Investment Strategy Next Steps

Implementing the agreed investment strategy for the London Borough of Enfield Pension Fund

At a glance…

This report has been drafted to provide an overview of the various stages required to implement the Fund's revised investment strategy. We focus on the Fund's equity portfolio and also options for the allocations to alternative fixed income and infrastructure. We also provide an update in relation to the redemption terms for the Fund's hedge fund portfolio.

- **Equities:** We review the construction of the Fund's current equity portfolio, provide views on the Fund's current managers and comment on the alternative options available on the London CIV ('LCIV') and highlight the LCIV Sustainable Equity Fund as one which the Committee should consider in more detail. We recommend that the Fund's holdings in the LCIV Global Alpha Growth Fund be moved to the Paris-Aligned version of the fund, to enhance the integration of Environmental, Social and Governance ('ESG') views.
- **Fixed Income:** We comment on the options available from the LCIV for consideration in relation to the allocation to alternative fixed income and recommend that the Committee should consider the LCIV Global Bond Fund in more detail.
- **Infrastructure:** We provide views on the two infrastructure funds available through the LCIV and how they could be used to increase the Fund's allocation to infrastructure.

We also provide a suggested timeline for implementing the various stages of the Fund's revised investment strategy.

Throughout this report we have taken into account the Committee's ESG beliefs and have incorporated this into the consideration of new managers.

In addition, we have only considered options that are available to the Fund through the LCIV, as the move towards pooling the Fund's assets continues.

Why bring you this note?

To provide you with an overview of the various stages required to implement the Fund's revised investment strategy.

Next steps

This report is for discussions at the September 2021 Committee meeting.

The recommended next steps, subject to the agreement of the Committee, include:

- Transitioning the Fund's holdings in the LCIV Global Alpha Growth Fund be moved to the Paris-Aligned version of the fund
- Engaging with the LCIV to further understand their offerings in:
  - Sustainable Equities;
  - Global Bonds; and
  - Infrastructure.

Prepared for: The London Borough of Enfield Pension Fund ("the Fund") Policy & Investment Committee ("the Committee")

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Equities

Current allocation

The Fund's current equity allocation is based on a 'core-satellite' approach that the Committee previously implemented, whereby the Fund holds both passive (i.e. 'core') holdings to provide equity market beta and active (i.e. 'satellite') holdings that provided the opportunity to outperform and deliver returns above the general market.

This approach reduces the Fund's reliance on one of either the general market or manager skill to deliver returns, and we believe that a combination of passive and active managers remains appropriate for the Fund.

The Fund has recently moved its passive equity holdings to the BlackRock ACS World Low Carbon Equity Tracker Fund ('BlackRock World Low Carbon Fund') and the remaining active managers are the LCIV Emerging Market Equity Fund (managed by JP Morgan), the LCIV Global Equity Focus Fund (managed by Longview), the LCIV Global Alpha Growth Fund (managed by Bailie Gifford) and the MFS Global Unconstrained Fund.

The growth style bias of Baillie Gifford in particular means that the Fund's equity holdings have a slight growth bias overall which has had a positive impact on the performance of the Fund's equity portfolio over recent years.

The table below outlines the valuation of the Fund's equity portfolio as at 30 June 2021.

Equity allocation as at 30 June 2021

	Market Value (£m)	Percentage of Fund assets (%)
BlackRock World Low Carbon	236.7	16.2
MFS Global Unconstrained	151.0	10.3
LCIV Global Alpha Growth Fund (Baillie Gifford)	124.5	8.5
LCIV Global Equity Focus Fund (Longview Partners)	96.7	6.6
LCIV Emerging Market Equity Fund (JP Morgan)	37.1	2.5
Total	**646.0**	**44.2**

Source: Northern Trust
Note: we have excluded the Trilogy holding as it is immaterial and being divested.

The Fund's combined equity portfolio made up 44.2% of the Fund's total assets as at 30 June 2021, which is an overweight position relative to the strategic benchmark weight of 35.0%.

Balancing equity management styles

Passive vs. active management

The Fund has held active and passive funds for an extended period of time, as part of the aforementioned core-satellite approach. To help assess whether the Fund's passive and active equity managers have delivered on their objectives, we have included some performance information below.

The Fund has been invested with BlackRock, as its passive equity fund manager, since 2009. The aim of the passive fund is to track the performance of a market index (as opposed to outperforming it) and, although the index has changed recently to be a low carbon index, BlackRock's relative performance has been within the expected tolerance of the respective index it has been aiming to track. Aon's Manager Research Team Buy-rate BlackRock's ability to passively track an index and if our view of the manager should change, we would highlight this to Officers and the Committee. To this extent, we are comfortable that the Fund's passive equity allocation has delivered on its objective.

The Committee have previously expressed a view that they believe in active management within elements of the Fund's portfolio and we have assumed that this view has not changed.

We have included below details of the Fund's active global managers' performance relative to their respective benchmarks, to help assess whether the Fund has historically benefitted from the manager skill, and associated outperformance of the index, that active mandates should bring.

Performance relative to benchmark of the Fund's active equity mandates as at 30 June 2021

	1 years (% p.a.)	3 years (% p.a.)
MFS Global Unconstrained	+0.5	+0.5
LCIV Global Alpha Growth Fund	+5.4	+5.4
LCIV Global Equity Focus Fund	+1.6	n/a
LCIV Emerging Market Equity Fund	+4.6	n/a

Source: Northern Trust, LCIV
Note: LCIV EM benchmark is MSCI Emerging markets, other benchmarks are MSCI All Country World Index. Net of fees.

Broadly, the active equity managers have added value, most notably the LCIV Global Alpha Growth Fund, which is managed by Baillie Gifford.

Based on the historical performance and the diversification provided by the core-satellite equity allocation, we continue to believe that a mix of active and passive equity funds is a suitable approach for the Fund's equity portfolio.

Equity Style bias

Each of the Fund’s active equity managers has a certain style bias and, as a result, there has been considerable deviation in performance between the various equity funds.

The main three style biases we refer to are value, growth and quality:

- **Value stocks** are companies that are currently considered to be trading below what they are actually worth and therefore will provide a better return. They are usually larger, more well-established companies that have a stable dividend pay-out history.
- **Growth stocks** are those companies that are considered to have the potential to outperform the overall market over time because of their future potential. This may be due to their better product/line of products/technological property/business model compared to their competitors.
- **Quality** stocks are companies which have low debt, stable earnings, consistent asset growth, and strong corporate governance.

In addition to the above, core management is defined as being broadly balanced between different styles (i.e. is ‘style-neutral’), where the manager purely focuses on stock selection to deliver outperformance.

Since the start of the COVID-19 pandemic, investors have continued to pay a premium for stocks with resilient earnings and structural growth, particularly if that growth is linked to an internet-based business model. In contrast, lower valued, cyclical, businesses have remained out of favour. The business cycle, which in the normal course of events would help weed out weaker businesses and favour industry leaders, has been suppressed by the flow of cheap central bank finance.

However, simply because a certain style has outperformed in recent history does not mean it should be favoured going forwards. Indeed, we have begun to see valuations on growth stocks strained somewhat and other style biases outperform in certain quarters in 2021 (notably value outperforming growth in Q1 2021).

Therefore, we would argue in favour of maintaining a balance of manager styles within the Fund's equity portfolio going forwards, to diversify style exposure and rely on the active management element to deliver outperformance. Within the portfolio we would favour tempering but not eliminating the growth exposure and anchoring the core of the portfolio more around a quality / growth profile.

We will discuss the style associated with each manager in the context of our proposed portfolios later in this report.

Number of equity managers

As part of the recent investment strategy review discussions, the Committee expressed a desire to reduce complexity within the Fund’s overall portfolio where possible. One way of doing this could be to reduce the number of managers that the Fund has investments with, which would also help reduce the governance requirements of the Committee.

We believe that the Committee can broadly take two approaches to the current equity portfolio:

- **Simplified**. Remove an active equity manager. This would reduce the governance requirements of monitoring the mandates (more specifically, the active equity mandates) and simplify the portfolio. However, it would increase the manager concentration risk within the portfolio. Although it is possible to do so, any additional reduction in the number of managers beyond this would further increase the manager concentration risk and the possibility of excessive style risk within the portfolio.
- **Increased Diversification.** Maintaining the same number of active equity managers as current. Whilst this approach does not reduce the governance requirements, it does reduce the Fund's reliance on individual active managers to deliver outperformance.

We highlight some potential portfolios for the Committee to consider later in this report.

Choosing the right manager

We have included below a short summary of each of the Fund's current equity managers and our recommendation for action in relation to each.

BlackRock

ACS World Low Carbon Equity Tracker Fund (Passive, Aon "Buy-rated")

- Earlier in the year the Committee chose to move the Fund's passive equity portfolio with BlackRock to an alternative, low carbon, fund, still with BlackRock. This fund aims to track the MSCI World Low Carbon Target Reduced Fossil Fuel Select Index.
- The objective of the benchmark that the fund aims to track is to minimise carbon exposure and exclude companies with exposure to fossil fuels, whilst achieving a target level of tracking error relative to the broad market index. To date, the strategy appears to have delivered on its objective.
- While we do not specifically Buy-rate this approach, we do Buy-rate Blackrock as a passive equity manager, and we are comfortable that the fund should achieve its carbon targets in a relatively risk controlled manner.
- **No change recommended.**

LCIV Emerging Market Equity Fund

JP Morgan Emerging Market Equity Fund (Active, Aon "Not Rated")

- JP Morgan is a well-known diversified asset manager with a large and successful Emerging Markets franchise. The suite of equity strategies follow a long term, low turnover quality and growth orientated investment style that have generally delivered good results.
- The addition of Emerging Markets exposure provides regional equity diversification within the Fund's overall equity portfolio. As an active manager, JP Morgan have the ability to outperform their benchmark.
- Whilst we tend to prefer smaller organisations and more nimble approaches in Emerging Markets, the JP Morgan strategy should be a steady and dependable strategy capable of delivering good investment results. Therefore, we believe that there is no change needed.
- **No change recommended**

LCIV Global Alpha Growth Fund

Baillie Gifford Global Alpha Growth Fund (Active, Aon "Buy-rated")

Style - Growth

- Baillie Gifford is a long established, stable, Edinburgh based partnership and remains one of Aon's favoured diversified growth equity strategies. The Global Alpha fund is the more diversified of the manager's global equity strategies and has an excellent track record dating back to its inception in 2005.
- 2021 has seen the retirement of one of the three original founders of the Global Alpha strategy, Charles Plowden. The other two founder portfolio managers remain in place and have been joined by internal appointee, Helen Xiong, in a typically well managed Baillie Gifford transition. We have met with Helen Xiong and our view is that she is a capable investor who will enhance the Global Alpha team, especially in considering ESG.
- We believe that the Baillie Gifford Paris Aligned version of the Baillie Gifford fund available through the LCIV provides a good opportunity to further integrate ESG into the equities portfolio. We have not specifically reviewed or rated the Global Alpha Paris-Aligned strategy but we see no reason why the Paris-Aligned fund should not be able to mimic the successful record of the original strategy.
- Global Alpha's growth style naturally commands a lower carbon profile than the broad benchmark as it leans towards internet business models, technology and service businesses and away from slower
- growing, more asset based businesses which typically have a higher carbon footprint. Therefore, holdings overlap between the two Global Alpha approaches is in excess of 90% and we would expect the growth style bias to be similar.
- We would note that Baillie Gifford also offer a Positive Change Equity Fund, which provides a more impact-orientated ESG investment philosophy, is more aligned with the current Baillie Gifford fund in its

Recommendation

We recommend to transfer the Fund's investment from the LCIV Global Alpha Growth Fund to the LCIV Global Alpha Growth Paris Aligned Fund.

high growth, highly concentrated, long-term outlook and is “Buy-rated” by Aon. However, this fund is not available on the LCIV platform.

LCIV Global Equity Focus Fund

Longview Global Equity Fund (Active, Aon “Buy-rated”)
Style – Slight Value & slight Quality

- Longview is a highly successful boutique equity manager whose impressive long term track record suffered a major blow in the Covid-19 sell-off of 2020. Its quality / value portfolio was not well placed for this extreme event due to its financial holdings, businesses hit by the global lockdown and a lack of exposure to defensive internet based businesses. Unfortunately, this challenging period also saw a second key investment staff departure, CIO Alistair Graham (Ramzi Rishani left in 2018). Two internal promotions to CIO and Head of Research ensured continuity and when we reviewed the strategy in late 2020, we reaffirmed our ’Buy‘ rating whilst recognising that the ‘new’ leadership needed to quickly establish its credibility.
- Performance has improved under their watch although market conditions have also been more favourable for quality/value. Longview's track record remains impressive over longer periods, and attribution analysis shows a significant contribution from stock selection, which is consistent with their process.
- Overall, we remain comfortable that, aside from a slight downgrade of our view of Longview staff and under-performance which we believe is short-term, the manager can deliver on the long-term performance objective. We would also note that the slight value / quality style bias of the fund provides a good counterbalance to the growth bias elsewhere in the equity portfolio (notably Baillie Gifford).
- Longview remain “on watch” within the LCIV and we note there are discussions ongoing between LCIV and the underlying investors in the fund in relation to alternative options. We do believe that there is therefore a governance risk involved with remaining in the fund, as the LCIV may make the decision to change the underlying manager, which could lead to a shift in the style bias of the fund depending on the option chosen. If this were to occur, we would recommend the Committee undergo necessary due diligence on the proposed replacement manager to determine its suitability for the Fund.
- Longview remains on Aon’s ’Buy‘ list albeit with a reduced level of conviction while we monitor how the new key decision makers perform.
- **Consider changing investment in context of number of desired equity managers and the view of the LCIV**

MFS

Global Equity Fund (Active, Aon “Qualified”)
Style - Quality & slight Growth

- The long serving and highly successful lead portfolio for MFS Global Equity, David Mannheim, retired in 2018 with the experienced Ryan

McAllister joining in a smooth transition. However, this did not alleviate our concerns that the portfolio team had become somewhat entrenched in its views and, in particular, had missed out on some key, successful ideas generated by its global research team, notably in the Technology sector, which had negatively impacted relative performance. We subsequently downgraded our recommendation from 'Buy' to 'Qualified' recognising that this was still a capable team but no longer one of our best ideas.

- MFS have delivered good performance over the duration the Fund has been invested, although in 2020 and 2021 the strategy has moderately underperformed, reflecting the relatively weaker performance of its quality style and, we would argue, a lack of established growth exposure which was one of our original concerns.
- We do not believe that a 'Qualified' rating alone would be sufficient to argue for a redemption from MFS, given performance has been good and we believe the strategy remains suitable for pension schemes to invest in. However, we believe that there are other alternative equity managers available on the LCIV which can also support the Committee's strong ESG beliefs and provide a more complimentary style bias to the Fund's other equity managers.

Recommendation

We believe the Committee should consider alternative manager offerings as a potential replacement for the MFS equity fund.

Alternative global active equity mandates

We have considered below active equity funds available on the LCIV, which we believe are suitable replacements for one or both of the Longview and MFS mandates.

Note that we have omitted the Baillie Gifford Paris Aligned fund as we have already included a recommendation on this earlier in the paper, to transfer funds from the current Baillie Gifford fund in which the Fund is invested to the Paris Aligned version.

Morgan Stanley

LCIV Global Equity Core Fund (Active, Aon "Not Rated")

Style - Quality & slight Growth

- New York based global investment bank Morgan Stanley has an excellent long term track record from investing in high quality, long term franchise type businesses.
- Aon has a fundamental Buy rating on the London investment team's Global Franchise product. Global Core Equity is a derivation which specifically excludes companies involved in certain industries (tobacco, alcohol, adult entertainment, gambling, gas/electric utilities, fossil fuels, civilian firearms and weapons).
- In reality, there is a high level of overlap with the main Aon Buy rated Franchise strategy though the later does have some tobacco and drinks company holdings.
- Performance has been challenged over the past 12 months as the manager has a high conviction focus on quality stocks which were less favoured during both the Covid-19 sell-off (growth stocks preferred) and subsequent 'vaccine rally' (value/cyclical stocks preferred).

- We expect the long term pattern of positive returns to be restored given the strength of the team and the robust underlying portfolio holdings.

Newton

LCIV Global Equity Fund (Active, Aon "Not Rated")

Style – Modest quality / large cap bias

- Newton is a London based investment manager and part of the BNY Mellon financial services group.
- The Global Equity strategy has a modest quality / large cap bias and is not rated by Aon.
- Newton has seen more turnover in senior staff than we would like though there has been more consistency on this product under the leadership of Jeff Munroe.
- The track record has been patchy with little value added against benchmark over most trailing time periods and a steady level of outflows has left the strategy with relatively modest assets of just over £4bn by mid-2021.
- We understand that Newton were on "watch" with the LCIV for a period recently.

RBC

LCIV Sustainable Equity Fund (Active, Aon "Not Rated")

Style – Core, with slight Quality & slight Growth

- RBC Global Asset Management is owned by Royal Bank of Canada with the team managing the Global Sustainable Equity product based in London. The Global Focus strategy is managed with a fundamental, bottom-up approach complemented by extensive risk management processes to control unintended portfolio risks. In our view lead portfolio manager, Habib Subjally, and his team supporting are of high quality. The performance track record is strong and consistent.
- We believe that the experienced team and their disciplined quality criteria, coupled with their view of ESG factors as a material determinant
- of investment decisions, differentiates this strategy from its peers. Risk control is key and integral to the investment approach.
- RBC has a tilt away from value and towards growth/quality characteristics.
- We do not formally rate this fund, but we do 'Buy' rate other RBC global equity strategies that are run by the same team and share the same philosophy, process and risk framework.
- Aon also does not formally rate the 'Exclusion' version of the strategy, which the LCIV Sustainable Equity Exclusion Fund invests in, but in broad terms the same comments apply.

Note

We have a slight preference for the LCIV Sustainable Equity Fund over the other options available on the LCIV, as it has more of an ESG focus. In turn, we have a slight preference for the LCIV Global Equity Core Fund over the LCIV Global Equity Fund, given the ESG overlay and governance risks of investing in the LCIV Global Equity Fund, given that the underlying manager was on "watch" by the LCIV for a period recently.

Proposed global equity portfolios

As mentioned previously, we recommend the Committee make no change to the passive BlackRock Low Carbon and LCIV Emerging Markets Equity funds.

Therefore, in our alternative equity portfolios for consideration below, we have only reflected on the combinations of active managers. We have created portfolios that account for:

- **Any concerns** from Aon or the Committee about the manager or underlying fund, including performance;
- **Managing the growth style bias** that arises from having the Baillie Gifford investment; and
- **ESG integration** into the portfolio:
  - Aon expects any recommended active equity managers to be able to demonstrate a good level of organisational commitment to Responsible Investing (e.g. UN PRI signatory, senior accountability, voting and engagement policies etc.) and to integrate the consideration of ESG risks and opportunities across all investment decisions.

Alternative Portfolio 1

Current	Alternative Portfolio 1
MFS Global Unconstrained	-
LCIV Global Alpha Growth Fund	LCIV Global Alpha Growth (Paris-Aligned) Fund
LCIV Global Equity Focus Fund	LCIV Global Equity Focus Fund

Comments

- The reduction in the number of equity managers within this option streamlines the portfolio but does increase the manager concentration risk.
- The portfolio continues to include an allocation to the LCIV Global Equity Focus Fund (managed by Longview, a manager that Aon "buy-rates" despite recent changes).
- Longview's slight value and quality style bias provides the best compliment to Baillie Gifford of any portfolios considered.
- However, ESG integration is not as strong as other proposed portfolios.
- One of the key considerations here is if the Committee is comfortable to remain in the LCIV Global Equity Focus Fund, where there is a risk the LCIV may make a decision to change the underlying manager, and the governance cost that could be involved in assessing this move were it to happen.

Alternative Portfolio 2

Current	Alternative Portfolio 2
MFS Global Unconstrained	-
LCIV Global Alpha Growth Fund	LCIV Global Alpha Growth (Paris-Aligned) Fund
LCIV Global Equity Focus Fund	-
-	LCIV Sustainable Equity Fund
-	LCIV Global Equity Core Fund

Comments

- This portfolio has a higher level of ESG integration overall, due to ESG being a focus for each of the underlying funds.
- Maintaining three managers does not reduce the governance requirements, but it does reduce the manager concentration risk.
- The combination of managers results a slightly higher growth style bias within the portfolio.
- The underlying managers of the two additional funds are not 'Buy' rated by Aon, although in the case of the LCIV Sustainable Equity Fund, we do 'Buy' rate other of the underlying managers global equity strategies that are run by the same team and share the same philosophy, process and risk framework.

Alternative Portfolio 3

Current	Alternative Portfolio 3
MFS Global Unconstrained	-
LCIV Global Alpha Growth Fund	LCIV Global Alpha Growth (Paris-Aligned) Fund
LCIV Global Equity Focus Fund	-
-	LCIV Sustainable Equity Fund

Comments

- The reduction in the number of equity managers within this option streamlines the portfolio but does increase the manager concentration risk.
- ESG integration is favourable for both of the funds.
- Given the LCIV Sustainable Equity Fund has more of a core style than the LCIV Global Equity Core Fund, the style bias would also be more diversified than Alternative Portfolio 2, but not Alternative Portfolio 1.
- The same comments as Alternative Portfolio 2, in relation to the underlying manager of the LCIV Sustainable Equity Fund, apply.

Aon Comments on Equity Options

- As highlighted throughout this section of the report, we believe that the Fund should maintain a balance between active and passive management within its equity portfolio.
- In addition, we believe that a balanced style approach should also continue to be adopted within the Fund's equity portfolio, to avoid a strong bias to any one particular style.
- We continue to believe that the BlackRock World Low Carbon Fund is appropriate for the Fund's passive equity allocation.
- Furthermore, we continue to believe that a dedicated allocation to emerging market equities remains appropriate, given the diversification that it brings to the overall equity portfolio.
- Whilst Aon continue to 'buy' rate the underlying fund within the LCIV Global Equity Focus Fund (i.e. Longview), we recognise that there is a risk that, as the LCIV have the manager on 'watch', they may decide to change the underlying manager.
- MFS are the Fund's only equity manager who are not held through the LCIV and, with a number of alternative active equity managers now available on the LCIV, we believe that the Committee should consider alternative manager offerings as a potential replacement for MFS.
- Given the Committee's beliefs in relation to Environmental, Social and Governance issues, we believe that the LCIV Sustainable Equity Fund should be the main alternative option considered from the LCIV. We suggest that the Committee arrange to meet with the LCIV and the underlying manager, RBC, to better understand the offering.

Bonds

Recap – Why Invest in Bonds?

Pension funds typically incorporate bonds into their portfolio to provide protection from interest rate and inflation risk.

The profile of an investor's liabilities can be 'matched' by strategically investing in fixed interest gilts and index-linked gilts. These are extremely low risk investments as they are guaranteed by the UK government.

Matching the duration of the liabilities with gilts, if done effectively, can reduce interest rate and inflation risk.

The 'matching' approach outlined above is particularly beneficial if a pension scheme's liabilities are valued using a gilt-based Actuarial discount-rate. However, in the Fund's case, the discount-rate methodology is more of a risk-based approach (which involved projecting forward investment returns) as opposed to a gilt-based approach.

Therefore, the desirable characteristics of the Fund's bond portfolio can be extended to be:

- Duration exposure;
- Inflation protection;
- Accessing credit returns;
- Diversification (in a number of ways); and
- Income generation.

As well as government bonds mentioned above, fixed income securities can also include investments in non-government bonds.

Non-government bonds can serve to diversify and reduce the volatility of growth assets. This is because, generally, non-government bonds are lower risk should provide downside protection during periods of poor performance in the equity market.

Current allocation

The Fund's current bond portfolio is made up of a range of different investments, as outlined in the table below.

Bond allocation as at 30 June 2021

	Market Value (£m)	Percentage of Fund assets (%)
BlackRock Passive Fixed and Index-Linked Gilts	93.1	6.4
Western Active Bonds	106.7	7.3
Insight Absolute Return Bonds	32.0	2.2
LCIV Multi-Asset Credit	55.8	3.8
Total	**287.6**	**19.7**

Source: Northern Trust

As at 30 June 2021 the allocation to bonds was 19.7%, which is an underweight position relative to the strategic allocation of 24.0%. With the Committee having agreed to make an investment into Liquid Credit to help reduce the Fund's current allocation to Cash, the allocation will move closer towards its strategic allocation, although the Fund's overall allocations will need rebalancing in due course as part of the implementation of the Fund's revised investment strategy.

In addition to the current bond portfolio, as part of the Fund's revised investment strategy, the Committee agreed to make a 5.0% strategic allocation to 'alternative fixed income'. The role of this allocation is to provide further diversification to the current bond assets.

Alternative Fixed Income

The three fixed income funds that are currently available on the LCIV platform are:

- LCIV MAC Fund;
- LCIV Global Bond Fund; and
- LCIV Private Debt Fund.

We provide some information on each of these funds below:

LCIV MAC Fund

The Fund has already had an allocation to the LCIV MAC Fund since November 2018. The MAC fund is currently managed by CQS, but, as the Committee may recall, the LCIV have recently selected PIMCO as a complementary manager to CQS, with the fund being expected to have an equal allocation to CQS and PIMCO once the changes have been made. The latest indication from the LCIV is that this change is expected to take place later in 2021 or early 2022.

As a reminder, the LCIV MAC Fund has an objective to return Cash + 4- 5%, p.a. over a rolling 4-year period, net of fees.

LCIV Global Bond Fund

The LCIV Global Bond Fund is an actively managed portfolio that invests at least two-thirds of its assets in investment grade global corporate and credit instruments. The fund is similar to the Fund's current mandate with Western, in that it invests in corporate bonds, but it adopts a global approach to investing as opposed to the UK focus that Western have.

The underlying manager is PIMCO, and the objective is to outperform the Barclays Aggregate – Credit Index Hedged (GBP) over a rolling three-year period, net of fees.

We are aware that the LCIV have been working with PIMCO recently to enhance the Environmental, Social and Governance integration within the fund and further detail is expected on this in the near future. We view this is as a positive development from the LCIV and PIMCO.

LCIV Private Debt Fund

Private debt is debt which is not financed by a bank and is not issued or traded on an open market in the same way that other debt instruments such as gilts and corporate bonds are. Examples of some elements of the private debt market are infrastructure debt, property debt and direct lending (which involves providing finance to companies, often SMEs).

The LCIV Private Debt Fund currently has two underlying funds which it invests in, one managed by Churchill and the other managed by Pemberton, with the focus of both funds being to lend to companies. The objective of the fund is to generate a 6% - 8% IRR (net of fees) in local currency for the life of the fund. The expected life of the fund is 8 years, with the potential for further extensions with consent.

By their nature, private debt funds are illiquid investments, meaning that they are not regularly traded. This fund is a closed-ended fund and the LCIV have indicated that the second close of the fund is expected to be in mid-October and that this will be the final opportunity to invest in the fund.

The LCIV presented to the Committee at the February 2021 monthly manager meeting, though there were some questions raised about the fund during and post that meeting.

Aon Comments on Alternative Fixed Income Options

With the Fund already having exposure to the **LCIV MAC Fund**, we have not considered this as potential option for the 'Alternative Fixed Income' allocation. Given the changes that are scheduled to occur to this fund, we suggest that the Committee monitor its progress and development over time.

The Fund currently has a significant allocation to UK Corporate Bonds through its holding with Western. Furthermore, with an allocation to Gilts and Index-Linked Gilts in the BlackRock portfolio, the Fund's current bond portfolio does have a bias towards the UK.

Whilst we believe that allocations to UK Corporate Bonds, Gilts and Index-Linked Gilts all retain roles within the Fund's strategy, we also believe that, similar to within the equity portfolio, rather than investing solely in UK focussed assets, the Committee should seek to add diversification by investing more globally.

Investing in a global bond fund would bring added benefits of diversification, by broadening the scope of potential investments. The Fund would be subject to less idiosyncratic risk from the UK economy and could therefore expect to see lower volatility from its non-government bond investment.

With this in mind, we suggest that the Committee arrange to meet with the LCIV and PIMCO to review the **LCIV Global Bond Fund**, with a view to potentially investing in the fund.

For completeness, whilst Aon do not directly rate the LCIV Global Bond Fund, we do 'Buy' rate other PIMCO Global Credit strategies that are comparable.

With the Fund's revised investment strategy seeing an increase in allocation to infrastructure, which is also an illiquid asset class, at the current time we do not believe that the Committee should further investigate the **LCIV Private Debt Fund,** especially given the time constraints with accessing this fund alongside reflecting on the overall illiquidity level as part of the Fund's wider assets.

Infrastructure

Current allocation

The Fund's current's infrastructure allocation is made up of two funds, outlined in the table below.

Infrastructure allocation as at 30 June 2021

	Market Value (£m)	Percentage of Fund assets (%)
Antin	23.3	1.6
IPPL (Listed PFI)	48.3	3.3
Total	**71.6**	**4.9**

Source: Northern Trust

As at 30 June 2021 the allocation to infrastructure was 4.9%, which is an underweight position relative to the previous strategic allocation of 6.0% and the recently agreed revised strategic allocation of 16.0%

The illiquid, closed-ended, nature of the Antin fund means that capital will be drawn down over time. The Fund has committed €25m to the Antin fund and, following the most recent capital call in June 2021, c.82% of this has been called to date (€20.6m).

As part of the revised investment strategy, the Committee agreed to increase the strategic allocation to infrastructure to 16.0%.

London CIV Funds

The LCIV have two infrastructure funds available to investors; the LCIV Infrastructure Fund and the LCIV Renewables Fund. We provide some details on each of these offerings below:

LCIV Infrastructure Fund

- Long term objective is to seek to achieve a net return of 8-10% p.a. and a cash yield of 4-6 % p.a.
- Invests in both brownfield and greenfield investments.
- Targets a minimum of 25% allocation to renewable investments.
- Launch date 31 October 2019
- Size of commitments: £399m from 6 investors (as at 31 May 2021)
- Manager: StepStone

The LCIV have appointed StepStone as their outsourced infrastructure manager, meaning that StepStone select the underlying managers that the fund invests in. The LCIV have input and oversight into which investments are selected and have a right to any investment. It would be possible, in the future, for the LCIV to take on StepStone's role in-house, as their level of expertise increases.

LCIV Renewables Fund

- The Fund focusses on investing in renewable energy – wind, solar, other generation, including biomass, biogas and hydroelectricity / transmission, distribution and other enablers.
- The fund invests in brownfield and greenfield investments.
- Long term objective is to seek to achieve a net return of 7-10% p.a. and a cash yield of 3-5% p.a.
- Launch date 30 March 2021
- Size of commitments: £435m from 5 investors (as at 31 May 2021)
- Underlying Managers: BlackRock, Stonepeak, Quinbrook, Foresight

The LCIV are the investment manager for the fund, with the initial underlying manager selection being advised by Redington. At outset the fund has invested in four underlying infrastructure funds; BlackRock Global Renewable Power Fund III; Stonepeak Global Renewables Fund; Foresight Energy Infrastructure Partners; and Quinbrook Renewables Impact Fund.

Aon Comments on Infrastructure

With the Fund's allocation to infrastructure set to increase, we believe that the Committee should consider the two funds available from the LCIV in more detail.

We are aware that some members of the Committee did meet with the LCIV in February 2021, where the Renewables Fund was discussed, but we would suggest that the Committee arrange to hear from the LCIV again, in relation to both infrastructure funds.

On the face of it, the LCIV Renewables Fund appears to fit strategically with the desired characteristics in terms the ability to implement Environmental Social and Governance factors into the portfolio and we would be supportive of the Committee making a commitment to this fund.

However, given the size of the additional allocation to infrastructure that is required in order to meet the desired strategic allocation (an additional 10%, which is equivalent to c. £140m), consideration should be given to appointing more than one fund. The LCIV Infrastructure Fund has a minimum allocation of 25% to renewables, so one area to question the LCIV on would be the potential overlap between the two funds in this sector of the market.

We understand that the LCIV are targeting Q4 2021 and/or Q1 2022 for the next close of both funds. Therefore, we suggest that the meeting with the LCIV happen in good time, so that the Fund can be in a position to commit to the fund(s) within these timescales.

Hedge Funds

Current allocation

The Fund's current's hedge fund allocation is made up of three funds, as outlined in the table below.

Hedge Fund allocation as at 30 June 2021

	Market Value (£m)	Percentage of Fund assets (%)
CFM Stratus	29.3	2.0
Davidson Kempner	30.9	2.1
York Capital	3.0	0.2
Total	**63.1**	**4.3**

Source: Northern Trust

As part of the revised investment strategy, the Committee agreed to redeem the Fund's hedge funds entirely, resulting a 0% strategic allocation.

Redemptions Terms

York Capital are already in the process of returning capital to the Fund, following the closure of their fund.

Aon's hedge fund research specialists have confirmed that the redemption terms for the Fund's two remaining hedge funds, CFM Stratus and Davidson Kempner are:

- Davidson Kempner: Quarterly redemptions, with 60 days notice;
- CFM Stratus: Monthly redemptions, with 60 days notice.

The combined holdings in these two hedge funds was c.£60m as at 30 June 2021 and once the redemptions notices have been placed and the proceeds have been received, this amount will be available for investment and will help move the Fund towards its revised investment strategy.

Even with the relatively long redemption notice required in each case, careful planning is required to ensure that the proceeds from the redemptions can be invested elsewhere within the Fund's investment strategy in a timely manner, to avoid holding a significant balance in cash for a prolonged period.

Timeline

Within this section of the report we have put together a suggested timeline for implementation of the Fund's revised investment strategy, building on the high-level implementation plan which was discussed earlier in the year.

This timetable provides the Committee with an indication of the various stages in implementing the Fund's revised investment strategy and our current expectations of when each stage will be completed. The exact timings may change, depending on decisions made at each stage.

30 Sep 2021	Oct – Nov 2021	25 Nov 2021

30 Sep 2021 – PPIC Meeting

- Formally agree the revised Investment Strategy Statement ("ISS")
- Present investment strategy review implementation timeline
- Work with the Committee to:
  - Review the **structure of the Fund's equity portfolio** to include;
    - consideration of the active vs passive split and the differing styles of equity management
    - overview of the different equity manager options available on the LCIV
  - **Decision**: In conjunction with the Committee's Responsible Investment views, consider moving the Fund's equity holdings with Baillie Gifford to the Paris aligned version of the Fund
- Review the options for the Fund's alternative **fixed income allocation**

Oct – Nov 2021 – Intra-meeting

- Work with the Officers to:
  - Support the transition of the Fund's equity holdings with Baillie Gifford to the Paris aligned version of the fund through the LCIV
  - Understand the options under consideration by the LCIV in relation the Fund's equity mandate with Longview given the CIV's ongoing concerns in relation to this mandate
  - Consider the timing of submitting redemption requests to hedge fund managers
- Receive presentation(s) from selected LCIV equity managers as part of the Committee's monthly manager meetings
- Receive a presentation from selected LCIV bond managers as part of the Committee's monthly manager meetings

25 Nov 2021 – PPIC Meeting

- Work with the Committee to:
  - **Decision**: Agree any potential final changes to the Fund's equity manager line up
  - **Decision**: Agree appointment for alternative fixed income mandate
  - Consider alternative investment opportunities for the Fund's increased **infrastructure allocation**
- **Decision:** Commit to suitably identified infrastructure fund(s)

Dec '21 – Jan '22 | 27 Jan 2022 | Feb – Mar 2022 | 31 Mar 2022

Intra-meeting

- Work with the Officers to:
  - Support the implementation of the Fund's alternative fixed income mandate
  - Support the implementation of any suitably identified infrastructure fund(s)
- Receive presentation(s) from selected infrastructure manager as part of the Committee's monthly manager meetings

PPIC Meeting

- Work with the Committee to:
  - Review progress of the implementation of the Fund's revised investment strategy
- **Decision:** Commit to suitably identified infrastructure fund(s)

Intra-meeting

- Work with the Officers to:
  - Meet any capital drawdowns from the Fund's new infrastructure commitments
- Support the implementation of any suitably identified infrastructure fund(s)

PPIC Meeting

- Work with the Committee to:
  - Review progress of the implementation of the Fund's revised investment strategy

Conclusion & Next Steps

This report has provided the Committee with an overview of the various stages for implementing the Fund's revised investment strategy.

Focussing first on the Fund's **equity portfolio**, we continue to believe that a balanced approach remains appropriate, both in terms of management approach (active vs passive) and management style (growth vs value vs quality). We recommend that the Fund's holdings in the LCIV Global Alpha Growth Fund be moved to the Paris-Aligned version of the fund and also that the Committee review the LCIV Sustainable Equity Fund in more detail.

For the additional allocation to **fixed income,** we believe that the Fund should diversify its portfolio more globally. We recommend that the Committee review the LCIV Global Bond Fund in more detail.

The increased allocation to **infrastructure** allows the Committee to reflect its ESG beliefs by considering investing into sectors such as renewables. We recommend that the Committee review both of the LCIV's infrastructure funds in more detail; the LCIV Infrastructure Fund and the LCIV Renewables Fund.

In relation to the redemption of the Fund's **hedge fund portfolio,** despite the length of notice periods being relatively long, consideration will need to be given to the timing of the redemption request submissions, to avoid the Fund holding an excess balance in Cash for a prolonged period.

The implementation of the Fund's revised investment strategy will continue into 2022, but there are a number of areas where progress can be made in the near-term. These include making changes to the Fund's equity portfolio (in particular in relation to the Paris-Aligned version of the Global Alpha Growth Fund) as well as engaging with the LCIV and the underlying managers to review their offerings in relation to sustainable equity, global bonds and infrastructure.

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