LONDON BOROUGH OF CAMDEN	WARD: All
REPORT TITLE: Infrastructure Investment	
REPORT OF: Executive Director Corporate Services	
FOR SUBMISSION TO: Pension Board	**DATE:** 16 April 2024

SUMMARY OF REPORT:

This report builds on the Investment Strategy review that was agreed by Pension Committee in July 2023 and the infrastructure allocation of 4% (£76m). Two sub-funds are offered by the London CIV, the Infrastructure fund and the Renewable Infrastructure fund, and these have been appraised compared to the Fund's investment expectations.

The Pension Committee, at its meeting on 5 March 2024, noted the contents of the report.

Local Government Act 1972 – Access to Information

No documents requiring to be listed were used in the preparation of this report:

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RECOMMENDATIONS:

The Board is requested to note the contents of this report.

Signed by

Director of Finance …………………..**Agreed**………

Date …………………..**4/04/2024**……

1. Introduction

1.1. The July 2023 Investment Strategy review set out expectations for increasing the Fund's allocation to the Infrastructure asset class. Currently £95m has been called and invested in this fund:

- expected returns of gilts + 4-6% per annum
- expected volatility of 12% pa
- liquidity – this is a long-term investment and cannot be immediately redeemed
- management fees of 0.5 - 1.0%
- performance fees of 5 -15%
- lock-ins from 5 to 20 years

1.2. The Fund already has an exposure to the London CIV's Infrastructure Fund managed by StepStone of £106m (5%). The Investment Strategy Review (ISR) agreed a 9% allocation and therefore the increased investment in Infrastructure will be £76m.

1.3. The ISR set out the benefits of Infrastructure as:

- **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.

1.4. In July the Committee agreed the "High Impact" strategy option which amongst other asset allocations committed to an increased infrastructure allocation which can be implemented (via the CIV) either through the LCIV Infrastructure Fund (which has a broad infrastructure mandate with c. 1/3 of the portfolio allocated to renewable energy) or via the specific LCIV Renewables Infrastructure Fund. The report noted that these funds differ in their make-up and investment characteristics, and so Committee should consider which they feel is most appropriate for the new allocation. This report aims to inform that decision.

1.5. The report also noted that the Committee should weigh-up the governance considerations associated with implementing a further Infrastructure mandate (the Renewable Infrastructre fund rather than further investment into the current Infrastructure fund we are already invested in). If the existing Infrastructure Equity mandate were to be increased instead this would still improve the ESG impact of the investment portfolio as this mandate includes a c10% allocation to renewables.

1.6. Appendix A sets out the work of our Investment Consultant, Isio, on the CIV's two Infrastructure sub-funds available for investment and make a recommendation about which one to select that best meets our Investment Strategy Review requirements.

1.7. Both funds offered by the CIV are open ended and this is Isio's preferred structure. Open-ended funds allow redemption but also means that investments are not time limited and so investment decisions do not need to be re-made as assets are repaid to investors and the next business case needs to be reappraised.

1.8. Appendix A sets out the desirable characteristics of Infrastructure are:

- Access to high-yielding assets which provide long term and secure cash flows and inflation linkage
- Typically these cash flows give stable revenues
- Some investments provide defensive characteristics with others offering niche opportunities and higher returns
- There are funds available which offer strong ESG credentials

1.9. In Appendix A the "Key Characteristics" section sets out that the main Infrastructure Fund has £399m of commitments with 6 investors (which we are one of). Returns are 8-10% per annum net. The newer Renewable Infrastructure Fund has £984m of commitments and has similar but slightly lower return expectations (7-10%). Isio judge both products meet their investment expectations.

1.10. Currently the Infrastructure fund has 41% in renewables whereas the Renewables fund is 100% renewable. Both funds are geographically diverse.

1.11. The "Areas for consideration" section in the Appendix A compare both funds over eight different considerations. The Renewable fund is preferred on ESG and Fund size metrics, both Funds are rated equally on liquidity mismatch (being able to exit an investment quickly but leaving underlying investors with a disproportionate share of underperforming assets). The main Infrastructure fund is judged a better option therefore in the five other categories (lower expected costs, deployment timescales are shorter, higher target return, exposure replication, and management capability).

1.12. Both funds are acceptable from an ESG perspective with the Renewables Fund having the highest impact given its 100% renewable composition. However, the use of StepStone gives the Infrastructure fund additional management overview of ESG rather than CIV constructed portfolio in the Renewables Fund.

1.13. Officers, our Investment Consultants (Isio) and our Independent Investment Advisor all agree that the CIV Infrastructure Fund managed by StepStone is the preferable investment opportunity.

1.14. If the recommendations of this report are agreed officers will complete the CIV's subscription documents in order to commit £76m to the Infrastructure fund managed by StepStone.

2. RESPONSIBLE INVESTOR COMMENT

2.1. The Fund is a responsible investor and has established and reviewed its Investor Belief Statement (IBS) in July 2023. Further investment in Infrastructure would target the following beliefs:

- 13 Climate action
- 11 Sustainable Cities and communities
- 7 Affordable and clean energy
- 12 Responsible Consumption and production

2.2. The first two of these beliefs are headline beliefs in our IBS and so this proposed investment has strong ESG and Impact credentials. The CIV Infrastructure fund has c40% invested in traditional renewables whereas all of the CIV Renewable Infrastructure fund is invested in renewables and therefore has a higher impact. However, Appendix A in the "Areas for consideration" section sets out that both CIV funds are fund of funds and therefore are unable to influence underlying investments.

3. ENVIRONMENTAL IMPLICATIONS

3.1. Appendix A sets out the climate scores for both Infrastructure sub-funds with the Renewables Fund scoring better (2.9) versus their first Infrastructure fund (2.0).

4. FINANCE COMMENTS OF THE EXECUTIVE DIRECTOR CORPORATE SERVICES

4.1. Appendix A sets out that target net returns for Infrastructure Fund managed by StepStone is 8-10% and is better than the returns from the Renewable Fund (7-10%). Appendix B sets out that the fees are also lower on the StepStone fund. The Infrastructure fund will also deploy faster than the Renewables Fund and therefore investment in the StepStone Fund is preferred over the Renewables Fund.

5. LEGAL COMMENTS OF THE BOROUGH SOLICITOR

5.1. The Committee is required to maintain an investment strategy statement under the 2016 management and investment regulations and to take expert advice on investment matters.

APPENDICES
APPENDIX A – LCIV Infrastructure fund and Renewable Infrastructure fund review
APPENDIX B - LCIV Infrastructure Equity and Renewable Energy Briefing Paper - Additional Information – Part II (not for publication)