

<b>LONDON BOROUGH OF CAMDEN</b>	<b>WARD:</b> All
<b>REPORT TITLE:</b> London Collective Investment Vehicle Progress Report	
<b>REPORT OF:</b> Executive Director Corporate Services	
<b>FOR SUBMISSION TO:</b> Pension Committee	<b>DATE:</b> 5 March 2024
<b>SUMMARY OF REPORT:</b>  This report provides a quarterly update on developments at the London Collective Investment Vehicle (CIV) in creating sub-funds for the spectrum of asset classes, on-boarding of assets and development of the CIV's staff resource. Progress with the London CIV contributes to the Government's pooling agenda and drive to reduce costs in the Local Government Pension Scheme (LGPS).	
<b>Local Government Act 1972 – Access to Information</b> No documents requiring to be listed were used in the preparation of this report:	
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<b>RECOMMENDATIONS:</b>  The Committee is asked to note the contents of the report.	
<b>Signed by</b>	
Executive Director Corporate Services	..... <b>Agreed</b> .....
Date:	..... <b>22/02/2024</b> .....

## **1. INTRODUCTION**

- 1.1. All Local Government Pension Scheme (LGPS) Pension Funds in England and Wales are participating in the Government's pooling agenda aimed at reducing investment costs, gaining economies of scale, improving governance, and investing in infrastructure in the LGPS. There are eight pools for LGPS funds, and the Government has agreed that these should all be established and regulated.
- 1.2. In London all 32 of the London Borough Funds have joined the London Collective Investment Vehicle (LCIV) including this Fund. Committee receives quarterly reports on the establishment and progress of the London CIV and transfer of assets into it. This report covers establishment and procurement of new sub-classes, launches of new sub-funds, assets under management and resource build-out at the CIV.
- 1.3. This will assist the Committee in its responsibility of asset allocation whilst future procurement of funds and day to day management is now the responsibility of the London CIV. In October 2021 our Pension Committee chair, Cllr Madlani, was appointed chair of the Shareholder Committee.
- 1.4. Dean Bowden, Chief Executive of the London CIV, will be present at the meeting to take questions on development of the CIV and its operations.

## **2. CIV GENERAL MEETING**

- 2.1. The CIV held their General Meeting for shareholders on 30 January 2024. A new purpose statement 'working together to deliver sustainable prosperity for the communities that count on us' was agreed and launched in September 2023.
- 2.2. The Articles of Association (AA) and Shareholder Agreements (SHA) were changed and the CIV's share capital now meets the Financial Conduct Authority (FCA) requirements as of December 2023.
- 2.3. Dean Bowden has been at the CIV for a year as CEO. The roles of COO and CFO were separated in July 2023 when Martin Gloyne joined as Chief Operating Officer. With more than 15 years' working with LGPS, Aoifinn Devitt joined in mid-January as Chief Investment Officer after Jason Fletcher left last year.

### **The Board**

- 2.4. Composition of the Board was reviewed in the first part of 2023 and the number of Non-Executive Directors (NED) were reduced by two. Paul Niven and Alison Talbot finished their terms in September 2023. LCIV have now reduced the total size of the Board whilst still maintaining a significant NED majority, this has placed a greater emphasis on the Board's role in monitoring customer outcomes and enhanced the framework for the management and oversight of risk.
- 2.5. A Diversity and Inclusion Policy was agreed in October 2020:
  - The Board aspires to achieve a 40% female representation on the Board overall in the medium to longer term and is committed to achieving this as soon as possible (currently 33%)

- The Board aspires to at least maintain the position of meeting the Parker objective of one member of an ethnic minority background on the Board by, or as soon as possible after, the target date of 2021.
  - The March 2021 review excluded shareholder nominated NEDs in calculating whether the targets have been achieved.
- 2.6. The Board places high emphasis on ensuring the development of diversity in the senior management roles within London CIV and of supporting and overseeing an objective of achieving over 40% of senior roles held by female leaders as soon as possible, and of 8% of senior roles being held by leaders from a minority ethnic group as soon as possible. The target of 8% was recently revised to 15% which is consistent with the national demographic.
- 2.7. Of the 18 roles at senior level 39% are held by women, with 3 individuals (17%) from an ethnic minority group.
- 2.8. A more diverse Shareholder committee would be preferable and the CIV have communicated this to client funds when seeking nominations.

#### **Other issues**

- 2.9. The CIV are looking at a new funding model which includes passive funds. The CIV expect to make use of additional regulatory permissions to launch a property portfolio service. During 2023 the CIV relaunched their climate reporting service on an “all funds nil of charge” basis to all partner funds.
- 2.10. They have relaunched the Responsible Investment Working Group (RIRG) as the Sustainability Working Group (SWG).
- 2.11. The CIV’s five priorities for stewardship and engagement for 2024 are: Climate Change; Human Rights and Human Capital; Natural Capital; Technology and Cyber; Health Safety and Wellbeing.
- 2.12. The CIV looking at pass-through voting on pooled funds, which this Fund has lobbied for and successfully introduced on its passive funds.

#### **Board Composition**

- 2.13. The Chair of the Shareholder Committee is Cllr Rishi Madlani (Camden) who holds office for four years. The Vice Chair is Cllr Rob Chapman.
- 2.14. The current composition of the Board and terms of office are:
- Mike Craston (Chair, NED) from Sept 2021 (three-year term ends Sept 2024)
  - Cllr Ravi Govindia from Sept 2018 (second three-year term ends Sept 2024)
  - Kitty Ussher from Sept 2020 (three-year term ends Sept 2023) Chair Remuneration & Nominations Committee
  - Cllr Peter Mason from Dec 2021 (three-year term ends Dec 2024)
  - Yvette Lloyd NED from Jan 2022 (three-year term ends Jan 2025) Chair Investment and Customer Outcomes Committee
  - Mark Laidlaw NED from Jan 2022 (three-year term ends Jan 2025) Chair Compliance Audit and Risk Committee
  - Dean Bowden (Chief Executive Officer) appointed December 2022

- Brian Lee (Chief Operating Officer with responsibilities as Chief Finance Officer) appointed Sept 2015

2.15. In addition, Damon Cook is appointed as Treasurer Observer but is not a Non-Executive Director.

### **Governance and Engagement**

2.16. The Strategic Business Review (SBR) identified two parts to the governance workstream.

2.17. One was a review of London CIV's governance framework, including both the board and its committees and management committees. The second focused on constitutional documents, the Shareholder Agreement (SHA) and Articles of Association (AA).

2.18. The focus has been on improving existing forums: the Sustainability Working Group (SWG) and the Cost Transparency Working Group (CTWG).

2.19. The CIV are considering the scope to enhance engagement with Chairs, for example by holding an informal "Chairs' Forum" with the CEO twice a year to complement the January General Meeting and AGM and create a quarterly pattern of engagement with Chairs.

### **Annual Budget**

2.20. In addition to the formal approval of the Budget, LCIV want to recognise and respond to the financial pressures that their partner funds face. LCIV have stated that every penny they can save enables them to make greater investments across all London Boroughs into schools, housing, hospitals, and other vital areas.

2.21. An item was taken on the Annual Budget including estimated working capital and projected profit. The development funding charge DFC is reducing by 12% this year and 15% in 24/25.

2.22. As at March 2023 £10bn of liquid assets were not pooled out of total London assets of £46bn. A large part of this is equity assets (£5bn). There were also £9bn of assets in non-liquid assets (with £4bn in property and other assets in other asset classes such as private equity, private debt and Infrastructure).

2.23. The table below shows the growth in forecast assets under management of the CIV moving from £27bn at the end of March 2023 to £30bn at the end of March 2025.:

<b>Assets Under Management</b>	<b>Audited Mar-23</b>	<b>F'cast Mar-24</b>	<b>Budget Mar-24</b>	<b>Budget Mar-25</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
AIFM AUM - ACS	12,896	14,146	14,101	15,746
AIFM AUM - Private Markets	1,360	1,463	1,303	1,463
<b>Total AUM AIFM</b>	<b>14,256</b>	<b>15,609</b>	<b>15,404</b>	<b>17,209</b>
MiFID AUM		60		420
Passives	12,533	12,561	12,002	12,561
<b>Total AUM</b>	<b>26,790</b>	<b>28,231</b>	<b>27,406</b>	<b>30,191</b>
<b>Total LGPS AUM</b>	<b>46,142</b>	<b>46,142</b>	<b>46,142</b>	<b>46,142</b>

2.24. Based on stewardship of these assets the following income statement was reported:

Income Statement	Audited Mar-23 £000	F'cast Mar-24 £000	Budget Mar-24 £000	Budget Mar-25 £000
Fixed Fees	3,520	3,220	3,520	3,120
Actives Equities	1,885	2,213	2,050	2,872
Passive Equities	29	77	132	79
Multi Asset	596	642	577	727
Fixed Income	193	483	394	494
Private Markets	927	1,101	1,016	1,147
Total on LCIV Management fees	3,630	4,516	4,168	5,319
Passives	617	637	601	628
Total Management fees	4,247	5,152	4,770	5,947
Climate Reporting & Securities Lending		-	324	-
MIFID business - management fees		4		100
Total Management fee	7,767	8,377	8,614	9,167
Miscellaneous income - VAT refund	-	1,000		-
Total Operating income	7,767	9,377	8,614	9,167
Expenses				
Staff costs	5,626	6,374	6,367	6,892
Facilities	581	448	449	488
Legal & Professional	563	1,039	593	310
Travel & general expenses	91	103	82	102
Technology	307	352	392	434
Investment systems costs	306	433	479	523
ESG/Proxy Voting	219	236	243	265
MIFID business - expenses		3		80
Total Expenses	7,693	8,988	8,604	9,094
EBITDA	74	388	10	73

2.25. This shows a small surplus in all years but the DFC is still being levied on all 32 partner funds (£3.120m in 2024/25).

2.26. As an FCA regulated firm, London CIV is required to maintain sufficient regulatory capital at all times in accordance with its regulatory permissions. The CIV has demonstrated sufficient regulatory capital in the years reported on.

### 3. FUND ACTIVITY

#### Fund Portfolio

- 3.1. As of 31 December 2023, the total assets deemed pooled by Client Funds stood at £29.4 billion, of which £14.3 billion are public markets funds, £15.9 billion in passive equity funds and £1.4 billion in Private Market funds, with a further £2.7 billion committed.

#### Public Market funds

- 3.2. The following tables show all public market CIV funds:

##### Global equities

LCIV Fund	AUM	Launch Date	Manager	No. of Investors
Global Alpha Growth	£1,403m	11 Apr 2016	Baillie Gifford	5
Global Alpha Growth Paris Aligned	£2,212m	13 Apr 2021	Baillie Gifford	11
Global Equity	£561m	22 May 2017	Newton	3
Global Equity Quality	£524m	21 Aug 2020	MSIM	2
Global Equity Focus	£1,164m	17 Jul 2017	Longview	6
Emerging Market Equity*	£555m	11 Jan 2018	JP Morgan	8
Sustainable Equity	£1,271m	18 Apr 2018	RBC	8
Sustainable Equity Exclusion	£679m	11 Mar 2020	RBC	5
Passive Equity Progressive Paris Aligned	£851m	1 Dec 2021	State Street	4

##### Multi Asset

LCIV Fund	AUM	Launch Date	Manager	No. of Investors
Global Total Return	£100m	17 Jul 2016	Pyrford	1
Diversified Growth	£675m	15 Feb 2016	Baillie Gifford	6
Absolute Return	£1,001m	21 Jun 2016	Ruffer	10
Real Return	£178m	16 Dec 2016	Newton	2

##### Fixed Income

LCIV Fund	AUM	Launch Date	Manager	No. of Investors
Global Bond	£952m	30 Nov 2018	Pimco	10
MAC Fund	£1,549m	31 May 2018	CQS + Pimco	14
Alternative Credit	£396m	31 Jan 2022	CQS	3
Short Duration Buy and Maintain Credit	£84m	6 Dec 2023	Insight	2
Long Duration Buy and Maintain Credit	£165m	6 Dec 2023	Insight	3

- 3.3. Ruffer has had a very poor 2023 (their Absolute Return Fund being one which we had been invested in). Q2 saw their biggest loss in its history linked to interest rate risk.
- 3.4. There will be an in-depth review of the Alternative Credit Fund (CQS) in May 2024.
- 3.5. As at December 2023, there are no funds on the **Watch** list for LCIV. It has been a difficult year for active management with all Multi-Asset funds currently undergoing **Enhanced Monitoring**, Global Equity Focus Fund (Longview), Global Total Return Fund (Pyrford) and the Diversified Growth Fund (DGF) (Baillie Gifford which we are invested in) and LCIV Global Equity Fund (Newton). The next review for the DGF sub-fund is scheduled for June 2024.

Watch list	Enhanced monitoring	Normal monitoring
Zero	Four	All other sub funds
	Fund: LCIV Global Equity Focus Fund Manager: Longview Status confirmed: August 2023 Next review: June 2024	Completed review: LCIV Emerging Market Equity Fund Manager: JP Morgan Investors updated: 9 November 2023
	Fund: LCIV Global Total Return Fund Manager: Pyrford Status confirmed: August 2023 Next review: Q1 2024	Completed review: LCIV Absolute Return Fund Manager: Ruffer Investors updated: 10 January 2024
	Fund: LCIV Diversified Growth Fund Manager: Baillie Gifford Status confirmed: <b>January 2024</b> Next review: June 2024	Completed review: LCIV Alternative Credit Fund Manager: CQS Investors updated: 22 January 2024
	Fund: LCIV Global Equity Fund Manager: Newton Status confirmed: September 2023 Next review: December 2023 (Executive Investment Committee 13 Feb 2024)	Completed review: LCIV MAC Fund Manager: CQS (portion) Investors updated: 22 January 2024
		Completed review: LCIV Real Return Fund Manager: Newton Investors update: February 2024
		Completed review: LCIV Global Equity Quality Fund Manager: MSIM Investors update: Post-Executive Investment Committee 13 Feb 2024

- 3.6. The other LCIV funds are undergoing **Normal Monitoring**. Included in this group is the Global Alpha Growth Paris Aligned Fund (Baillie Gifford) and LCIV Multi Asset Credit Fund (CQS and PIMCO) which we are invested in. There will be a review of the Baillie Gifford growth Paris-aligned fund in February 2024, which is still on normal monitoring status despite risk and performance issues.

## Private Markets Fund Monitoring

3.7. The table below shows the CIV's private market funds:

Private Market Funds	Total Commitments £'000	Drawn Commitments £'000	% invested (change in month)	Last Valuation (31 Dec 2023) £'000	% Allocated	No. of Investors	Inception date
<b>LCIV Infrastructure Fund</b>	£399,000	£315,874	79% (+6%)	£333,027	95%	6	31/10/2019
- One capital call was issued to investors for £14.2m, which was a combination of capital calls from Macquarie, Arcus, Capital Dynamics and Brookfield - 1st distribution of £5.8m was paid to investors on 20 December 2023							
<b>LCIV Real Estate Long Income Fund</b>	£213,000	£213,000	100% (-%)	£155,063	100%	3	01/06/2020
- 4th distribution of £2.1m was paid to investors on 20 December 2023							
<b>LCIV Renewable Infrastructure Fund</b>	£983,500	£382,108	39% (+1%)	£437,038	77%	14	29/03/2021
- One capital call was issued to investors for £12.7m, which was a combination of capital calls from BlackRock and Stonepeak							
<b>LCIV Private Debt Fund</b>	£625,000	£420,091	67% (-%)	£488,292	95%	8	29/03/2021
- No movements in the period							
<b>LCIV UK Housing Fund</b>	£195,000	£2,000	1% (+1%)	n/a	77%	3	31/03/2023
- One capital call was issued to investors for £2m, which was a combination of capital call from Octopus (£1.5m) and expenses (£0.5m)							
<b>SLP</b>	£'000	£'000		£'000			
<b>The London Fund</b>	£250,000	£92,739	37% (-9%)	£86,555	59%	4	15/12/2020
- The Fund held its final close on 29 December 2023, increasing its commitment by £55m to £250m. As a result, the % invested dropped by 9%							
<b>Total</b>	<b>£2,665,500</b>	<b>£1,425,811</b>	<b>53%</b>	<b>£1,499,975</b>	<b>84%</b>	<b>21</b>	

3.8. The LCIV Real Estate Long Income Fund (RELI), managed by Aviva (the Camden Pension Fund is an investor), is on **Enhanced Monitoring** with the next review scheduled for Q2 2024. The portfolio is constructed on £400m, but half the capital commitments have been made (£213m).

### Fund Launches

3.9. LCIV launched the Housing Fund, Long Duration and Short Duration Buy and Maintain funds in 2023.

3.10. **Global Equity Value Fund:** LCIV are currently undergoing discussion with potential seed investors for the fund, with manager selection on target for completion in February 2024 with launch targeted for May 2024.

3.11. **LCIV Nature Based Solutions:** Training is to be held on 8 February covering the voluntary carbon market and the financial aspects of investing in nature-based solutions strategies. Investment due diligence in the final stages, the CIV have met with nine managers and are in the process of determining a preliminary shortlist which will be finalised shortly. The launch target for this fund is set for mid-2024.

3.12. **LCIV Private Debt II:** Discussions with clients continue to establish the most appropriate proposition. LCIV are targeting an early second half of the year launch subject to size and timings of client demand.

3.13. **Indirect Property pooling:** LCIV are aiming to deliver a solution for partner funds who have indirect property exposure in 2024, meaning the funds that hold individual property holdings rather than a fund of funds (we have this via CBRE). The solution will avoid tax implications, namely stamp duty. 6 clients in London could use this eventual solution and the CIV would aim to do that oversight given their Variation of Permission recently agreed by the FCA.



3.14. This solution seeks to create cost savings and efficiencies as well as delivering enhanced performance. LCIV will partner with a best-in-class investment manager to help to deliver this solution, the selection process for this has commenced.

#### **4. RESPONSIBLE INVESTOR COMMENT**

4.1. The Fund's engagement with, and commitment to, the London CIV is an important part of how the Fund can act as a responsible investor. Pooling increases the leverage and influence that any individual LGPS fund may have with fund managers, creating more opportunities for RI to be both discussed and practised. The Fund will need to think carefully about how to incorporate Task Force on Nature Related Financial Disclosure (TNFD) requirements in the future.

#### **5. ENVIRONMENTAL IMPLICATIONS**

5.1. This report covers several of the actions taken by the CIV towards responsible investment, in response to pressure from London Boroughs including Camden. TNFD requirements will ensure that nature based risks are captured in the Fund's investment approach.

#### **6. FINANCE COMMENTS OF THE EXECUTIVE DIRECTOR CORPORATE SERVICES**

6.1. There are no finance comments to add.

#### **7. LEGAL COMMENTS OF THE BOROUGH SOLICITOR**

7.1. The Local Government Pension Scheme (Management and Investment Funds) Regulations 2016 requires all Local Authorities to commit to a suitable pool to achieve benefits of scale. This report demonstrates the adherence to the Regulations by providing details of the approach to pooling, the structure and the governance arrangements and the mechanism by which the CIV can be held to account.