LONDON BOROUGH OF CAMDEN	Ward: All
REPORT TITLE: Investment Strategy Review	
REPORT OF: Executive Director Corporate Services	
FOR SUBMISSION TO: Pension Committee	**DATE:** 24 July 2023

SUMMARY OF REPORT:
This report presents the results of an investment strategy review by our Investment Consultant, Isio, on the Fund's strategic asset allocation.

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

Contact Officer: Nigel Mascarenhas
Head of Treasury and Financial Services
Finance and Procurement
Corporate Services
Dennis Geffen Annexe
Camley Street. N1C 4DG

Telephone: 0207 974 1904
Email: nigel.mascarenhas@camden.gov.uk

RECOMMENDATIONS:
The Committee is requested to note the contents of this report and agree:

1. The revised Investment Beliefs (Table 3)
2. To change the target asset allocation to that recommended in the High Impact strategy (Appendix A) by (all percentages are proportions of overall Fund assets):
    a) reducing the equity allocation by 10% by decreasing assets with the active equity managers, Baillie Gifford and Harris,
    b) increasing investment in multi-asset credit by 3%
    c) increasing investment in index-linked gilts by 4%
    d) reducing investment in commercial property by 4%
    e) increasing investment in infrastructure by 5%
    f) adding a new asset allocation in affordable housing of 5%
3. To Delegate all matters connected with the implementation of the above changes to the Executive Director Corporate Services, in consultation with the Chair of the Pension Committee

Signed by
Director of Finance **Agreed**

Date **11 July 2023**

1. INTRODUCTION AND BACKGROUND

1.1 The Fund reviews its strategic asset allocation periodically (every 2-3 years). This work is ideally completed just after a triennial valuation which means that members have an up-to-date view of the liabilities and can understand how best to align the investment strategy to these.

1.2 The last asset allocation review was in July 2020 (see item 9 and Appendices) following the triennial valuation in 2019.

1.3 At the last review in 2020 the Pension Committee agreed to implement a long-lease property allocation (now filled by London CIV inflation plus fund managed by Aviva), consider an increase to inflation linked assets (reviewed and completed subsequently) and consider an ESG (Environment, Social and Governance) focussed equity allocation (now managed by Legal and General via their Future World fund).

1.4 Following this review the Fund had to deal with the two events in 2021: the IDeA substitution of funds and the return of funds by one of our managers Barings as they closed their strategy. This prompted an interim review of the asset allocation and rebalancing. This was dealt with as part of the July 2021 Pension Committee agenda (see items 12 and 13). This recommended reducing the overweight to Baillie Gifford active equity by redeeming c£190m and agreed a top-up to the multi-asset credit mandate of £80m.

1.5 The rebalancing report recommended trimming the Harris active equity allocation by £171m and concluding on Fund commitments to exit two managers (Ruffer and Standard Life - £70m together). Additionally, the recommendation was to top-up the index linked gilts holding by £57m, invest £95m in a CIV Diversified Growth Fund (after Barings had returned funds invested in its DGF) and invest £95m in the long lease property fund (concluding the July 2020 investment strategy review).

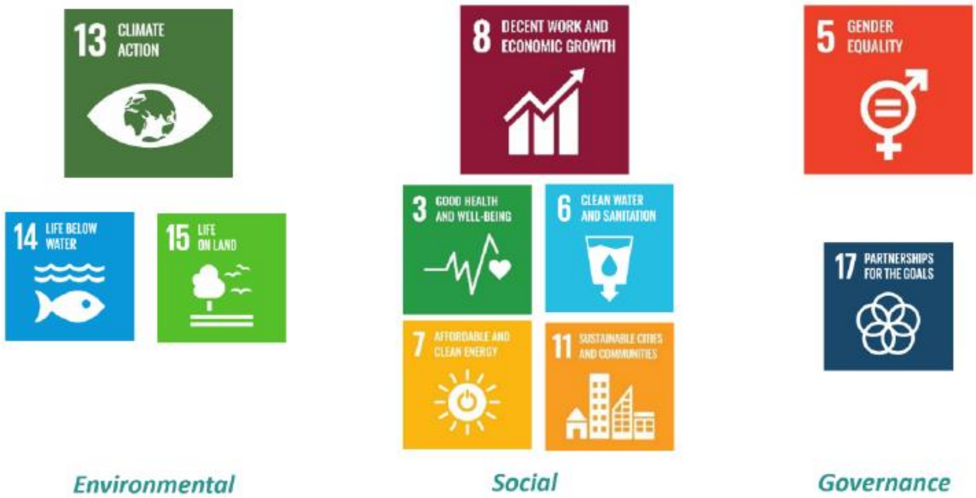
1.6 One of the most important decisions Members of the Pension Committee ever make is the Fund's asset allocation and performance analysis consistently shows that asset allocation is the main driver of Fund performance. Individual managers within each asset allocation are important, but not as important as the overall strategy and asset allocation. Furthermore, the fit and nature of asset classes are important for Funds to ensure they are able to efficiently meet their objectives and also have liquid assets to finance spend on benefits as they fall due.

1.7 The Fund's Investment Consultant, Isio, have been commissioned to review the current Fund structure and Appendix A is their report. They will be attending Committee to present their work and field questions. Members of Pension Committee have also had the opportunity to explore the proposals ahead of the meeting with Isio taking them through their proposals at a meeting arranged just prior to Committee to give Members more time to fully understand the proposals.

2. INVESTMENT BELIEF REVIEW

2.1 Integral to the Investment Strategy review and underpinning the Fund’s values and framework for investing are the Fund’s Investment beliefs and Investment Belief Statement. This was formulated and introduced in November 2019 with the following beliefs (the top row being the primary beliefs in the Environmental, Social and Governance categories):

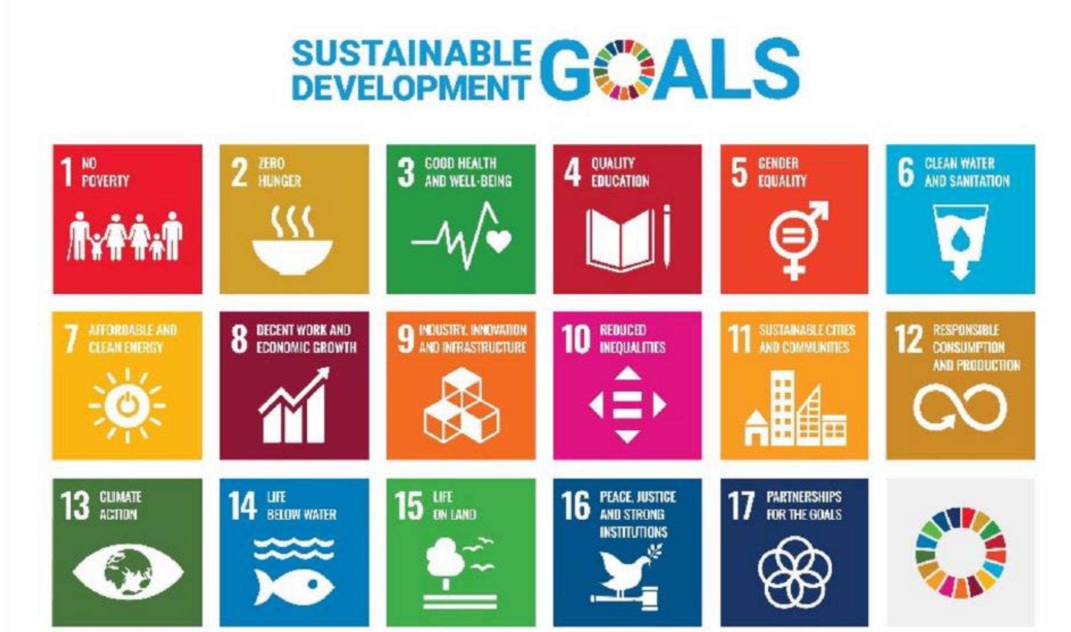
TABLE 1 - November 2019 Investment Beliefs



2.2 A workshop was run for Members of the Pension Committee on 17 October 2022 to review the current Investment Beliefs. This session was facilitated by our Independent Investment Adviser, Karen Shackleton who also has a role in Pensions for Purpose which focuses on Impact Investment.

2.3 The Member workshop reviewed the Fund’s current Investment beliefs and then considered which Sustainable Development Goals (SDGs) should be promoted to the primary goal within each of the three categories of Environmental, Social and Governance, and whether to move forwards with secondary beliefs or bring in new beliefs. The complete set of United Nations SDGs are as follows:

TABLE 2 – United Nations Sustainable Developmental Goals



2.4 It was decided that Climate Action should remain the primary focus in the **Environmental** category but with SDG 7 Affordable and Clean Energy being added as a new goal (alongside Life below Water and Life on Land).

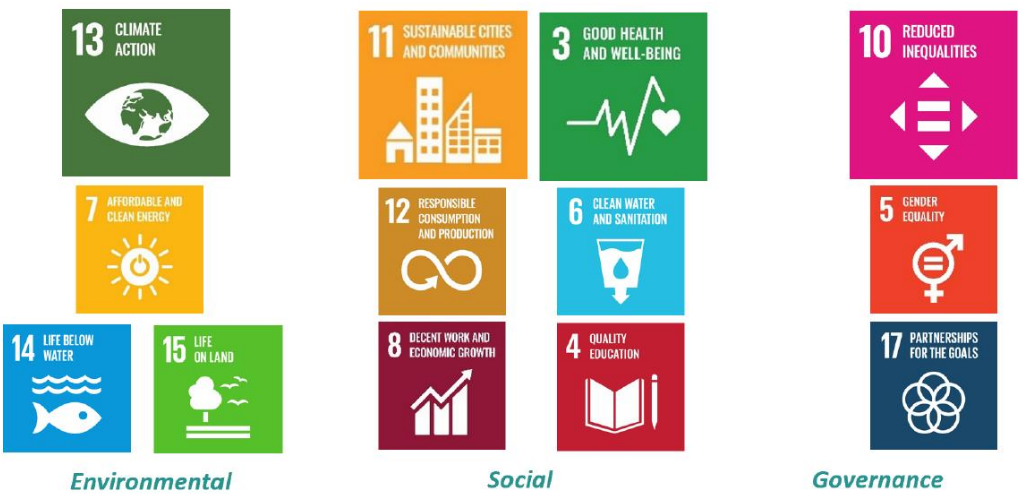
2.5 In the **Social** category SDG 11 Sustainable Cities and SDG 3 Good Health and Wellbeing will be promoted to primary goals. With two new goals this time of SDG 12 Responsible Consumption and production and SDG 4 Quality of Education included.

2.6 It was decided to bring in SDG 10 Reduced Inequalities as the primary **Governance** goal with the previous primary goal of gender equality remaining in Governance but not as the headline this time.

2.7 These beliefs formed the backdrop and part of the brief of the Investment Strategy Review conducted by Isio and underpin everything the Fund does and the decisions made by the Committee.

2.8 The new Investment Beliefs therefore are:

TABLE 3 Investment Beliefs July 2023



2.9 The Council also has established a set of financial beliefs which it uses to guide its approach to markets, asset allocation and investing in general. These are:

- The Fund is a long-term investor and invests predominantly with this time frame in mind – not to make short-term gains.
- Asset mix is important and drives performance over the long-term.
- The Fund will take appropriate professional advice to inform strategy and decision making.
- The Fund believes that there is a place for active and passive management.
- Investment costs are important and should be minimised where possible after taking net performance into account

3. ASSET ALLOCATION BENCHMARKING

3.1 In thinking about our investment strategy it is useful to think about where other Local Government Pension Schemes (LGPS) have positioned their asset allocation. Whilst this provides a useful comparison of course our Fund has its own characteristics in terms of longevity of its members, maturity of the fund (whether we pay out more benefits than contributions each year and how that is changing over time) and the Fund's appetite for risk.

3.2 Our Performance adviser, PIRC, undertake annual analysis on their cohort of 63 LGPS funds with a value of £250bn. Table 4 below shows the 2022 results:

Table 4: PIRC Universe average vs Fund asset allocation

Asset class	PIRC average	Strategic Asset allocation	Actual asset allocation
Equities (active & passive)	**52%**	**50%**	**55%**
UK	10%		
Overseas	42%		
Bonds	**18%**	**20%**	**15.2%**
UK	8%	8%	3.5%
Global	1%	-	-
Absolute return	4%	-	-
Multi Asset credit	4%	12%	11.7%
Private debt	1%	-	-
Cash	**2%**	**0%**	**3.5%**
Alternatives	**17%**	**10%**	**6.9%**
Private Equity	8%	5%	2.8%
Infrastructure	6%	5%	4.1%
Absolute Return	2%	-	-
Private Debt	1%	-	-
Diversified growth	**2%**	**5%**	**4.6%**
Property	**9%**	**15%**	**14.8%**
TOTAL	**100%**	**100%**	**100%**

3.3 What this shows is that although the Fund's *strategic* asset allocation to equity is lower than the average (50% v 52%) in reality our *actual* equity allocation is in fact higher (55% v 52%) given the overweight position to the equity asset class.

3.4 In the bond asset class our strategic allocation is higher than the average (20% v 18%) but the actual proportion is lower at 15.2%.

3.5 In Alternatives, the Fund invested in infrastructure and private equity but some of these allocations are now in the distribution phase returning cash to the Fund, so the holdings will naturally decrease over time if no action is taken.

3.6 The Fund has long held investments in property as a reasonably sizeable proportion (10% since 2010) and recently allocated to the London CIV Inflation Plus Fund (Real Estate Long Income managed by Aviva) (5%). The original 10% allocation is diversified equally between UK and global property. As the global manager, Partners, call cash to invest in underlying managers and then return cash once investments mature. This proportion of the Fund will naturally reduce over time as these funds are in the distribution phase. The Fund has allocated to three Partners Funds (the 2009, 2013 and 2017 funds) over the years.

3.7 The 21/22 and 22/23 PIRC Annual reports of the 63 funds they support are summarised below. It is interesting to think about these in the context of our strategy as it provides an insight into how the Fund has performed compared to other LGPS funds over varying time periods. Some headlines are:

- In **21/22** the average number of portfolios per Fund is 16 with only 7 funds with fewer than 10 portfolios
- The average return in 21/22 was 8.6% (Camden achieved 7.0%)
- 13% of assets were invested in **climate-aware** vehicles. This Fund has 26% in the Baillie Gifford Paris-aligned fund and the L&G Future World fund plus 25% of the Stepstone fund is in Renewable energy).
- **22/23 overall fund performance -** the universe median return was -1.6% in 1 year and 9.6% in 3 years. Returns were still very positive in 5 years (6%), 10 years (7.3%) and over 20 years (8.4%).
- The Camden Fund has had varying performance over these time horizons – placing 55%ile in 1 year, pleasingly 17%ile in 3 years, 45%ile in 5 years, 83%ile in 10 years, 68%ile in 20 years and 47%ile in 30 years. This perhaps demonstrates the volatility that the Fund has had within the PIRC universe of Funds.
- **Equity** – in 1 year the Fund was 47%ile and 50%ile in 3yrs. However in longer periods the Fund has struggled in equity investment being 67%ile in 5 years, 87%ile in 10 years and 73%ile in 20 years. Over 30 years the Fund actually appears in the top half (40%ile). This illustrates the issues the Fund has had with its equity managers which dominate the asset allocation.
- **Bonds -** Camden has struggled with our fixed income manager – with performance ranking fourth quartile in all periods apart from

the two shorter term timeframes: 70%ile in 1 year and 47%ile in 3 years.

- **Alternatives** – This continues to be one of the highlights for this Fund with all rankings being in the top third of Fund results. (1 year 20%ile, 3 years 11ile, 5 years 5%ile and 10 years 33%ile).
- **Property** – results have been fairly varied but in the past difficult year the Fund has placed 27%ile but has struggled in three years (85%ile) and has placed around the median in 5 and 10 years.

4. INVESTMENT STRATEGY REVIEW

4.1 Appendix A sets out the detailed work that Isio have completed to review the Investment Strategy. This shows that the current expected return of the Fund is 7.9% compared to the Actuary's required return of 6.1%. The work also shows that based on December 2022 figures the funding level has improved from 113% at the last valuation (March 2022) to an estimated 139%. This is a significant improvement which the Fund will want to protect.

4.2 The current asset allocation compared to the strategic asset allocation shows that equities are overweight by 5% and index-linked gilts are underweight by 4.5%. There is a smaller underweight to private equity of 2.2% and an overweight to cash of 3.5%.

4.3 Value at Risk analysis has been carried out which shows the worst 1 in 20 downside scenarios. A familiar pattern compared to the last review shows that the two largest risks remain interest and inflation and equity risks. If these two risks can be minimised the whole fund risk is reduced.

4.4 As previously stated, the whole exercise conducted by Isio has been completed based on the Fund's revised Investment beliefs (Section 2 Table 3 above).

4.5 The key drivers for any future strategies that Isio suggest are to reduce the equity allocation and increase exposure to inflation linked assets to help manage the key risks mentioned above. In addition, the direction is to increase exposure to flexible mandates like multi-asset credit which provide a wider scope to perform well in the currently volatile market environment, and also to invest in affordable housing and infrastructure so increasing the Fund's focus on ESG impact.

4.6 Appendix A sets out four alternative Investment Strategies (current building blocks, high impact, innovative diversification and significantly lower risk). All four strategies offer similar returns (7.8% in the first three and 7.6% in the final strategy). However, in terms of reducing risk (VaR) the strategies offer varying degrees of de-risking.

4.7 All offer good inflation linkage (upwards of 20%). Officers, the Independent Investment Adviser and Isio all agree that the High Impact strategy should be recommended to this Committee as the preferred strategy to agree as the evolution of current Investment Strategy. This reduces equity by 10% relative to the current allocation - reducing exposure to our two active equity managers (Harris and Baillie Gifford). This also will reduce exposure to two managers who have struggled to meet their performance objectives over time. This move will also reduce our exposure to Harris who has a high carbon footprint and so will positively impact the Fund's footprint.

4.8 The proposed investment strategy tops up the Multi asset credit mandate with the London CIV (managed by PIMCO and CQS) by 3%, reduces exposure to property (CBRE and Partners) and instead invests in Affordable Housing (5%) and adds to the Infrastructure allocation (5%).

4.9 The Appendix also sets out the expected high level ESG impact and fee implications of the proposed strategies.

4.10 The Independent Investment Adviser has reviewed the Investment Strategy review and the investment thesis underpinning these asset allocation changes and is happy to endorse the recommendations of this report.

4.11 The Fund's actuaries, Hymans Robertson, have been consulted on the Investment Strategy Review and are comfortable that a move in investment allocation to the "High Impact" portfolio outlined in this report would still be in-line with their advice and expectations as per the 2022 actuarial valuation.

5. RESPONSIBLE INVESTMENT COMMENTS

5.1 The Fund's Investment Beliefs are key cornerstones which underpin everything the Fund does. Revising these means they embody current Pension Committee members' thinking and enable the strategy to be structured in order to achieve the ambitions set out in the beliefs. Climate action is the key environmental goal and the report sets out the current net zero alignment of investment managers. The Appendix also explores some of the key features of the new investment allocations.

6. ENVIRONMENTAL IMPLICATIONS

6.1 Ensuring that the Fund continues on a journey towards net zero is important to fulfil the Council's aim of reaching this goal. The report discusses additional investment in Infrastructure.

7. FINANCE COMMENTS OF THE EXECUTIVE DIRECTOR CORPORATE SERVICES

7.1 The finance comments of the Executive Director Corporate Services are included in the report.

8. LEGAL COMMENTS OF THE BOROUGH SOLICITOR

8.1 The Local Government Pension Scheme Guidance on Preparing and Maintaining an Investment Strategy Statement dated July 2017 provides in Regulation 7(2) (a) The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, that there should be an investment of money in a wide variety of investments. A properly diversified portfolio of assets should include a range of asset classes to help reduce overall portfolio risk. If a single investment class is not performing well, performance should be balanced by other investments which are doing better at that time. A diversified portfolio also helps to reduce volatility. This report demonstrates that the Pension Committee is discharging its responsibility of reviewing their diversification policy to ensure that the overall target return is not put at risk.

9. APPENDICES

Appendix A – Isio Investment Strategy Review