled options available
Governance	High due to fund structures, queues and drawdowns
Trading costs	Up to 1%
Turnover	Low turnover of underlying investments
Lock-ins	Depending on fund structure 5 - 20 years
Active/Passive	Active only
Geography	Global / regional / UK only

Appendix A A3: Asset Class Summary – Renewable Infrastructure

Infrastructure assets are required for economic, industrial and social development. Renewable Infrastructure is a sub-sector of the broader infrastructure market focusing on renewable energy generation and the energy transition movement.

Key features include:

Within infrastructure assets, there are two broad types:

'Brownfield' assets – mature projects that are already in operation. Brownfield infrastructure is considered to be lower risk, as projects are already operating and provide a reliable stream of cashflows.

'Greenfield' assets – projects which are still in the construction and/or development stage. Greenfield infrastructure is often deemed higher risk, as the investor is exposed to the construction risk of the asset, so there is less certainty of outcome and no immediate cashflows are provided to investors.

Infrastructure equity is considered an attractive investment due to:

Long duration: many of the underlying assets provide long-term, predictable revenue streams, which can act as a broad match for a pension scheme's liabilities;

Inflation protection: asset revenues often rise with inflation thus providing protection for pension schemes' inflation-linked liabilities;

Attractive income yield: brownfield infrastructure assets are relatively low risk and can provide high yielding income with a high degree of certainty.

Investing in renewables reduces the reliance on fossil fuel combustion for energy generation, contributing towards Net Zero targets and other UN SDGs.

Applicable UN SDGs:



Typical Characteristics

Expected Return	Low		High	Gilts + 3.9% p.a.
Expected Volatility	Low		High	12% p.a.
Shape of Outcomes	0% Contractual		100% Contractual	>50% contractual
Liquidity	Immediate		Long	Long
Diversification	Concentrated		Highly Diversified	Concentrated
Management Fee	Low		High	0.5%-1.0% p.a.
Performance Fee	No		Yes	5%-15%

Implementation Considerations

Availability	Segregated and pooled options available
Governance	High due to fund structures, queues and drawdowns
Trading costs	Up to 1%
Turnover	Low turnover of underlying investments
Lock-ins	Depending on fund structure 5 - 20 years
Active/Passive	Active only
Geography	Global / regional / UK only

Appendix A

A4: Disclaimers

- This report has been prepared for the sole benefit of the London Borough of Camden Pension Fund and based on their specific facts and circumstances and pursuant to the terms of Isio Group Limited/Isio Services Limited's Services Contract. It should not be relied upon by any other person. Any person who chooses to rely on this report does so at their own risk. To the fullest extent permitted by law, Isio Group Limited/Isio Services Limited accepts no responsibility or liability to that party in connection with the Services.
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