

London Borough of Camden Pension Fund

London CIV Supporting Note

October 2025

Purpose and Scope

It is understood that the LB of Camden is considering the disposal of its c£108m position in the value equity Harris Associates fund with the intention of recycling the proceeds of the sale into the LCIV Global Equity Value Fund managed by Wellington Asset Management.

The London CIV's Strategic Asset Allocation Team which is independent of London CIV's fund management team has been asked to comment upon:

- the proposed transaction; and
- the rationale for continuing to hold an active value equity position.

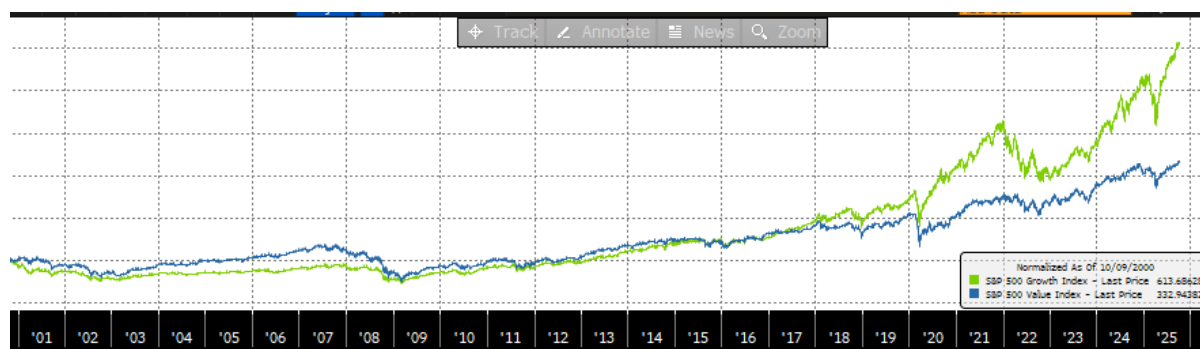
This paper seeks addresses both points.

The views and opinions expressed in this paper are based solely on the options proposed by LB of Camden and do not reflect consideration of any alternatives beyond this scope.

Background

LB Camden currently holds about £1bn in passive equity mandates and c. £265m in active equity portfolios. Active mandates are split between 60% in growth equities and 40% in value equities. The exposure to the Harris Value Equity fund is c£108m.

Growth and value equities tend to perform well in different market environments and up until more recently neither style dominated over long periods of time as can be seen in the chart below showing the performance of both styles over the last 25 years.



Source: Bloomberg

Part performance is not a reliable indicator of future performance

Since then the emergence of the Magnificent 7 has changed dynamics somewhat leading to a pronounced outperformance of growth equities.

Growth equities are more focused on sectors such as information technology, communications and consumer discretionary, whereas value equities can be found in areas such as financials, healthcare, industrials and energy. Value equities are usually characterised by low price-to-earnings and price-to-book ratios and high dividends. As a rule of thumb, value equities outperform in times of high and rising inflation and interest rates.

Despite the economic environment being more conducive to value equity outperformance over the last year, a pronounced bounce back in value equities has not been seen in part because of the AI phenomenon and the belief that the investment into AI will drive demand. Value companies in aggregate are now more attractively valued than growth related sectors and look “cheap” in a historical context. Together with high economic and geopolitical uncertainty it is therefore advisable to maintain an allocation to value equities going forward.

Proposed Re-allocation

It is understood that LB Camden has got concerns about its allocation to Harris Associates Global Equity Fund, a fund with a contrarian value approach.

- The fund has underperformed not only the wider MSCI World Benchmark index (which can be expected in an environment when growth equities dominate market performance), but also its peer group.
- The fund is not incorporating any decarbonisation pathway into the investment process

As a consequence, LB Camden is considering moving this allocation to LCIV Global Equity Value Fund.

- The fund is currently managed by Wellington Asset Management.
- The objective of the fund is to outperform the MSCI All Country World Index by 1.5% per annum net of fees over rolling five-year periods.
- Although it has not outperformed the wider MSCI World Index in an environment of growth dominance, it has performed well against its peer group¹.
- It has a strong focus on finding stocks trading at a substantial discount and high dividend yield with the expectation that valuation discounts will moderate over the medium term. As such this strategy complements well with active growth strategies and also with passive strategies that perform well in a momentum driven market.
- The investment manager (Wellington) pursues an opportunistic and contrarian approach to identify undervalued companies.
- The fund had a weighted average greenhouse gas intensity (WACI) of at least 30% below that of the benchmark index as of 31 December 2023. As of 30 June 2025 this metric was 43% below that of the benchmark index. It aims to progressively reduce its carbon footprint over time to achieve a net zero target by 2050.
- Areas such as thermal coal mining, coal power generation, oil sands, adult entertainment, civilian weapons, controversial weapons and tobacco production are excluded from the investment universe. Companies which have violated minimum standards of practice in global conventions, including the Universal Declaration of Human Rights, the ILO Declaration on Fundamental Principles and Rights at Work and the UN Global Compact are not eligible for the fund.
- The fund manager actively engages with its portfolio companies; by 31 December 2025 it is seeking that at least 90% of financed emissions in material sectors will be either net zero aligned or subject of engagement and stewardship action. This threshold will rise to 100% by 2027.

¹ Past performance is not a reliable indicator of future performance.

The combination of a proven track record, a sound and credible investment process and high standards on ESG integration into the process make this fund a good replacement for the current value exposure in LB Camden's portfolio.

Costs, Timescales

The holdings in both funds are liquid in nature and the LCIV Global Value Fund can be traded daily.

At this stage, it is difficult to quantify transactions costs in advance. However, London CIV will assist LB Camden to mitigate this cost by working closely with Wellington Asset Management to understand whether any existing positions could be taken in specie and therefore would not need to be traded.

Summary

- The note has explained why growth equity strategies have outperformed value equity strategies in recent times.
- Given the strong momentum in equity markets more recently and the dominance of the Magnificent Seven, it has been explained why value equities looks relatively attractive and why this strategy should remain part of the allocation of LB Camden's equity portfolio.
- London CIV's Global Equity Value fund demonstrates good performance within the value space combined with very strong ESG credentials and good value in terms of fees².
- There will be transaction costs in switching funds. Steps can be taken to minimise those through appointing a transition manager and working with the LCIV Global Equity Value Fund manager to assess their ability to potentially in specie some positions.

² Past performance is not a reliable indicator of future performance.

Appendix 1 – Risk disclosures

Equity risk

Investing in equity securities may offer a higher rate of return than those investing in short term and longer term debt securities. However, the risks associated with investments in equity securities may also be higher, because the investment performance of equity securities depends upon factors which are difficult to predict. Such factors include the possibility of sudden or prolonged market declines and risks associated with individual companies. The fundamental risk associated with any equity portfolio is the risk that the value of the investments it holds might suddenly and substantially decrease in value as a result of changes in a company's financial position and overall market and economic.

Market risk

The market price of securities owned by a fund may go up or down, sometimes rapidly or unpredictably. Securities may decline in value due to factors affecting securities markets generally or particular industries represented in the securities markets. The value of a security may decline due to general market conditions which are not specifically related to a particular company, such as real or perceived adverse economic conditions, changes in the general outlook for corporate earnings, changes in interest or currency rates, adverse changes to credit markets or adverse investor sentiment generally. They may also decline due to factors which affect a particular industry or industries, such as labour shortages or increased production costs and competitive conditions within an industry. During a general downturn in the securities markets, multiple asset classes may decline in value simultaneously.

Emerging markets

The fund may invest in countries where investment markets may be less developed compared to more established economies. This could be owing to the markets not being as well regulated, market liquidity is lower as it is more difficult to buy and sell shares, custody and settlement arrangements may not be as reliable and/or these markets have higher exposure to economic or political uncertainties. This means the value of investments in these markets may be subject to greater volatility.

Exchange traded funds ("ETFs")

The fund may invest in exchange traded funds. ETFs represent a basket of securities that are traded on an exchange and may not necessarily trade at the net asset value of their underlying holdings. As a result, they may trade at a price that is above or below the value of the underlying portfolio.

Appendix 1 – Regulatory disclosures and disclaimers

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