| LONDON BOROUGH OF CAMDEN | WARD: All |
|---|---|
| **REPORT TITLE:**<br>Performance Report | |
| **REPORT OF:**<br>Executive Director Corporate Services | |
| **FOR SUBMISSION TO:**<br>Pension Committee | **DATE:**<br>10 March 2025 |

**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 2024.

**Local Government Act 1972 – Access to Information**
No documents required to be listed were used in the preparation of this report.

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**RECOMMENDATIONS:**

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

**Signed by**

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

Date ………………**26/02/2025**………………………….………

## 1. INTRODUCTION

1.1. This report presents the performance of the Pension Fund investments up to 31 December 2024 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 2024 is shown in Table 1 below, in percentages.

**TABLE 1: FINANCIAL MARKET RETURNS Q4 2024**

| Market Returns | | Quarter | 1 Year | 3 Years (annualised) |
|---|---|---|---|---|
| EQUITIES | FTSE all world | 5.9 | 19.8 | 8.7 |
| | UK FTSE All Share | -0.4 | 9.5 | 5.8 |
| | Europe (ex UK) | -3.8 | 3.1 | 2.6 |
| | North America | 9.9 | 26.9 | 11.4 |
| | Japan | 2.8 | 10.1 | 5.9 |
| | Asia (ex-Japan) | -1.0 | 7.8 | 3.4 |
| | Emerging Markets | 0.2 | 14.8 | 3.4 |
| UK gilts | | -3.1 | -3.3 | -8.6 |
| ILGs | | -6.0 | -8.30 | -15.0 |
| Corp bonds | | -0.5 | 1.7 | -3.0 |
| UK Property | | 2.8 | 7.0 | -1.3 |
| Commodities (approx.) | | 3.2 | 2.6 | -0.7 |
| Cash - 3m LIBOR | | 0.0 | 0.0 | 0.0 |
| RPI (UK) Inflation | | 0.9 | 3.5 | 7.3 |
| US CPI (Inflation) | | 8.1 | 4.7 | 6.9 |

1.3. Global Economic Overview: In the fourth quarter of 2024, global economic activity remained mixed, with notable divergences between major economies. The United States continued to display strong GDP growth, supported by robust consumer spending and labour market resilience. However, the Eurozone faced challenges, particularly in Germany and France, where economic stagnation persisted, exacerbated by a slowdown in industrial production. In China, economic growth remained sluggish due to ongoing property sector weaknesses and subdued consumer confidence.

Central banks responded to evolving economic conditions. The Federal Reserve maintained its stance on interest rates despite market expectations of further cuts, signalling a cautious approach to inflation management. The European Central Bank (ECB) took a more accommodative approach, reducing rates by 25 basis points to stimulate growth amid weak economic data. Meanwhile, the Bank of England remained cautious after its August rate cut, as inflationary pressures persisted despite slower GDP growth.

1.4. UK Economic Conditions: The UK economy remained sluggish in Q4 2024, with GDP growth largely stagnant. The impact of the Bank of England’s earlier rate cut was yet to translate into significant economic expansion. The fiscal outlook remained uncertain, particularly following the new Prime Minister’s announcement of potential tax increases and spending cuts in the upcoming budget. Inflation, as measured by the Retail Price Index (RPI), increased to 0.9% over the quarter, bringing the annual rate to 3.5%.

1.5. Equity Market Performance:

- Global Equities: The FTSE All-World Index advanced by 5.9% in Q4, reflecting broad-based gains across major markets, led by strong performance in North America.
- UK Equities: The FTSE All-Share Index declined by 0.4%, impacted by domestic economic uncertainties and sector-specific challenges, particularly in consumer-focused industries.
- Europe (ex-UK): European equities saw a notable decline of 3.8%, driven by weak industrial production data and continued economic stagnation.
- North America: US equities surged by 9.9%, supported by strong corporate earnings, particularly in the technology and consumer discretionary sectors.
- Japan: Japanese equities rose by 2.8%, benefiting from a weaker yen and continued monetary support from the Bank of Japan.
- Asia (ex-Japan): Equities in this region declined by 1.0%, with Chinese markets facing pressure due to subdued domestic demand and a struggling property sector.
- Emerging Markets: Emerging markets had a modest increase of 0.2%, with performance varying across regions.

1.6. Fixed Income and Commodities

- UK Gilts: UK gilts faced a decline of 3.1% over the quarter, as bond yields rose in response to global economic developments and shifting monetary policies.
- Index-Linked Gilts (ILGs): ILGs decreased by 6.0%, reflecting adjustments in inflation expectations and real yields.
- Corporate Bonds: Corporate bonds declined by 0.5%, with credit spreads widening amid global economic uncertainties.
- Commodities: The commodities sector rebounded with a 3.2% gain, driven by rising oil prices and supply-side adjustments.

1.7. Property and Inflation

- UK Property: The UK property market showed resilience, recording a 2.8% increase over the quarter, indicating signs of stabilization after previous declines.
- Inflation: UK inflation, measured by RPI, increased by 0.9% over the quarter, with an annual rise of 3.5%. Meanwhile, US inflation, measured by the Consumer Price Index (CPI), surged by 8.1% in Q4, bringing the annual rate to 4.7%.

Financial markets experienced notable shifts in Q4 2024, as investor sentiment responded to diverging regional economic conditions and policy adjustments. Equities showed mixed performance, with strong gains in North America contrasting with declines in Europe and Asia. Fixed income markets faced renewed volatility, particularly in the UK, where rising bond yields led to losses in gilts and index-linked gilts. Inflationary pressures remained a key focus for policymakers, while uncertainty surrounding fiscal policies and global growth trajectories continued to shape investment decisions. As markets navigate these complexities, investors are weighing risks against emerging opportunities in an evolving economic landscape.

## FUND VALUATION & ASSET ALLOCATION

1.8. 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 £2.2bn as at 31 December 2024, which represents an increase of 2.66%, or £57m, over the quarter. The final changes to the asset allocation were implemented in Q4 2023 and Q1 2024.

### TABLE 2: PORTFOLIO SUMMARY

| Manager | Mandate | Target | Year Appointed | 30/09/24 £m | 31/12/24 £m | 30/09/24 % | 31/12/24 % |
|---|---|---|---|---|---|---|---|
| Baillie Gifford (LCIV) | Global equity | +2-3% | 2016 | 161 | 168 | 8% | 8% |
| Harris | Global equity | +2-3% | 2015 | 101 | 103 | 5% | 5% |
| L&G | Global equity | 0.% | 2011 | 500 | 530 | 23% | 24% |
| L&G | Future World global equity | 0% | 2021 | 353 | 374 | 16% | 17% |
| CQS (LCIV) | Multi asset credit | 4-5% | 2019 | 331 | 333 | 15% | 15% |
| L&G | Index linked gilts | 0% | 2009 | 148 | 137 | 7% | 6% |
| Stepstone | Infrastructure | 8-10% | 2019 | 124 | 124 | 6% | 6% |
| Partners | Global property | 15% | 2010 | 61 | 62 | 3% | 3% |
| CBRE | UK property | +1% | 2010 | 93 | 94 | 4% | 4% |
| Aviva (LCIV) | UK property | 1.5-2% | 2021 | 68 | 69 | 3% | 3% |
| Affordable Housing (LCIV) | UK Property | 5-7% | 2024 | 16 | 29 | 1% | 1% |
| HarbourVest | Private equity | +8% | 2016 | 42 | 43 | 2% | 2% |
| Baillie Gifford (LCIV) | Diversified growth | +3% | 2022 | 98 | 95 | 5% | 4% |
| Cash & other | | | | 49 | 41 | 2% | 2% |
| **Fund** | | | | **2,145** | **2,202** | **100%** | **100%** |

### TABLE 3: ASSET CLASS ALLOCATIONS

| | Value (£m) | Current Weight | Target Weight |
|---|---|---|---|
| Baillie Gifford (LCIV) | 168 | 8% | |
| Harris | 103 | 5% | |
| L&G global passive | 530 | 24% | |
| L&G passive equities | 374 | 17% | |
| **Equity** | **1,175** | **54%** | **45%** |
| CQS (LCIV) | 333 | 15% | |
| L&G Ind.Lkd Gilts | 137 | 6% | |
| **Bonds** | **470** | **21%** | **23%** |
| CBRE | 94 | 4% | |
| Partners Group | 62 | 3% | |
| Aviva (LCIV) | 69 | 3% | |
| **Property** | **225** | **10%** | **11%** |
| HarbourVest | 43 | 2% | |
| **Private Equity** | **43** | **2%** | **2%** |
| Stepstone (LCIV) | 124 | 6% | |
| **Infrastructure** | **124** | **6%** | **9%** |
| Baillie Gifford (LCIV) | 95 | 4% | |
| **DGF** | **95** | **4%** | **5%** |
| **Affordable Housing** | **29** | **1%** | **5%** |
| **Cash & other** | **41** | **2%** | **0%** |
| **Fund** | **2,202** | **100%** | **100%** |

1.9. The Fund continues to be overweight to equity at 54% against a 45% target. Multi-asset credit (CQS) remains at 15%, and the overall allocation to bonds, including index-linked gilts, continues to be at 21% against a 23% target.

1.10. Infrastructure is 6% against a revised target of 9%. As noted in previous committee updates, a second tranche of £76m was agreed to infrastructure at the March 2024 committee, and so once this new commitment draws capital over the coming years this asset class will also be on target.

1.11. The Affordable Housing Fund has grown beyond the previous quarter's £16 million due to drawdowns during this period. However, its allocation remains steady at 1% of the total portfolio value. The remaining commitment is £67.5m.

1.12. All other asset classes are close to target except for Cash which is 2% of assets and is important to fund revenue expenditure and future drawdowns.

1.13. There were no other drawdowns during the quarter. However, we did have cash distribution from HarbourVest of approximately £5.75m

1.14. As Table 5 shows, the Fund's Fixed Income/Multi-Credit, Property, Private Equity and Diversified Growth allocations are close to the strategic asset allocation levels. The Fund remains above the target in active and passive equities and cash, but is below target for passive index linked, infrastructure (although increasing vs last quarter), and affordable housing.

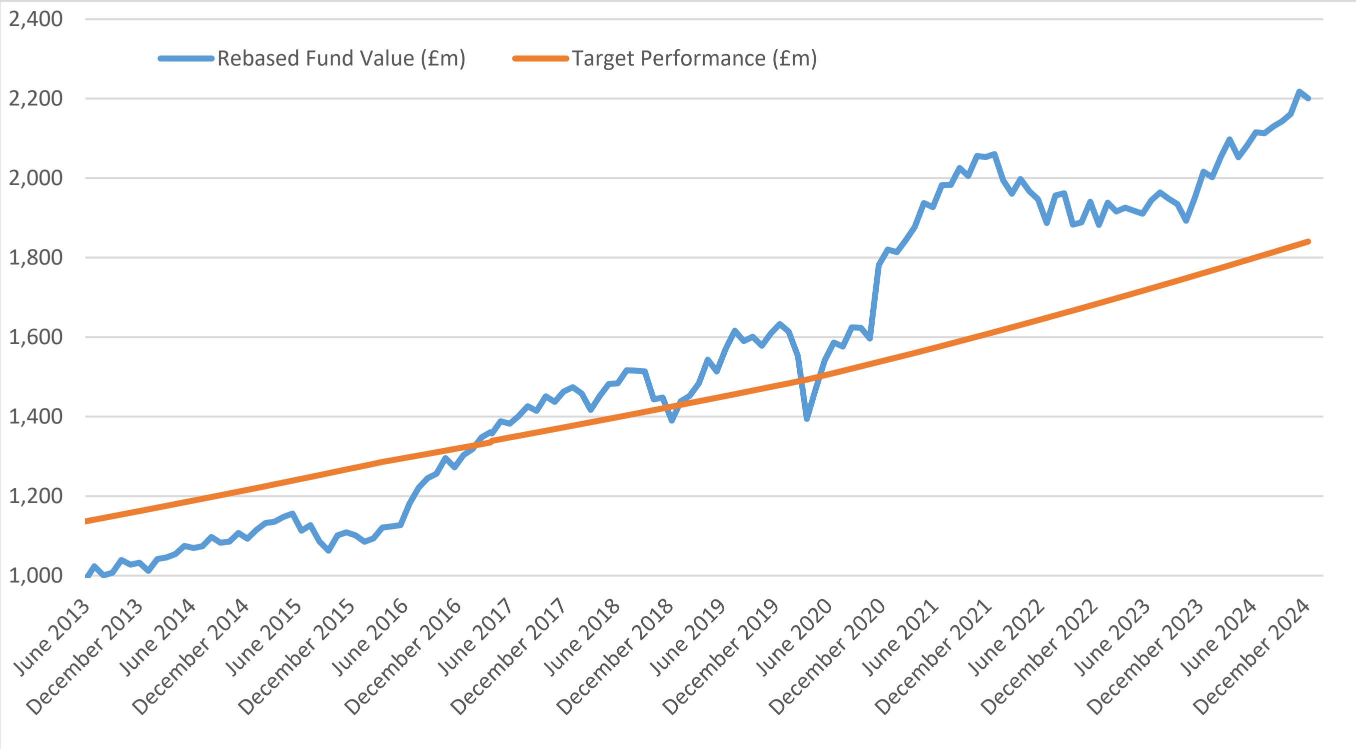
**TABLE 5: ASSET CLASS OPERATING RANGES**

| **Asset class** | **Value £m** | **Actual %** | **Target %** |
|---|---:|---:|---:|
| Active equities | 271 | 12.3% | 10% |
| Passive equities (ESG focused) | 904 | 41.1% | 35% |
| Fixed Income/Multi Asset Credit | 333 | 15.1% | 15% |
| Passive Index linked gilts | 137 | 6.2% | 8% |
| Property | 225 | 10.2% | 11% |
| Private equity | 43 | 2.0% | 2% |
| Infrastructure | 124 | 5.6% | 9% |
| Diversified growth fund | 95 | 4.3% | 5% |
| Affordable Housing | 29 | 1.3% | 5% |
| Cash | 41 | 1.9% | 0% |
| **Fund** | **2,202** | **100%** | **100%** |

## 2. ASSET PERFORMANCE

2.1. Long-term asset performance remains considerably above the actuary's historic expectations, as shown below in Table 6

**TABLE 6: ASSET PERFORMANCE SUMMARY**




2.2. Comparative benchmarking data from the PIRC universe, which comprises 63 local authority pension funds valued at approximately £266 billion, indicates that the average Local Government Pension Scheme (LGPS) fund return was 3.5% for the quarter ending December 2024. The Camden Fund achieved a return of 2.8% for the quarter, slightly underperforming this benchmark.

2.3. Over the 12-month period, the PIRC universe delivered an average return of 10.5%, with the Camden Fund outperforming at 10.1%. For the three-year period, the PIRC universe average was below 4% per annum, while the Camden Fund returned 2.9%, underperforming the benchmark over this medium-term timeframe.

2.4. A review of Table 7 indicates that the trend of narrowing underperformance observed over the past few quarters has now resulted in performance aligning exactly with the target. However, the Fund's performance over all other time periods still trails the composite benchmark. The primary contributors to this underperformance over the year include Harris (-15.9%) and Partners Group funds (~33%). Baillie Gifford's Global Alpha Growth and CQS+PIMCO's MAC funds also detracted from overall Fund performance, pointing to a challenging environment for certain actively managed funds within the portfolio. Additionally, L&G Global Equity (-0.6%), CBRE (-3.1%) and Baillie Gifford's DGF (-3.2%) contributed modestly to the underperformance, although their weighted average underperformance is comparatively smaller.

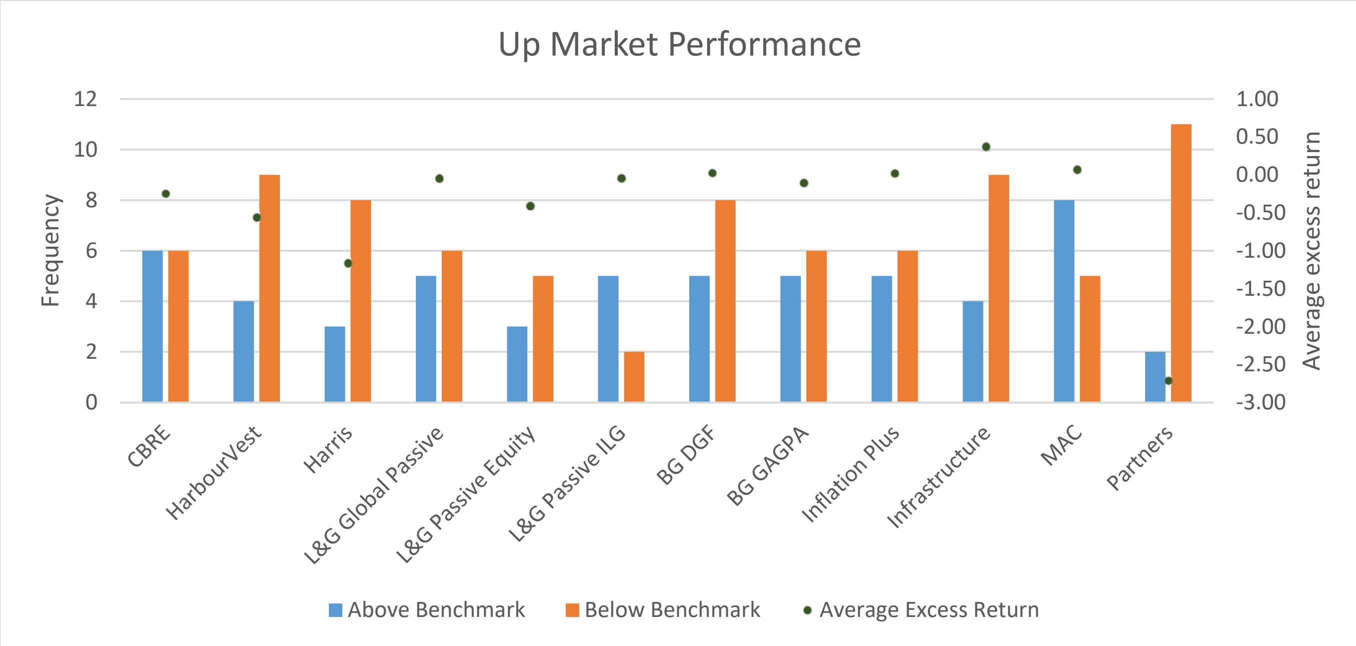
2.5. Positive contributions primarily came from L&G's Future World Equity (+0.2%) and ILG linked funds (+0.6%). Aviva (+1%) and Stepstone (+0.2%) too added to the positive performance although to a lesser extent than the passive strategies.

2.6. Over two and three years, the Fund has underperformed its targets by -3.2% and -5.0%, respectively. These performance gaps may signal the need for continued monitoring of underperforming allocations, particularly in alternative and private market strategies, which are susceptible to prolonged performance lags. Given these results, a review of diversification and risk allocations across the Fund may be warranted to optimize returns without over-relying on underperforming segments.

2.7. Since inception, the Fund has achieved an absolute return of 8.7%, well above the actuary's growth assumption of 4.5%. While the Fund's overall long-term performance remains robust, its recent challenges with specific active and alternative investments highlight the value of proactive portfolio adjustments to mitigate volatility. With shifts in market dynamics, such as rate cuts and sector rotations, reinforcing a diversified strategy with a balanced active-passive allocation could prove advantageous for sustaining returns aligned with funding objectives.

## TABLE 7: MANAGER PERFORMANCE VS TARGET

| Investment Manager | Trailing 3 Months | Trailing 1 Year | Trailing 2 Years | Trailing 3 Years | Since Inception |
|---|---|---|---|---|---|
| **Harris** | 3.2 | 7.2 | 10.4 | 5.4 | 9.8 |
| Global Equities (Gross) + 2.5% | 6.8 | 23.1 | 20.9 | 11.5 | 14.9 |
| Excess Return | **-3.7** | **-15.9** | **-10.5** | **-6.1** | **-5.0** |
| **Baillie Gifford GAG PAF (London CIV)** | 4.3 | 16.7 | 14.1 | 1.1 | 11.0 |
| Global Equities (Gross) +2.5% | 6.8 | 23.1 | 20.9 | 11.5 | 14.4 |
| Excess Return | **-2.5** | **-6.4** | **-6.8** | **-10.3** | **-3.4** |
| **L&G Future World global equity** | 5.9 | 20.5 | 18.5 | 8.4 | 10.0 |
| Solactive L&G ESG Global Markets | 5.8 | 20.2 | 18.2 | 8.2 | 11.1 |
| Excess Return | **0.1** | **0.2** | **0.3** | **0.3** | **-1.1** |
| **L&G global equity** | 6.0 | 19.2 | 17.4 | 8.5 | 12.8 |
| FTSE All-World + 0% | 5.9 | 19.8 | 17.7 | 8.7 | 12.8 |
| Excess Return | **0.1** | **-0.6** | **-0.3** | **-0.2** | **-0.0** |
| **CQS & PIMCO (LCIV)** | 0.7 | 8.1 | 9.6 | 3.4 | 3.7 |
| 3 Month SONIA +4.50% | 2.3 | 9.8 | 9.7 | 8.6 | 6.8 |
| Excess Return | **-1.6** | **-1.7** | **-0.0** | **-5.1** | **-3.1** |
| **L&G passive ILG** | -7.3 | -10.8 | -5.8 | -18.5 | 2.9 |
| FTSE > 5yr Index Linked Gilts + 0% | -7.5 | -11.4 | -6.1 | -18.3 | 2.7 |
| Excess Return | **0.2** | **0.6** | **0.3** | **-0.1** | **0.2** |
| **CBRE** | 1.9 | 3.3 | -3.3 | -2.2 | 5.5 |
| All Balanced Property Funds + 1% | 2.7 | 6.4 | 2.9 | -1.1 | 6.6 |
| Excess Return | **-0.7** | **-3.1** | **-6.3** | **-1.1** | **-1.1** |
| **Partners 2009 Euro fund** | 1.2 | -11.3 | -15.7 | -6.8 | 4.2 |
| Absolute 15% | 3.6 | 15.0 | 15.0 | 15.0 | 15.0 |
| Excess Return | **-2.4** | **-26.3** | **-30.7** | **-21.8** | **-10.8** |
| **Partners 2013 USD fund** | 6.4 | -25.1 | -22.4 | -12.5 | 4.7 |
| Absolute 15% | 3.6 | 15.0 | 15.0 | 15.0 | 15.0 |
| Excess Return | **2.9** | **-40.1** | **-37.4** | **-27.5** | **-10.3** |
| **Partners 2017 USD fund** | 1.5 | -17.5 | -16.4 | -5.6 | 1.2 |
| Absolute 15% | 3.6 | 15.0 | 15.0 | 15.0 | 15.0 |
| Excess Return | **-2.1** | **-32.5** | **-31.4** | **-20.6** | **-13.8** |
| **HarbourVest** | 7.3 | 5.2 | 1.6 | 4.8 | 19.2 |
| Absolute 8% | 1.9 | 8.0 | 8.0 | 8.0 | 7.9 |
| Excess Return | **5.4** | **-2.8** | **-6.4** | **-3.2** | **11.3** |
| **Stepstone (London CIV)** | 1.1 | 9.2 | 7.0 | 9.8 | 5.4 |
| 9% p.a net | 2.2 | 9.0 | 9.0 | 9.0 | 8.8 |
| Excess Return | **-1.1** | **0.2** | **-2.0** | **0.8** | **-3.5** |
| **Aviva (London CIV)** | 2.2 | 6.2 | -3.0 | -6.4 | -6.2 |
| RPI + 1.75% | 1.3 | 5.3 | 6.1 | 9.1 | 9.3 |
| Excess Return | **0.9** | **1.0** | **-9.1** | **-15.5** | **-15.5** |
| **Affordable Housing (London CIV)** | -0.5 | 0 | 0 | 0 | -1.2 |
| RPI + 1.75% | 1.5 | 0 | 0 | 0 | 5.5 |
| Excess Return | **-2.0** | **0.0** | **0.0** | **0.0** | **-6.7** |
| **Baillie Gifford Diversified Growth Fund (LCIV)** | -2.4 | 5.6 | 5.1 | - | 0.1 |
| SONIA +3.5% | 2.1 | 8.8 | 8.5 | - | 7.6 |
| Excess Return | **-4.5** | **-3.2** | **-3.4** | **-** | **-7.5** |
| **Total Fund** | **2.8** | **10.1** | **9.1** | **2.9** | **8.7** |
| Total Fund Composite Target | **2.8** | **13.1** | **12.3** | **7.9** | **10.8** |
| Excess Return | **0.0** | **-3.0** | **-3.2** | **-5.0** | **-2.1** |




The "Up Market" analysis examines the ability of different funds to outperform their benchmarks during rising market conditions. The chart and table indicate how frequently each fund exceeded or lagged behind its respective benchmark and the average excess return generated.

Key Takeaways

1. Stronger Performers in Up Markets
   - LCIV MAC Fund: Outperformed its benchmark in 62% of instances, indicating a strong ability to capture upside in rising markets. The average excess return is positive (0.07), reinforcing its resilience in growth conditions.
   - L&G Passive ILG: Exceeded its benchmark 71% of the time, the highest hit rate, but with a minimal average excess return of -0.04, suggesting limited upside capture despite strong relative performance frequency.
   - Infrastructure Fund: Though it only outperformed 31% of the time, it had the highest average excess return (+0.38), meaning that while it underperformed often, when it did outperform, it did so significantly.
2. Funds Struggling in Up Markets
   - Partners Group: Performed below its benchmark 85% of the time, with a significant average underperformance of -2.71, indicating that it does not participate well in rising markets.
   - Harris Global Equities: Underperformed 73% of the time, generating an average excess return of -1.16, highlighting weak upside participation.
   - HarbourVest: Underperformed 69% of the time, with a negative average excess return of -0.56%, suggesting that private equity exposure has struggled to capture upside during rising markets. This could be due to valuation lags, delayed capital deployment, or sector-specific headwinds in private markets.
3. Balanced Performers
   - L&G Global Passive and Baillie Gifford GAGPA outperformed their benchmarks 45% of the time, with near-neutral excess returns (-0.05 and -0.10, respectively), showing a balanced performance profile.

Implications for the Pension Committee

- Diversification Insights: The Committee should consider the role of these funds in the overall portfolio. Some underperformers may still serve a defensive role, while others may need reassessment for future allocations.
- Strategic Positioning: If the expectation is for sustained market growth, funds with high upside capture (MAC, Infrastructure) may warrant higher allocations.

- Risk Considerations: Funds with frequent underperformance (Harris, Partners) may need a review of strategy alignment with Fund objectives.

2.8. 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 2024 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.

2.9. Table 8 shows that the best performing fund was the Inflation Plus Fund and L&G's Passive Equity Funds. At the other end of the scale, some of the poorest performers in the portfolio are L&G's ILG and Partners Group funds (mainly due to increases in interest rates). The most volatile fund is the Partners Group fund.

**TABLE 8: RISK VS REWARD**

| Manager | Risk | Reward | Risk Reward Ratio | Rank |
|---|---|---|---|---|
| LCIV Inflation plus | 2.2 | 6.2 | 2.8 | 1 |
| L&G Future World Global Equity | 7.9 | 20.5 | 2.6 | 2 |
| L&G Global Passive | 7.7 | 19.2 | 2.5 | 3 |
| CBRE | 1.5 | 3.3 | 2.2 | 4 |
| LCIV Infrastructure | 5.0 | 9.2 | 1.9 | 5 |
| LCIV Baillie Gifford GAGPA | 10.9 | 16.7 | 1.5 | 6 |
| LCIV MAC | 7.9 | 8.1 | 1.0 | 7 |
| LCIV Baillie Gifford DGF | 5.6 | 5.6 | 1.0 | 8 |
| Harris | 8.0 | 7.2 | 0.9 | 9 |
| HarbourVest | 6.6 | 5.2 | 0.8 | 10 |
| L&G Passive ILG | 10.1 | - 10.8 | - 1.1 | 11 |
| Partners | 13.1 | - 18.4 | - 1.4 | 12 |
| **Total Fund** | | | **1.6** | |

3. **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.

4. **ENVIRONMENTAL IMPLICATIONS**

4.1. 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.

5. **FINANCE COMMENTS OF THE EXECUTIVE DIRECTOR CORPORATE SERVICES**

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

6. **LEGAL COMMENTS OF THE BOROUGH SOLICITOR**

6.1. 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.

7. **APPENDICES**

**APPENDIX A** – Detailed Market and Manager Performance Review
**APPENDIX B** – Camden Client ranking by Manager