



## LB Tower Hamlets Pension Committee Presentation

22 September 2020

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# 1 LCIV CIO & Head of Responsible Investment Introduction

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# Jason Fletcher

Chief Investment Officer



### Education

IIMR exams, CFA Society of the UK

BSc Economics degree from the London School of Economics

Downlands School, West Sussex and Haywards Heath 6th Form College

### Skills

Active Equities

Factor based Investing

Derivatives

Building Investment teams

Responsible Investment and Engagement

Asset Allocation

Manager Selection

Fund Management

Private Markets

Hedge Laying

Racquet Sports

### Regulation

- SMF3 Executive Director, SMCR certifications, CF30 and CF27
- Cost Transparency Initiative and Pensions Leadership Group.

Experience	Years (29)
London CIV CIO	July 20- Present
LGPS Central CIO	2 ½ years
West Midlands Pension Fund CIO	1 year
USS Investment Management DCIO and Equities Manager	21 years
British Airways Pensions Investment Trainee and Investment Analyst	5 years

# Jacqueline Jackson

Head of Responsible Investment



## Education

CFA ESG Level 4

Sustainable Finance at The Smith School of Enterprise and the Environment, University of Oxford

Alt MFA, Fine Art, London

MFA (and BFA) in Fine Art, The Ruskin School of Drawing and Fine Art, University of Oxford

## Skills

- Responsible Investment
- Climate Analytics
- Environmental Factors
- Socioeconomic Analysis
- ESG Data Gathering
- Stewardship
- Managing Teams
- Training and Workshop Delivery
- Research
- Presentation and Design
- Manager Selection
- Project Management
- ESG Strategy Development
- ESG Strategy Implementation
- ESG Integration
- Responsible Investment Reporting
- Saxophone
- Conceptual Art
- Carpentry
- Welding

*Jacqueline is a responsible investment professional and conceptual artist. She is committed to supporting the UN Sustainable Development Goals to tackle the global challenges we face, recognising that environmental and socioeconomic factors are not just a moral imperative but an economic necessity. She has experience delivering [public speaking](#) and training on responsible investment, [podcasts](#) on climate change and [environmental publications](#). Her artwork has been featured in the Times and Art World Magazine. This year is curating a piece for Kensington + Chelsea Art Week 2020. Jacqueline lives in Newham but spends most of her time in Southwark, Islington, Hackney or Tower Hamlets.*

Experience	Years (12)
London CIV Head of Responsible Investment	June 2020- Present
S&P Global Director, Business Development, Responsible Investment	3 ½ years
Trucost Account Director, ESG	3 years
Modern Networks Account Director, Marketing Executive	2 ¾ years
2020, VCCP and Brothers and Sisters (All Advertising Agencies) Strategic Planner, Art Director and Copywriter	1 ½ years
<i>Waterlow Residents Board Member</i>	<i>9 years</i>

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## LCIV Investment Team Future Plans & LCIV Communications

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## Staffing

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- Working from Home
- Head of Private Markets
- Responsible Investment Manager
- Team building and development



## Resourcing

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- Manager selection and risk management services
- Stewardship voting and carbon foot printing
- Quarterly Reports



## Moving Forward

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- Integrating responsible investment, risk management and cost transparency into the investment lifecycle

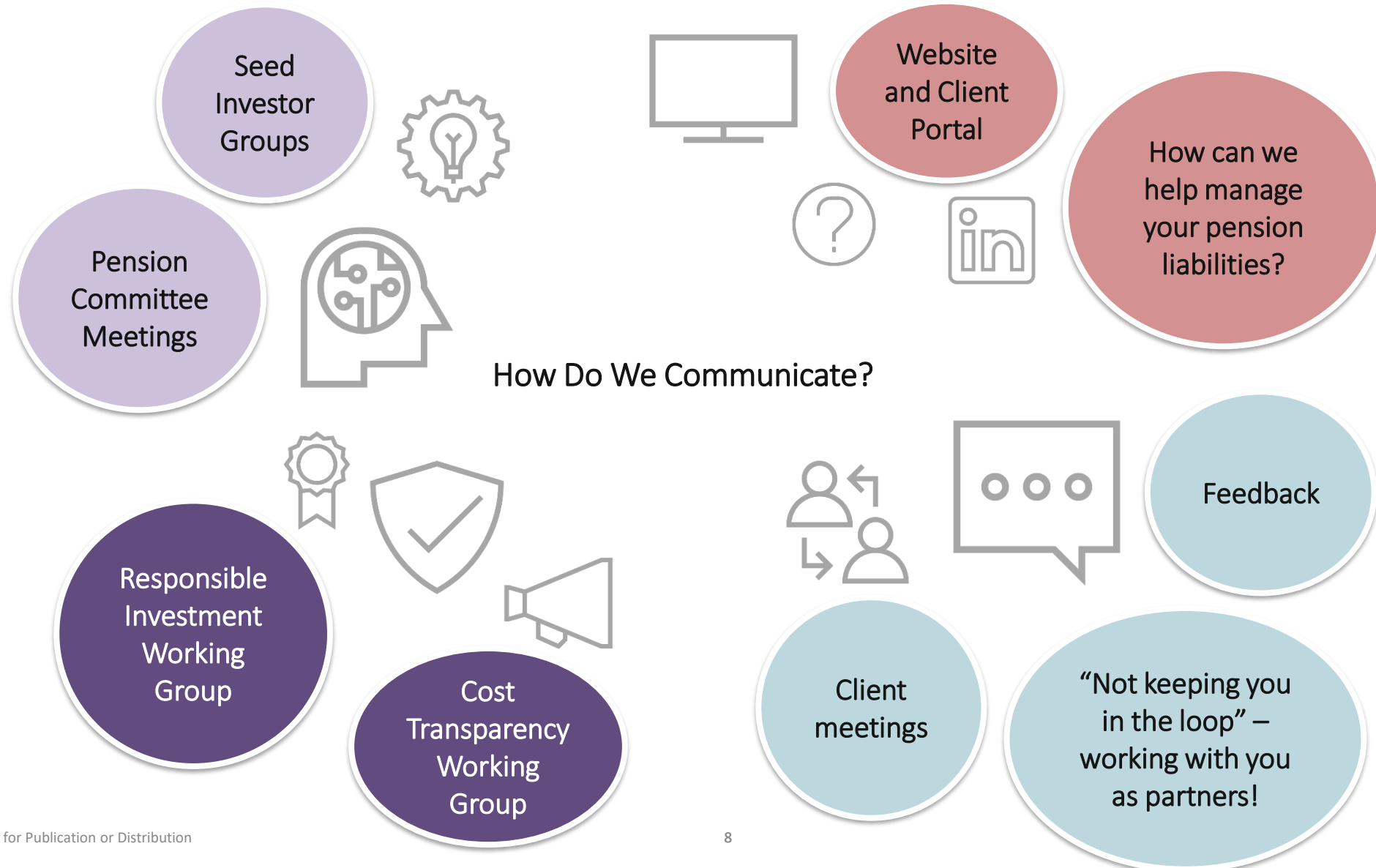
Design

Selection

Manage

Sell

# Transparency, Listening and Communicating





### 3 ESG and RI at LCIV & Product Pipeline

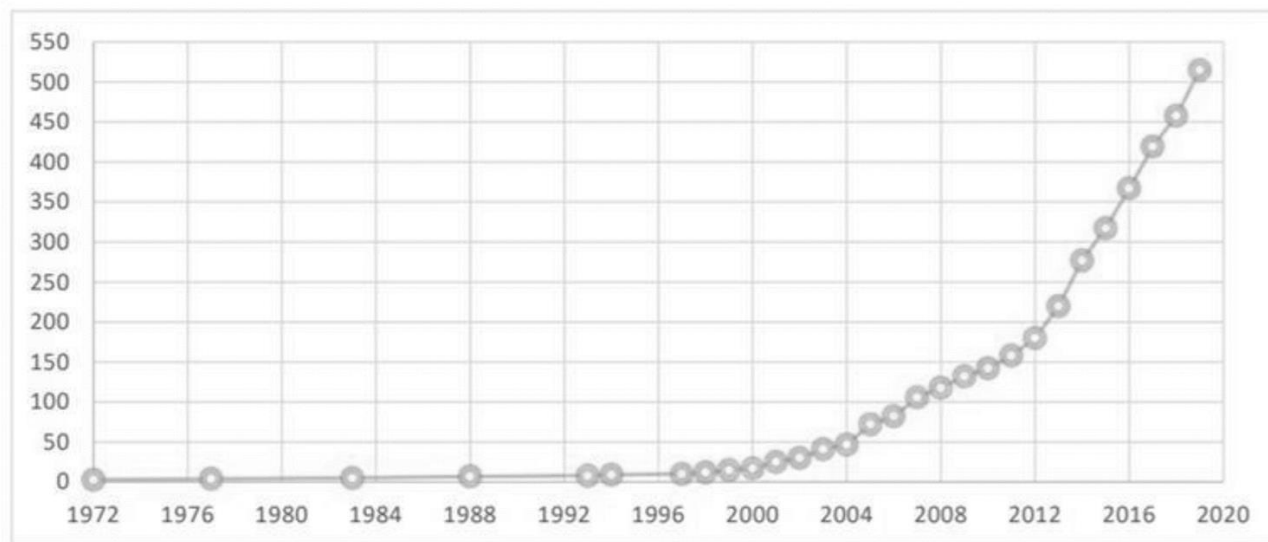
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# The Rise of ESG



## Increasing Expectations on Reporting

Signatory of:



Cumulative number of policy interventions per year (source: PRI responsible investment regulation database).

### 2011-2015

The creation of the Sustainability Accounting Standards Board, a non-profit organisation in the US that aims to develop and maintain reporting standards that enable businesses to identify, manage and communicate financially-material sustainability information to their investors

Major academic research supporting ESG claims released from authors such as: Eccles, Ioannou, and Serafeim (2011) Edmans (2011) El Ghoul, Guedhami and Suh (2013) Friede, Bursch and Bassen (2015)

### 2015

Sustainable Development Goals created by the UN "to end poverty, protect the planet and ensure prosperity for all", by 2030.

The Paris Agreement, an agreement within United Nations framework from COP 21 to combat climate change and to accelerate and intensify the actions and investments needed for a sustainable low carbon future

### 2018

European Commission (EC) publishes action plan "Funding sustainable growth", integrating sustainability within European Union existing delegated acts such as MiFID II.

In response to EC action, CFA surveys EU members to establish they consider to be the correct role of ESG factoring in investment management, respondents believed ESG factors should be considered by investment managers when making investment decisions.

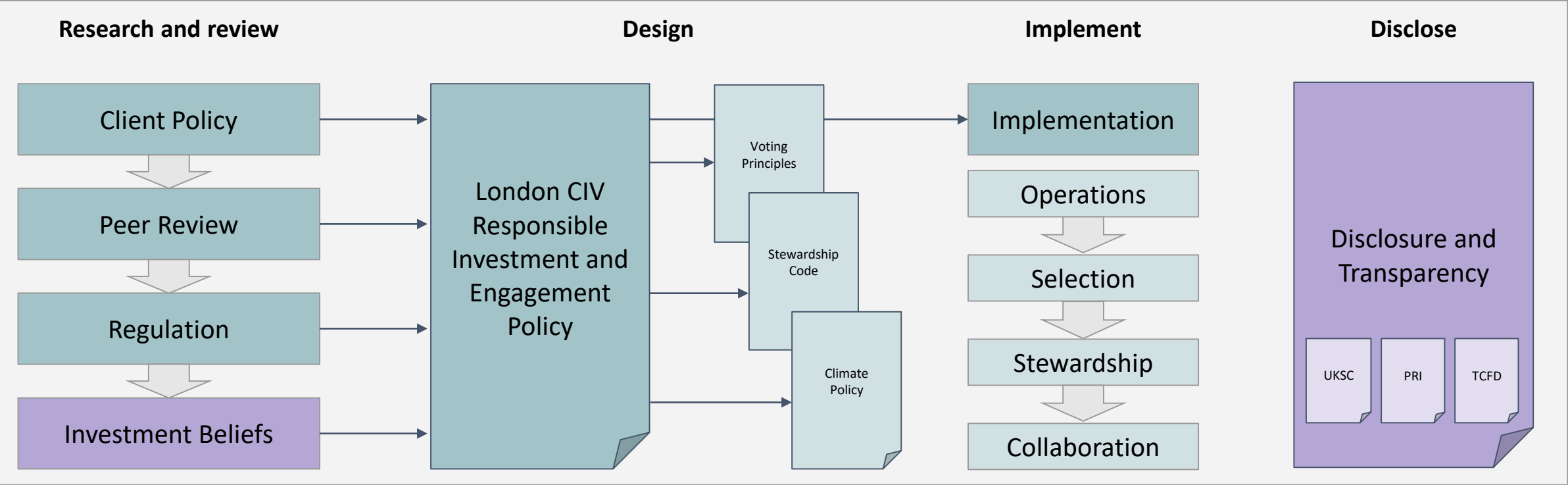
IPCC Report finds that limiting global warming to 1.5°C would require "rapid and far-reaching" transitions in land, energy, industry, buildings, transport, and cities. "Urgent and unprecedented changes are needed to reach the target", which the IPCC say is feasible, but at the ambitious end of the Paris agreement pledge to keep temperatures between 1.5°C and 2°C.

70 new ESG/ETP ETFs launched in 2018, with ESG classified products attracting \$7.61 billion in net new assets (ETFGI, 2019).

### 2019

The European Parliament and EU member states reached a political agreement on sustainable investment disclosure regulations that form part of the European Commission's sustainable finance plan

# Overview of RI&E at LCIV



# Progress to Date, Good News and Next Steps



Signatory of:



**A:** A, A, B  
*Strategy & Governance, Listed Equity and Fixed Income*



Implementation Priority	Key Drivers	Progress To Date	Recommendation
1.) Climate Policy	Client demand Financial materiality TCFD is now mandatory	LCIV is now a TCFD signatory as of June 2020	Review of climate data providers underway
2.) Stewardship Policy	UKSC and SRDII requirements have increased "Apply and explain"	Workshops and reviews have taken place with key proxy voting providers	New principles understood in LCIV Improved voting provision required RFP process required
3.) Capacity to Deliver	Disclosure requirements Opportunity to deliver added value to clients	Head of Responsible Investment in place	ESG Analyst job search underway RI manager selection and assessment criteria being strengthened
4.) Product Offerings	Build ESG into the selection, design and ongoing management of investment	Sustainable Equities Fund launched in 2018 with RBC Sustainable Equities Exclusion Fund launched in March 2020 with RBC Global Core Equity fund launched with Morgan Stanley	Renewables Fund at SIG stage The London Fund opportunity is in development
5.) Culture	Need to implement policies Opportunity to deliver best-in-class provision to clients	Appointment of Chris Bilsland as NED Champion Culture and values group set up	ESG training planned for staff Culture, values and vision statement underway
6.) Communications	Mandatory disclosure requirements Compliance Opportunity to drive momentum	New website mapped (with client services)	Provide thought leadership papers on key topics Provide RI text and information for website



# Responsible Investment By Design



All Funds and managers will benefit from from Responsible monitoring and management by the London CIV as an overlay.

Fund	Structure	Manager	RI Design
LCIV Sustainable Equity Fund	ACS, global equities Active	Royal Bank Canada	Invests in sustainable equities. Fully integrate ESG issues into the Investment Process seeking to make a positive difference to their clients, companies they own and society as a whole through long term investment.
LCIV Sustainable Equity Exclusion Fund	ACS Global Equities Active	Royal Bank of Canada	Invests in sustainable equities with Carbon exclusions. Fully integrate ESG issues into the Investment Process seeking to make a positive difference to their clients, companies they own and society as a whole through long term investment.
LCIV Infrastructure Fund	EUUT Infrastructure active	Stepstone	Seeks to Invest ~35% in renewables of the portfolio with MIRA, Equitix, Arcus, Basalt and FSI. Currently seeking a pure-renewables fund.
LCIV Global Core Fund	ACS Global Equities Active	Morgan Stanley	Invests in quality factors and <b>does not</b> invest in Carbon intensive industries, Alcohol, Gambling and tobacco.

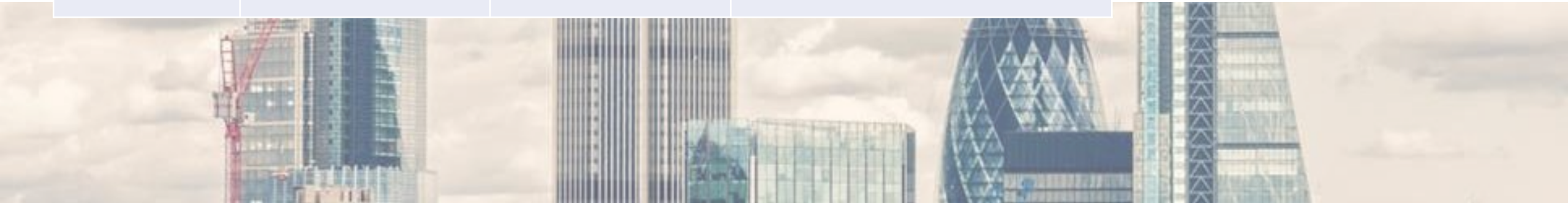


# Product Pipeline



All funds and managers will benefit from from Responsible monitoring and management by the London CIV as an overlay.

LCIV Fund	Planned structure	Manager	RI Design
Renewables	EUUT, Infrastructure Active	London CIV	The fund seeks to invest 100% in renewables within Infrastructure.
London Fund	SLLP Infrastructure, Property and Equity active	LLPI and London CIV	Will invest in Renewables, Impact and to the benefit of Londoners in Infrastructure, property and green initiatives.
Low Carbon Equity	ACS Equity Passive	Index and asset manager	Will likely include carbon intensity, green revenues as factors.
Paris Aligned Global Equity	ACS Equity Active	Active Manager	Will invest in companies that are Paris Aligned actively.

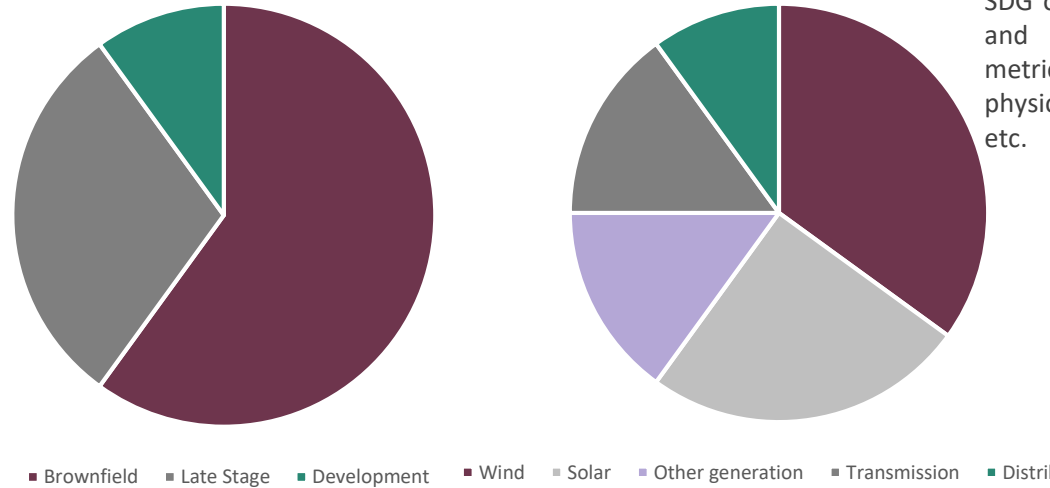


# Renewables



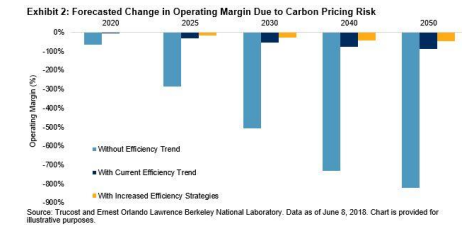
- In 2015, the UK Government set out their top 40 strategic infrastructure priority areas for the next 6 years.
- Of these 40, 4 would have been investible for this fund.
  - Onshore/Offshore Wind = £17.8bn
  - Other Renewable = £19.6bn
  - Transmission & distribution = £1.8bn
  - TOTAL = £39.2bn\*
- COVID-19 may change the priorities in the short term, but generation likely to still dominate project priorities.

**Indicative Weightings:** based on current portfolios in the market. There is a bias towards Wind and Solar, with “Other” including Biomass, Biogas and Hydroelectric.



## Renewables and RI

The renewables fund provides material SDG opportunities and a range of carbon and physical risk exposure mitigation metrics could be disclosed, e.g. CEAR, physical risk exposure, carbon footprint etc.



\*(Source: National Infrastructure Commission 2015 report)

Sources: Stepstone SPI memos – average weights 2015 National Infrastructure Commission report



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## London Borough of Tower Hamlets Pension Fund - LCIV Investments Portfolio

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London Borough of Tower Hamlets Pension Fund LCIV investments	Market Value 30 June 2020
LCIV Global Alpha Growth Fund	377,238,378
LCIV Absolute Return Fund	165,858,959
LCIV Diversified Growth Fund	155,545,217
LCIV MAC Fund	89,155,129
<b>Total</b>	<b>787,797,683</b>

Source: London CIV. Data as at 30 June 2020. Figures quotes in pounds sterling.

Performance – 30 June 2020	Q2 2020	1 Year	3 Year	SI (p.a.)	Inception Date
LCIV Global Alpha Growth	28.04	17.36	14.18	18.54	18 Apr 2016
MSCI AC World Total Return (Gross) Index	19.58	5.26	8.48	12.90	
Relative	8.46	12.10	5.70	5.64	
LCIV Absolute Return Fund	6.44	8.17	2.95	4.85	21 Jun 2016
LCIV Diversified Growth Fund	8.31	-2.25	0.61	4.03	15 Feb 2016
LCIV MAC Fund	12.72	-4.52	n/a	-0.46	31 May 2018

Source: London CIV. Data as at 30 June 2020. Returns are quoted in pounds sterling and annualised for periods greater than 1 year.

# LCIV Global Alpha Growth Fund

(all data as at 30<sup>th</sup> June 2020)

**Asset class:** Global Equities

**Sub-fund manager:** Baillie Gifford & Co

**Investment objective:** To exceed the rate of return of the MSCI All Country World Index by 2-3% per annum on a gross fee basis over rolling five year periods

**Benchmark:** MSCI All Country World Gross Index

**Size:** £3,089m

**No. of investors:** 13

## Key highlights:

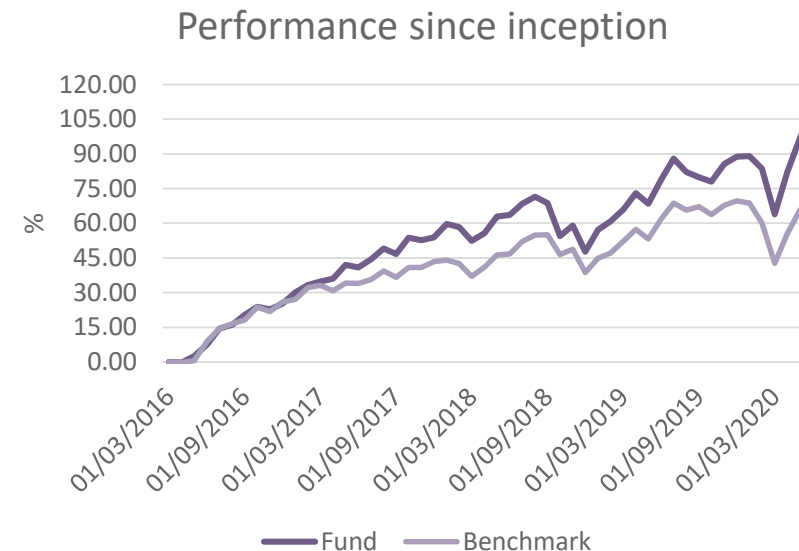
- The Sub-fund was the highest performing fund in Q2 2020, returning 28% in the quarter, outperforming its benchmark by circa 8.5%.
- The outperformance was a function of the Sub-fund's highest conviction sectors such as consumer discretionary, communication services and healthcare.
- The manager's stock selection in the 'rapid growth' bucket was already delivering strong growth prior to the pandemic but has since accelerated.
- So far, there is ample evidence that the manager is able to manager the considerable assets it has with limited loss of flexibility. However, this situation can change quickly so it will be closely monitored.

Net performance (%)	1M	QTD	YTD	1Y	SI p.a.
Portfolio	6.79	28.04	11.15	17.36	19.18
Benchmark	3.30	19.58	0.80	5.26	13.47
Relative	3.49	8.46	10.35	12.10	5.71

Source: London CIV

**Fund inception date:** 11/04/2016

**London Borough of Tower Hamlets inception date:** 18/04/2016



# LCIV Absolute Return Fund

(all data as at 30<sup>th</sup> June 2020)

**Asset class:** Multi Asset

**Current manager:** Ruffer LLP

**Investment objective:** To achieve low volatility and positive returns in all market conditions. Capital invested in the Sub-fund is at risk and there is no guarantee that a positive return will be delivered over any one or a number of twelve-month periods

**Size:** £754m

**No. of investors:** 8

## Key highlights:

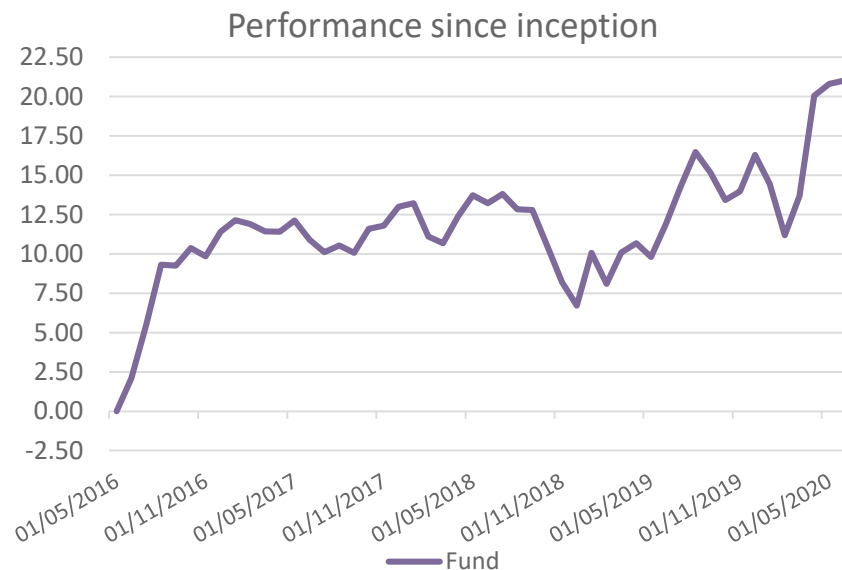
- The Sub-fund continued to deliver strong results, sealing the second quarter with 6.44%. Since inception figure of 4.85% is the top multi-asset fund on the LCIV platform.
- The Sub-fund benefitted from gold and gold mining equity positions, which contributed to the half of the portfolio return.
- Timely sales of options and volatility protection positions also helped drive the performance.
- The portfolio reoriented its credit proception focussing more on distress in high yield than investment grade credit.
- Any risks related to upward shocks in the market are balanced out with procyclical equities.

Net performance (%)	1M	QTD	YTD	1Y	SI p.a.
Portfolio	0.17	6.44	4.05	8.17	4.85

Source: London CIV

**Fund inception date:** 21/06/2016

**London Borough of Tower Hamlets inception date:** 21/06/2016



# LCIV Diversified Growth Fund

(all data as at 30<sup>th</sup> June 2020)

**Asset class:** Multi Asset

**Current manager :** Baillie Gifford & Co

**Investment objective:** Achieve long-term capital growth at lower risk than equity markets

**Size:** £602m

**No. of investors:** 7

## Key highlights:

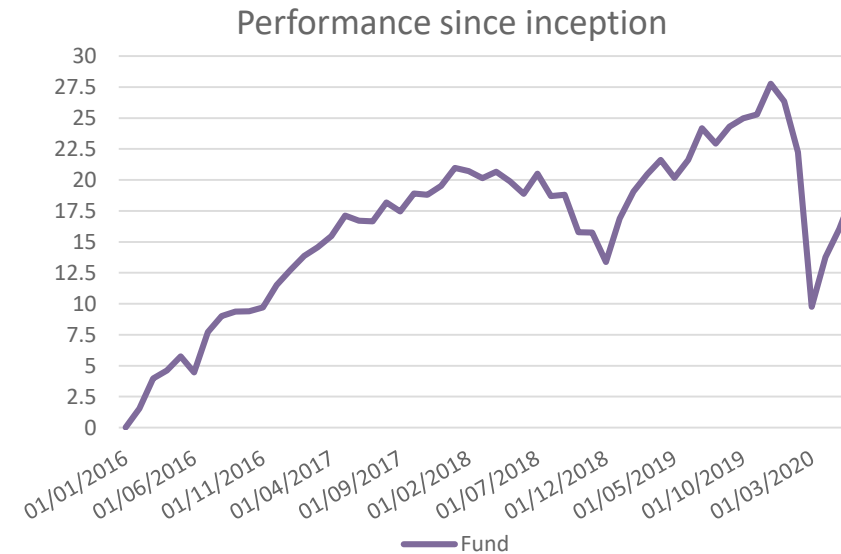
- The Sub-fund delivered strong results, returning 8.31% over the quarter. The Sub-fund outperformed the target of UK Base Rates +3.5% by 7.42% in Q2 2020.
- Positive drivers of performance included equities, property, commodities, and infrastructure.
- Investment decisions during the quarter included reductions in equities and emerging market debt, as well as additions to safe havens such as cash, gold, and volatility protection.
- The portfolio remains tilted towards defensive positioning, with the focus on the medium-term macro environment.

Net performance (%)	1M	QTD	YTD	1Y	SI p.a.
Portfolio	2.44	8.31	-6.96	-2.25	4.03

Source: London CIV

**Fund inception date:** 15/02/2016

**London Borough of Tower Hamlets inception date:** 15/02/2016



# LCIV MAC Fund

(all data as at 30<sup>th</sup> June 2020)

**Asset class:** Fixed Income

**Current manager:** CQS

**Investment objective:** The Sub-fund's objective is to seek to achieve a return of LIBOR+4-5%, with a net asset value volatility of 4-6%, on an annualised basis over a rolling 4 year period, net of fees

**Size:** £936m

**No. of investors:** 12

### Key highlights:

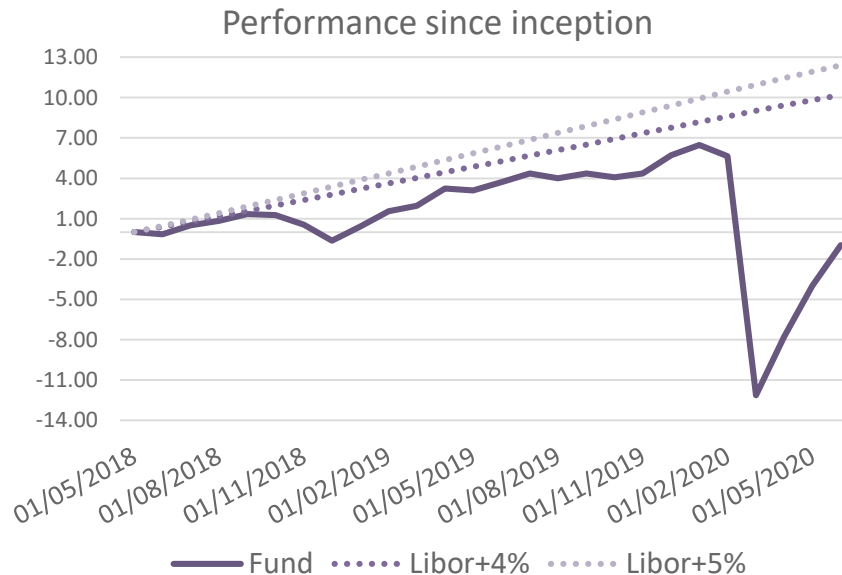
- The Sub-fund returned 12.72% in Q2 2020, bouncing back from the sharp declines in the previous quarter.
- Amidst the volatility in Q2, the manager sold opportunities in dislocated asset backed securities (predominantly in investment grade rated instruments), senior financials, investment grade corporate debt and convertibles, and selective quality loans and high yield.
- We are reviewing options pertaining to the LCIV MAC fund with the Executive Committee and the Investment Oversight Committee. We will of course, be happy to discuss our recommendation and all the details with all interested client funds.

Net performance (%)	1M	QTD	YTD	1Y	SI p.a.
Portfolio	3.16	12.72	-6.32	-4.52	-0.46
Target	0.38	1.19	2.48	5.17	5.27
Relative	2.78	11.54	-8.79	-9.69	-5.73

Source: London CIV

**Fund inception date:** 31/05/2018

**London Borough of Tower Hamlets inception date:** 31/05/2018



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## Appendix: LCIV 100% Renewable Infrastructure Fund - Preliminary Fund Terms

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# LCIV 100% Renewable Infrastructure Fund

Preliminary Fund Terms	
Target IRR (net of fees)	7% - 10%
Target Yield	3% - 5%
Market segment	Renewable Energy – Generation/Transmission/Distribution
Geography	US, Europe, Asia, with flexibility to go up to 10% in Emerging Markets (as defined by MSCI).
Currency	Predominantly GBP/USD/EUR, with preference for GBP given liabilities and cash flows.
Asset type	Brownfield – up to 100% Construction/late-stage development – max 60% Development – max 30%
Structure	Evergreen
Leverage	None at fund level.

Please note that these are only draft terms and they may change over time

# Disclaimer

## Important information

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