

London Borough of Camden Pension Fund

Investment Strategy Review
November 2025



Executive summary

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- The purpose of this report is to review the Fund's existing investment strategy to assess whether it remains suitable to meet the Fund's long-term objectives, the bespoke requirements of the Committee from a risk vs return perspective, the impact of the Fit for the Future legislation, and achieving the Committee's Responsible Investment goals. We also consider strategy implementation focusing on pooling, the composition of the equity portfolio, the diversified growth allocation, ESG considerations, alongside further implementation considerations.
- We have considered and quantified the Fund's inherent risks and objectives and considered the options for the evolution of the high-level asset allocation.
- The Fund's investment strategy was set at a time when market conditions were significantly different to what they are now. Based on Isio assumptions as at 31 March 2025, the Fund's expected return is 8.8% p.a. on a best estimate basis for the currently agreed target investment strategy. This represents a margin above the discount rate of 5.7% p.a. There is very likely to be scope to reduce the targeted return (and so risk) of the investment strategy
- We believe the Fund should evolve the investment strategy to target a slightly lower return, for a reduced level of investment risk, whilst making use of the flexibility within the investment strategy to target greater ESG impact. This will allow the Fund to continue to build the surplus over time, while managing risk and further aligning the assets held to the Committee's ESG goals.
- Our alternative investment portfolios (presented at a high level to the right) have been constructed with a focus on achieving the above. These are discussed in detail in the remainder of this report. We have been cognisant of the requirement to be invested entirely with London CIV by 31 March 2026 when formulating these alternatives.
- **On balance, we believe the "Lower risk and higher impact" is the most suitable strategy for the Committee to take forward, given the blend of attractive investment characteristics and ESG impact this offers.**

Alternative portfolios

● Increased ● Reduced ● New

	Current strategy	31 March 2025 alloc'n	1 - More efficient	2 - Higher impact	3 - Lower risk	4 - Lower risk and Higher impact
Public Equity	45%	52.5%	43%	43%	33%	33%
Private Equity	2%	1.9%	2%	2%	2%	2%
Diversified Growth	5%	4.5%	5%	-	5%	-
Credit	15%	15.7%	15%	15%	15%	15%
UK Gov. Bonds	8%	6.2%	11%	11%	18%	18%
Real Assets	20%	16.0%	19%	16.5%	22%	19.5%
ESG Impact	5%	2.0%	5%	12.5%	5%	12.5%
Cash	-	1.2%	-	-	-	-
Total	100%	100%	100%	100%		100%
Expected return Best estimate median (% p.a.)	8.8%	8.8%	8.7%	8.8%	8.4%	8.5%
VaR (3 yr, 1 in 20 chance) (£m)	£816m	£861m	£786m	£770m	£681m	£659m
% inflation linked	c. 21%	c. 16%	c. 24%	c. 26%	c. 34%	c.36%
% illiquid	c. 27%	c. 20%	c. 26%	c.31%	c. 29%	c.34%

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Introduction

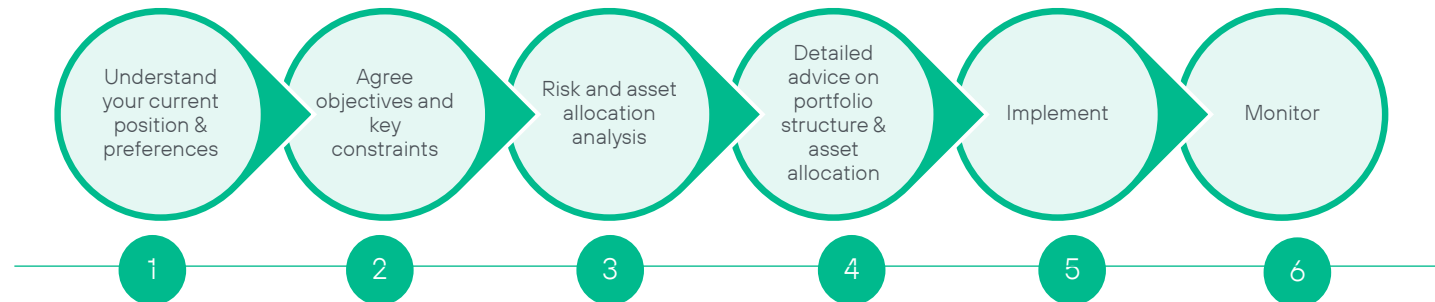
Background

Background

- This report is addressed to the London Borough of Camden Council ("the Council") as the Administering Authority of the London Borough of Camden Pension Fund ("the Fund") and specifically the Fund's Pension Committee ("the Committee").
- The Committee has engaged Isio to undertake a detailed review of the Fund's overall investment strategy, in order to quantify the inherent risks and to consider options for the evolution of the asset allocation. The focus of this review is on the high-level asset allocation and how this might be best structured and fully implemented via the London CIV pool going forwards.
- This report has used initial results from the Actuarial Valuation dated 31 March 2025. It is expected that the funding level has significantly improved from 3 years prior, to 136% (from 113% at March 2022).
- The diagram below highlights the key stages in our approach for assessing overall investment strategy and implementation, with this paper focussing on stages 1-4.

Scope of this paper

- This paper provides a detailed review of the Fund's current investment strategy, asset allocation and investment structure, including:
 - Detailed asset-liability modelling and risk and return analysis on the Fund's current investment strategy against the stated objectives and based on the Fund's specific liabilities and the current funding position.
 - Assessment of whether the strategy remains aligned with the key objectives (both financial and ESG) and whether an evolution to an alternative asset allocation may be better.
 - Analysis of a range of potential alternative portfolios.
 - Consideration of investment strategy changes in the context of the LCIV pool and the current/ expected future products available.
 - A specific focus on higher ESG impact strategies, given the strong funding position and relatively low required return.
 - A summary of the implementation considerations around each of potential alternative portfolios illustrated



Objectives

Objectives

- We understand that the Fund's funding objectives, as outlined in the 2022 Funding Strategy Statement, are:
 - to ensure the long-term solvency of the Fund, using a prudent long-term view. The primary reason for this is to ensure that sufficient funds are available to meet members'/dependants' benefits as they fall due;
 - to ensure that employer contribution rates are reasonably stable where appropriate;
 - to ensure affordability of long-term contributions which employers need to pay to the Fund, minimising these where possible, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return.
- With this in mind, this translates to an objective of delivering a return to maintain full funding over the long term with as little volatility as possible (to maintain stable contributions). The assumptions underlying the Actuary's funding basis are important factors in determining the return requirement.
- As the Fund grows in absolute terms, it will also be important to ensure that stability, relative to Employers' budgets, is maintained.
- The Fund remains open to new members and future accrual. It is therefore growing both due to interest accruing on past service liabilities, and due to new liability accrual. The liabilities are also maturing with time (the proportion of pensioner members is growing) and this will change the cash flow profile of the Fund.
- Ultimately more cash will be paid out than is received in cash contributions, making income and volatility, in addition to generation of investment return, more important considerations going forward. We note that contribution levels are still under negotiation however we comment on the income yield from the asset portfolio as part of our analysis.

Key considerations

- The Committee has established clear beliefs regarding Environmental, Social and Governance ("ESG") factors, believing that a strong Responsible Investment approach will add value over the long-term and be mutually beneficial to wider society. These are documented in the Fund's Investor Belief statement as well as other ESG related documents. We believe the changes proposed in this report can make a significant difference in terms of ESG, and also provide a platform for further positive change.
- The Committee also held an Investor Beliefs session in September 2025, where the four key UN SDGs were:
 - Gender equality
 - Decent work & economic growth
 - Climate action
 - Peace, justice and strong institutions
- The regulatory deadline for all assets to be held within the London CIV is 31 March 2026. The transition from Harris to a similar fund within the London CIV is underway at the time of writing. Passive funds with LGIM can continue to be held (e.g. the passive equity funds) as these are counted as "pool aligned" under the current regulation.
- We are also mindful that the funding position has improved materially. This provides scope for a reduction in expected risk/return if this is something the Committee wish to pursue, and also the flexibility to increase in the level of ESG impact investing.

What return is required?

Overview

- At the March 2022 Actuarial Valuation, the discount rate used to value the liabilities was 4.4% p.a. . Rising UK gilt yields since March 2022 has driven an increase in the forward-looking expected return of the Fund's investment strategy and so the discount rate used to value the Fund's liabilities. The initial discount rate used for the March 2025 Valuation is 5.7% p.a.
- The prudence level has been increased from 70% to 80%, worsening the funding position by £200m.
- The Scheme's funding position as at 31 March 2025 is expected to be 136%, with a required return of 3.8% in order to achieve full funding in the long-term (below the return on gilts i.e. a low risk position and reflective the of the strong funding position achieved.).
- The expected return on investments is currently 8.8% p.a.. This is calculated on a best estimated or median 50/50 basis and is materially higher than required to maintain a funding level of 100%. If the Committee was minded to, we believe there is scope to reduce the risk and expected return without jeopardising the long-term viability of the Fund and still maintaining a strong funding level.
- Aligned with the approach taken by the Fund Actuary, we believe it is important to focus on implementing a robust long-term strategic allocation and not to be blown off course by focusing on short term improvements or deteriorations in funding position.

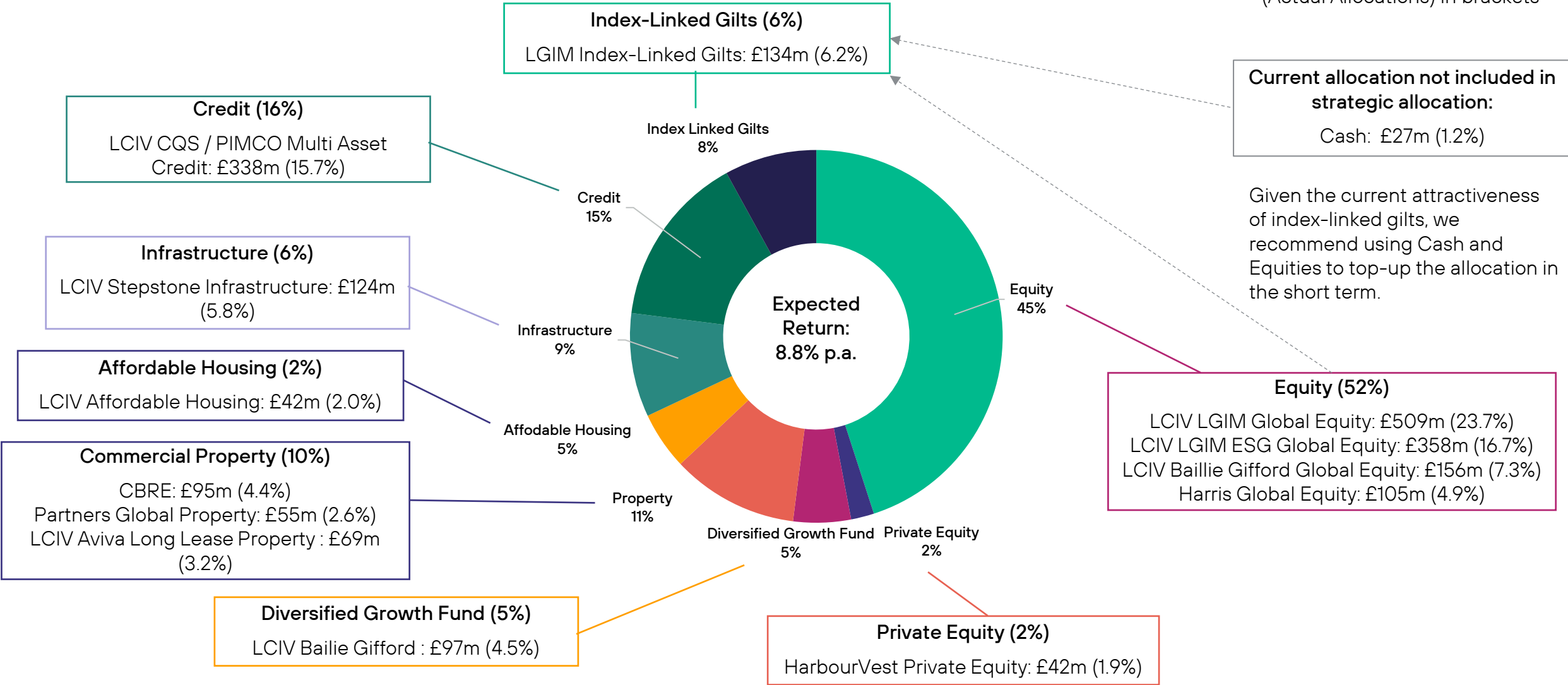
Key considerations

- We expect the current strategy to return c.8.8 % p.a. over the long term. However, it is important to note that this return expectation is "best estimate" (i.e. a 50% probability of achieving this). Targeting this level of return comes with a material level of investment risk.
- We expect that this expected level of return remains more than sufficient to support the Actuary's funding approach. There is very likely to be scope to reduce the targeted return (and so risk) further however the Actuary would need to comment on the degree of to which this would be acceptable.
- We believe the Fund should evolve the investment strategy to target a slightly lower return, for a reduced level of investment risk, whilst making use of the flexibility within the investment strategy to target greater ESG impact.
- Given the strong funding position achieved, we believe the Fund can further evolve the integration of Environmental, Social and Governance ("ESG"), factors into the investment strategy.
- The Committee should consult the Actuary on any proposed changes to the Fund's investment strategy, to understand the impact, if any, to the underlying funding basis, ahead of making any changes.

Current Investment Strategy

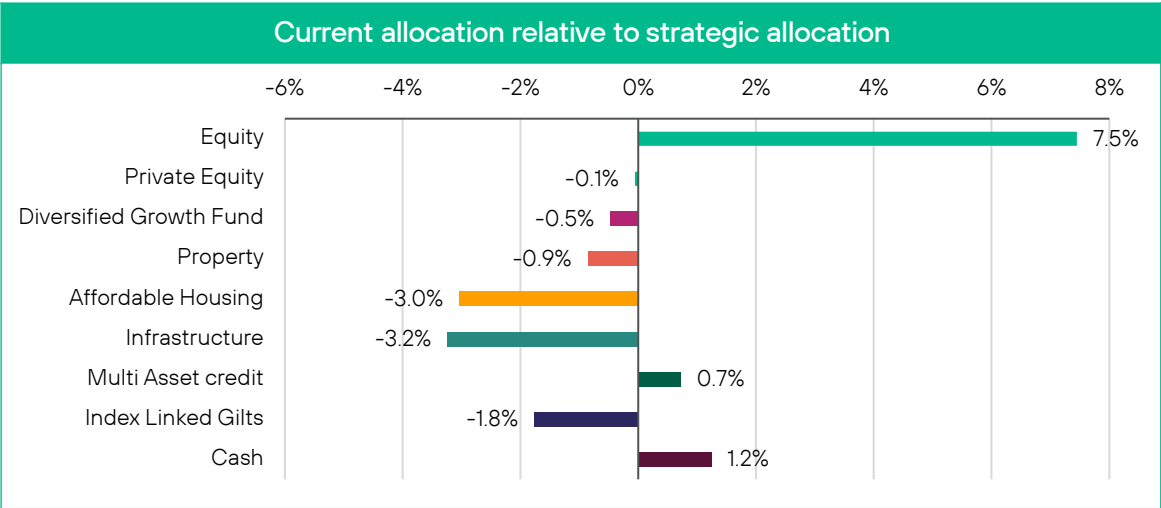
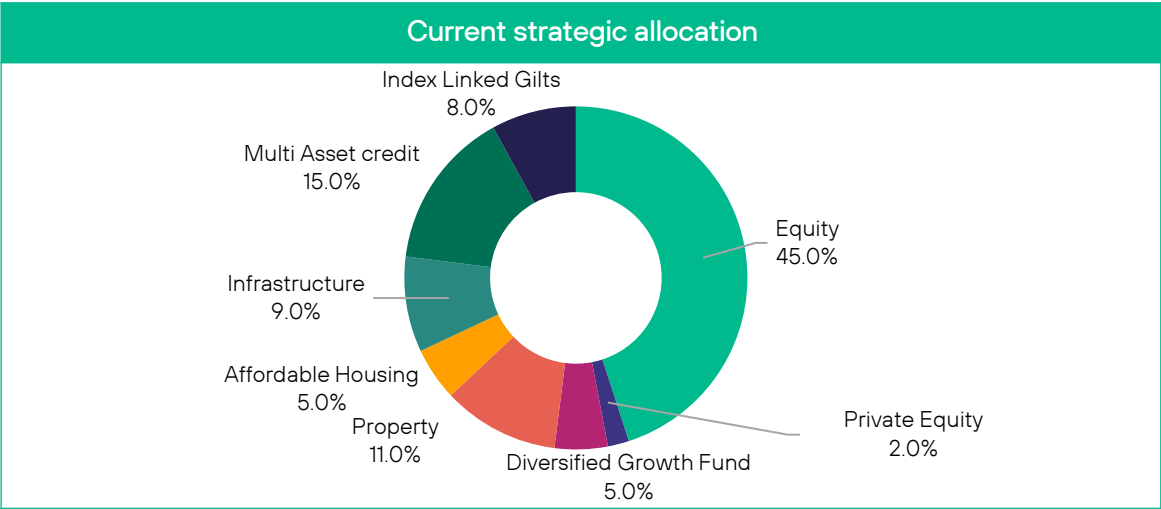
Current target investment strategy – overview

Key:
Strategic Weights in Chart
(Actual Allocations) in brackets



Notes: There is also a very small current allocation to LCIV shares included alongside the cash allocation
Source: Investment managers at 31 March 2025.

Current allocation vs. target

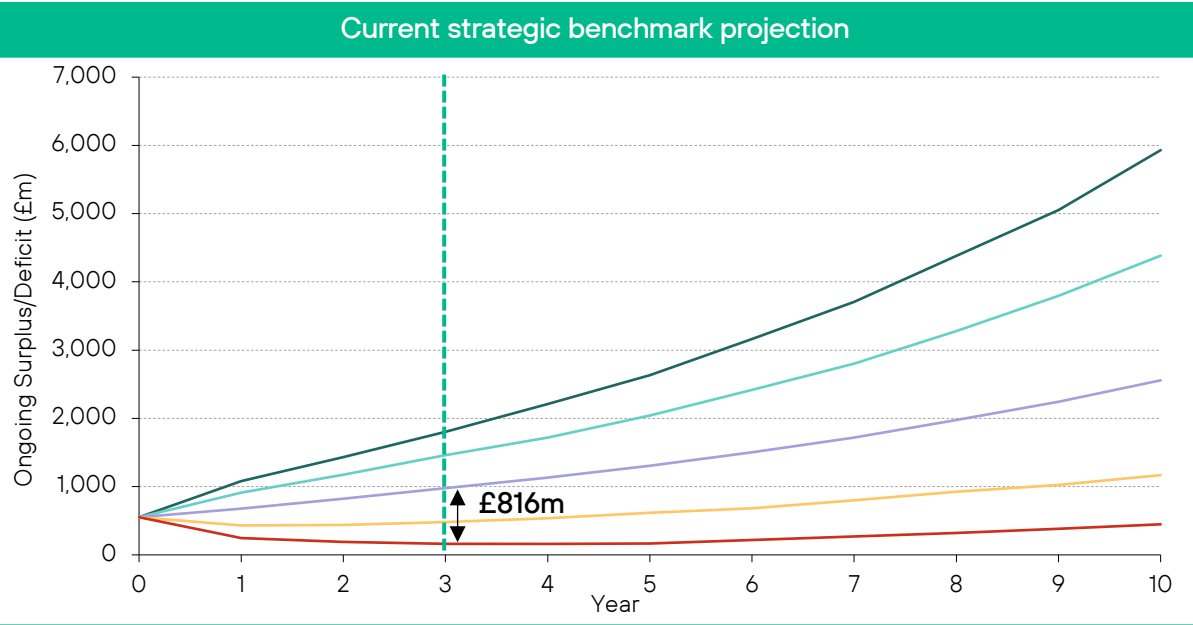


Source: Investment Mangers

Comments and observations

- As at 31 March 2025, the Fund’s asset portfolio comprises of 8 separate strategic asset classes, plus a cash allocation, and 11 individual underlying investment managers (including those underlying LCIV counted separately), with exposures across both public and private markets.
- The equity allocation is 7.5% overweight, and is split between c. 12% in active equity, and c. 40% in passive equity. The Fund also has a 2% strategic allocation to private equity, which is slightly underweight as the mandate is now in the capital distribution phase and has not been topped up in recent years..
- The Fund has a 6% allocation to index-linked gilts which provides direct inflation exposure. This mandate is underweight vs its strategic allocation, and the Committee should consider rebalancing to target in the short term. Index-linked gilt yields have risen materially in recent years and have continued to trend upwards in recent periods. We believe now represents an attractive time to achieve further direct inflation protection in the asset portfolio.
- The Fund also has a 2% allocation to affordable housing and this mandate is underweight its strategic allocation of 5%. The Committee should engage LCIV to understand the expected cashflow profile of this Fund and whether a top up to the existing allocation would be appropriate. The same thinking applies to the infrastructure exposure held with LCIV which is currently 3% underweight.
- Aside from the deviations noted above, and the 2% allocation to cash, the other allocations are broadly at target.

Funding trajectory



Funding position – 31 March 2025	
Discount rate (est)	5.7% p.a.
Current surplus (deficit)	£573m
Current funding level	c.136%

Source: Hymans Robertson, Isio calculations

Forecast funding position – 3 years' time	
Expected deficit / surplus	£977m
Expected funding level	c. 160%
Estimated impact on funding 1 in 20 downside (5%)	(£816m)
Estimated Funding Surplus 1 in 20 downside (5%)	£160m

Comments

- The funding position at 31 March 2025 has improved since the March 2022 valuation date, from 113% to c. 136%. This is a very strong position for the Fund to achieve. The prudence level used by the Actuary, Hymans Robertson, in their calculation has also been increased from a 70% to 80% probability.
- Our central (or median) expectation is for the funding position to continue to improve and increase gradually over time due to investment returns and employer and employee contributions.
- Based on the estimated 31 March 2025 position, the current target investment strategy, and median predicted outcome going forward, we expect the Fund to be in a surplus of c. £977m in 3 years' time (up from c.£573m at the end of March 2025).
- Ultimately any surplus could be used to bring down the future service cost to the employers though a contribution negotiation with the Fund Actuary.
- The chart highlights the degree of variation (both upside and downside) that the Fund is exposed to by the current investment strategy. This volatility could have a material impact on the funding position and the future cash funding requirements.
- Given the current investment risk in the strategy, there is a 1 in 20 chance that fund position could be c.£816m or more behind expectations in 3 years' time. If this occurs, the funding surplus would be mostly eroded and there would be increased pressure for higher contributions to be paid. There is further information provided regarding this metric in the Appendix.

Risk analysis

Value at Risk (3 year, 95%) breakdown – Strategic allocation



Value at Risk (3 year, 95%) breakdown – Current actual allocation



Source: Hymans Robertson data, Isio calculations as at 31 March 2025, *The VaR represents the difference in the funding position in three years' time between the expected outcome and a 1 in 20 downside scenario.
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Commentary

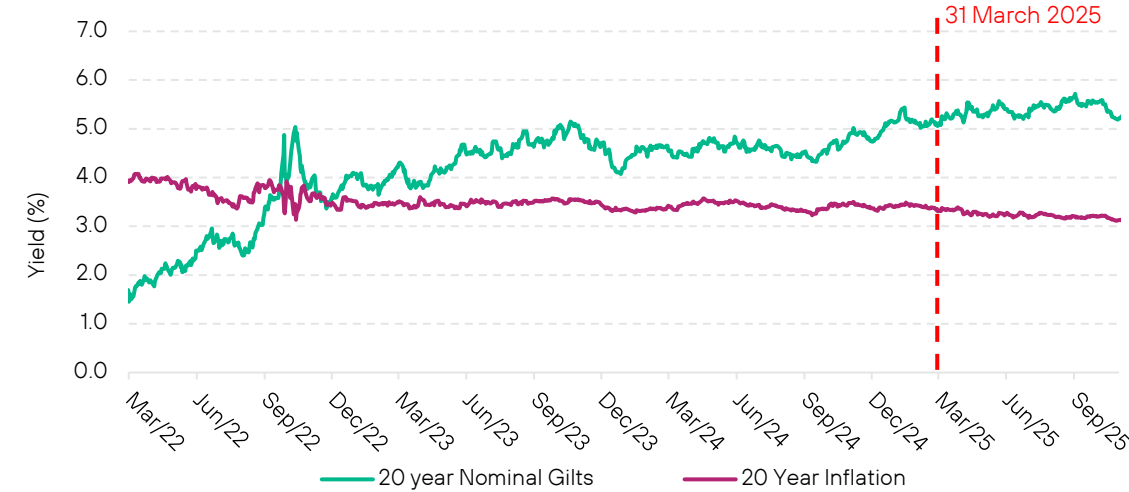
- The charts opposite illustrate the overall level, and composition of investment risk in both the strategic and current asset allocations, as measured by the 1 in 20, 3 year, Value at Risk ("VaR"*). The total risk (3 year, 1 in 20 VaR) for the strategic allocation is c.£816m, i.e. that there is a 1 in 20 chance the Fund could be c.£816m (or more) behind (or ahead) its expected trajectory in 3 years time.
- The Fund's key risks are:
 - Equity exposure** – the Fund's 45% strategic allocation to equities means that a fall in equity valuations would result in a material decrease in the Fund's assets (similar to that experienced over Q1 2020 and Q1 2022, though this was quickly reversed).
 - Inflation risk** – the majority of the pension benefits in the Fund are directly linked to inflation. This is an area which the Fund has been actively seeking to address in recent years, by increasing exposure to assets that provide inflation protection in an effort to provide a better match for the pension payments linked to inflation and decrease the risk position of the Fund.
 - Asset allocation drift** – the Fund is materially overweight equities which in isolation has increased equity risk by c.£93m (c. 11% of the overall risk)
- Within the target investment strategy, property is the next most significant risk for the Fund, followed by the alternatives (infrastructure and private equity) allocation.

Market conditions since the last actuarial valuation

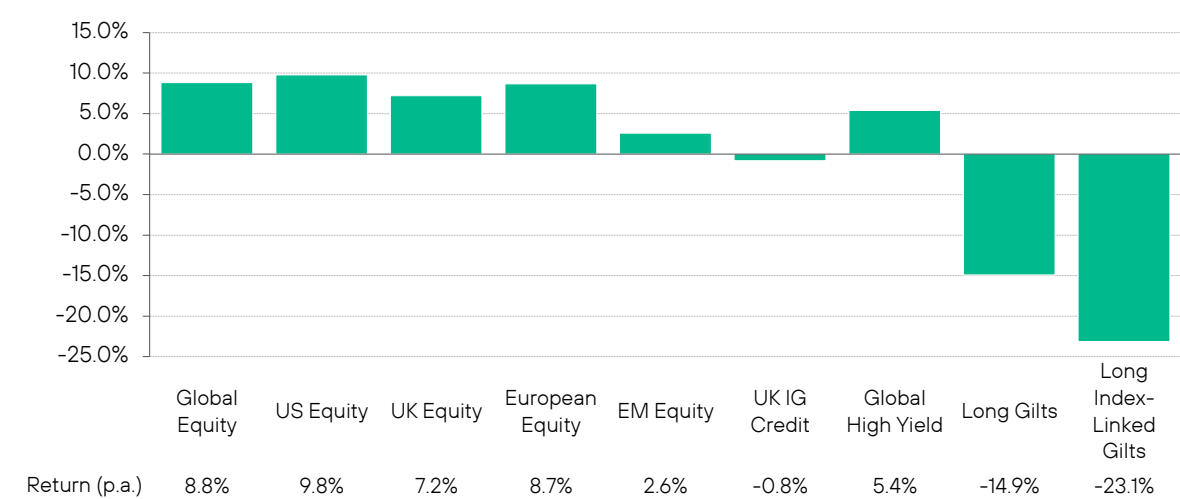
Commentary

- Since the March 2022 Valuation, investment markets have experienced high levels of market volatility with mixed asset returns, largely driven by macroeconomic events and subsequent actions taken by governments and central banks to calm investor sentiment and control inflation. Despite this volatility, over this three-year period, equities have risen strongly as have UK Gilt yields – driving the improvement in the Fund’s estimated funding level at March 2025.
- In late 2021, unprecedented stimulus measures (both fiscal and monetary) were taken by central banks and governments globally to try to alleviate the Covid pandemic’s economic impact. However, this resulted in higher inflation which was exacerbated by Russia’s invasion of Ukraine, which pushed inflation to historically high figures. As such, central banks tightened monetary policy and raised base interest rates to address this. Domestically, the impact of the ‘mini-budget’ and gilt market crisis also caused a short-term liquidity crisis for private pension schemes in late 2022, impacting wider markets and resulting in a sharp rise in Gilt yields.
- Over 2023 and 2024, global “return seeking” markets delivered strong returns, despite ongoing market volatility. Elevated inflation and rising interest rates remained the two key macro themes over this period, although fears of a recession towards the end of the year forced central banks to revisit this approach, with the first base interest rate cuts beginning in Q3 2024 across several key regions.
- Over late 2024 and Q1 2025, the appointment of Donald Trump as the US President led to significant volatility as markets initially responded positively to his appointment, before experiencing significant sell offs towards end Q1 2025 as worries mounted over the US trade policies and Trump’s proposed tax bill.
- Post 31 March 2025, suspension of tariff policies have driven a robust performance in equity markets – with global equities returning over 21% to 31 October 2025 in local currency terms despite volatility in FX markets. While gilt yields have remained relatively stable.
- Against this backdrop, we expect the Fund’s funding position to have improved further since the 2025 valuation on an equivalent basis.

Gilt yields and inflation – 31 March 2022 to 31 October 2025



Asset class returns – 31 March 2022 to 31 March 2025



Index-linked Gilt yields pricing

On this page we outline some additional considerations which are relevant when investing in index-linked gilts ("ILGs").

Direct protection on UK inflation is uncapped

ILGs provide immediate and direct UK RPI inflation exposure which is uncapped. Both principle and coupon payments of the bonds rise with inflation. This is an attractive investment attribute and there are limited investment alternatives which provide this exposure.

Inexpensive access – trading costs and management fees

ILGs are liquid and have relatively low trading costs (currently c.0.1%) compared to other asset classes. The Fund already has ILG investment exposure via the current passive mandate held with LGIM (c. 6% vs. the strategic weighting of 8%). The LGIM mandate has low fees and benefits from the LCIV negotiated fee rates.

Governance simple

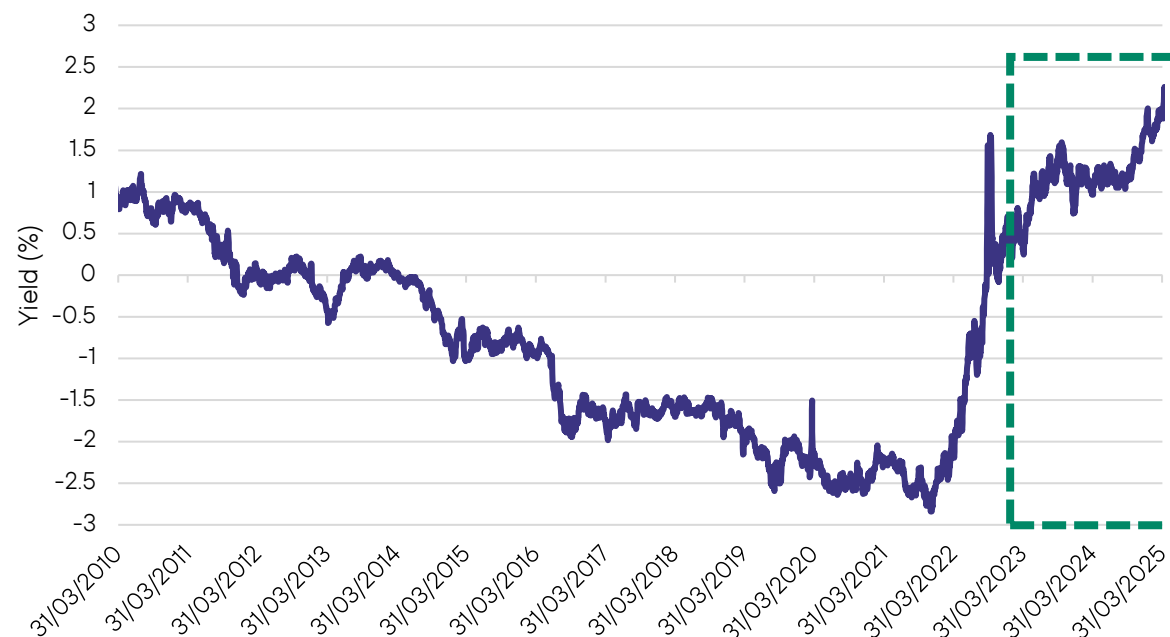
Given any increase in ILGs would be via an existing manager and a passive mandate, additional governance for the allocation will be negligible.

Pricing

We are aware that in the past, the Committee and Officers have been concerned about the pricing of ILGs. In July 2021 the Fund put in place a pricing trigger, whereby the Fund would increase its investment in ILGs should the 20-yr real yield reach inflation-1.5% (at which point ILGs could be considered "fair value" based on historical and expected levels, as their value falls with rises in yields). The Fund topped up the allocation at inflation-1.5% and again at inflation+1.0%. The current yield level (as at November 2025) is inflation+2.0%.

Gilt yields (20 year real yield)

Gilt yields change since the last strategy review



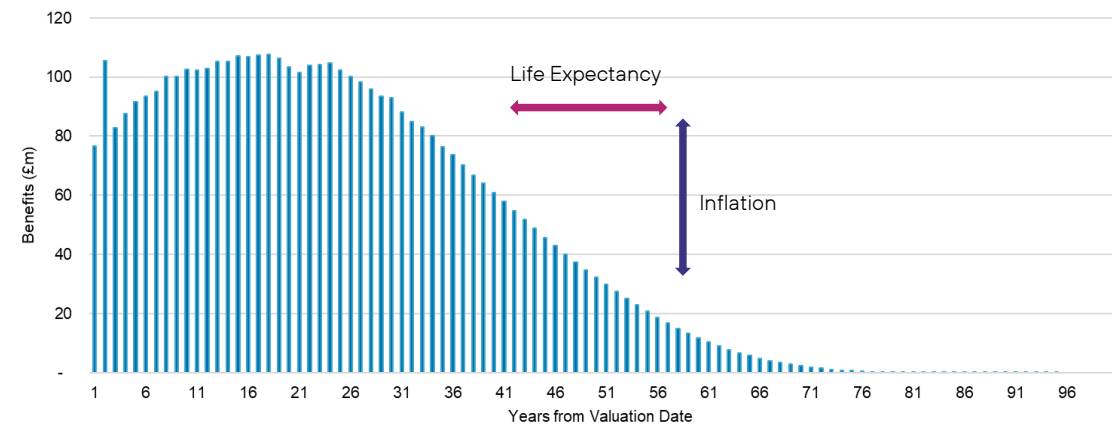
Since the last strategy review (the period highlighted in the chart above), yields have continued to rise following the significant increase over late 2022 during the UK Gilt Crisis (sparked by the 'mini-budget' announcement in September 2022). Markets have stabilised since then, but yields have continued to remain (and trending upwards) at high levels vs averages and gilt prices therefore lower than average. The pricing is now at a significantly attractive level than when the trigger level was set and the last review.

Cashflow Profile (1)

Long term cashflow expectations

- The Fund is expected to have cash outflows over the coming years. There are three core elements to this:
 - Monthly pension payroll (which is relatively predictable);
 - Lump sum / death grant member payments (there is a degree of uncertainty over such benefits as they are more variable in nature);
 - Expenses e.g., manager fees, transaction costs and miscellaneous charges.
- The Fund Actuary has shared details of the Fund’s expected long term pension payments as at March 2025. We note that these do not make any allowance for any transfers out. The employer contribution rates have not yet been finalised, but initial valuation results suggest a reduction of c.3% or c.£21m over the next three years (i.e. c.£7m per annum).
- We have estimated the approximate £ amounts in the table to the right, noting that an approximation would be broadly suitable as long as prudence is applied. The valuation is due to be signed off by March 2026 and we are comfortable that our approximations are suitable for the purpose of setting investment strategy. We have also used material prudence on the income assumptions (lower employer and employee contributions than over the previous valuation cycle with no allowance for inflationary increases) to illustrate a prudent scenario.
- There is expected to be material positive cashflow available if required over the next 1-2 years as the private real estate and private equity mandates are disposed of, and potentially some proceeds from the terminated Harris mandate if these are not reallocated fully back to equity.
- If required, the Fund can also draw cashflow from income producing mandates where it is not currently taken.
- **We do not believe that there is a strong requirement to significantly increase the level of investment income within the strategy at this stage given the income producing mandates already in place. However, there may be a greater focus on doing so at a later date for example if contribution rates were to materially alter in the future**

Liability profile



Source: Hyman Robertson

Cashflows (£m)*	2026	2027	2028	2029	2030
Income	£65m	£65m	£65m	£65m	£65m
Employer contributions	£50m	£50m	£50m	£50m	£50m
Employee contributions	£15m	£15m	£15m	£15m	£15m
Outgo	(£78m)	(£108m)	(£85m)	(£90m)	(£96m)
Pension Payments	(£78m)	(£108m)	(£85m)	(£90m)	(£96m)
Net Cashflow	(£13m)	(£43m)	(£20m)	(£25m)	(£31m)

Source: Hymans Robertsons and Isio calculations. Totals may not sum due to rounding. *Year ending 31 March.

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Cashflow profile (2)

- Our prudent assumption of the Fund's net cashflow requirement is shown in the below table, along with the required income yield assuming an asset value of £1.6bn (the worst 1 in 20 bad outcome from any of the investment strategies considered – again a prudent assumption).
- The total expected net negative cashflow over the period to 31 March 2030 is c.£132m – c.6% of the Scheme's current asset value (or less than 1.3% per annum). The expected return on the Fund is over 8% per annum so the Fund is very likely to be able to meet the cashflow through investment growth alone, even if disinvestments are required.
- The Fund invests in a range of income-producing assets such as Index-Linked Gilts, but also open-ended and closed-ended funds from which we would expect distributions over the coming years. Given the level of prudence in our cashflow projections, uncertainty around employer contributions and low net cashflow required, we are comfortable that the Fund will be able to meet the limited net negative cashflow expected.
- There are also short-term considerations:
 - The Harris mandate is currently being sold. Holdings that cannot be transferred in-specie could be available to meet short-term cashflow needs.
 - The Fund holds c.£50m in Partners Group Global Property, which LCIV have indicated will be sold following 31 March 2026. The sale proceeds from this could be used (all else equal) to provide a significant proportion of the expected net cashflow over the next five years if needed.
- We are comfortable with the Fund's cashflow position and note that none of the proposed investment strategies would change that position.

Cashflows (£m)*	2026	2027	2028	2029	2030
Net Cashflow	(£13m)	(£43m)	(£20m)	(£25m)	(£31m)
Required yield p.a.	0.8%	2.7%	1.3%	1.6%	1.9%

Source: Hymans Robertsons and Isio calculations. Totals may not sum due to rounding. *Year ending 31 March.

Alternative Portfolios

Proposed direction of travel (1)

1) Reduce overall equity allocation



- For a number of years the Fund's equity allocation has been significantly overweight versus its strategic target. This was addressed following the last strategy review in 2023, however there currently remains an overweight position (by 7.5%). Recent market volatility caused by the ad-hoc implementation of tariffs by the US government has highlighted the risk to the funding level posed by holding a large equity allocation.
- We believe that a robust, well diversified equity portfolio should remain a core part of the Fund's asset allocation to drive long-term growth, however we believe there is scope to reduce the allocation from its current position to reduce the overall risk profile of the Fund.
- At a minimum, the equity allocation should be brought down to its current strategic target. However we believe that given the Fund's strong current funding level, there is a scope to further reduce the allocation and redistribute that capital into opportunities that provides better inflation protection (e.g. index-linked gilts or property) or which help the Fund to achieve its SDG goals (e.g. affordable housing or renewable infrastructure).

2) Increase exposure to inflation-linked assets



- The Fund has already introduced allocations to index-linked gilts, long lease property, and infrastructure equity, which provide some direct inflation protection to help address the risk that rising inflation poses and this can be further increased.
- Following the last strategy review, a pricing trigger was implemented, whereby the Fund would increase their investment in ILGs should the 20-yr real yield reach inflation-1.5% (at which point ILGs could be considered 'fair value', as their value falls with rises in yields), and again at inflation+1.0%. Following the gilts crisis in 2022, yields have remained at elevated levels and continued to steadily rise with the yield is now at c. inflation+2.0%, so we strongly recommend that the Fund act increase its allocation to ILGs at least in line with the current target, and potentially materially further, given this pricing.
- In addition, LCIV have launched a renewable infrastructure fund, which could improve inflation exposure, whilst also helping the Fund to better align to its UN SDGs.

Proposed direction of travel (2)

3) Increase ESG impact allocation via investment into renewable infrastructure and natural capital



- Allocating capital towards renewable infrastructure and natural capital would allow the Fund to make further progress towards its SDG goals, alongside reaping diversification benefits and benefiting from the illiquidity premiums provided by these asset classes and also the direct inflation linkage they provide.
- As mentioned above, LCIV have a renewable infrastructure fund available, and have recently launched a natural capital fund.
- The following pages provide further detail regarding these asset classes, which would be new additions to the Fund's strategy.

4) Remove or restructure Diversified Growth



- The Baillie Gifford Diversified Growth Fund has performed poorly relative to target (alongside muted performance from the wider Diversified Growth Fund universe) over the short to medium term. In part this is due to the reduced benefit of diversification as increasingly concentrated equity markets have driven asset returns.
- The alternative strategies put forward in this section of the report propose restructuring or removing the Diversified Growth allocation.
 - If the Committee wish to retain an allocation to Diversified Growth we suggest a more uncorrelated and contrarian approach is more appropriate to provide additional diversification benefit to the Fund's overall investment strategy. This would be available via the LCIV Total Return Fund managed by Ruffer – in our view the Ruffer mandate, given their approach, will provide more genuine diversification in all market environments
 - There is also rationale to remove Diversified Growth completely given the Fund's size means it is able to allocate to the majority of the underlying asset classes directly and more efficiently, alongside muted performance to date.
- During the production of this investment strategy review, Baillie Gifford informed us of material changes to the fund strategy and personnel, including senior departures. Further detail is given in the Appendix, however, this development provides additional rationale for the proposed disinvestment from the Baillie Gifford fund.
- A question was raised at the October Committee meeting around the use of commodities (specifically gold) in the investment strategy. It is not possible to access commodities directly through LCIV's existing fund range, but the diversified growth managers (including Baillie Gifford and Ruffer) have discretion to allocate to commodities. Both managers currently allocate <5% to commodities.

Proposed new asset class: Natural Capital

Natural Capital a subset of Sustainable Investment. The UK Government’s Natural Capital Committee defines “Natural Capital” as being, “those elements of nature which directly provide benefits or underpin human wellbeing.”

As such, Natural Capital is a broad asset class that encompasses:

- Environmental assets (conservation and nature restoration). Investable examples include sustainable forestry / nature conservation / carbon credits
- Oceans (clean up and regeneration). Investable examples include sustainable seafood / circular economy / ocean conservation
- Soils (sustainable land management). Investable examples include sustainable agriculture / mixed crop-livestock farming / agro-forestry

Natural capital assets therefore have dual investment objectives (strong financial returns and positive natural capital impact) in addition to offering a low correlation with traditional asset classes. The asset class shares similar investment characteristics with other real assets such as infrastructure and property e.g. inflation linked returns and income.

Key features include:

- Attractive long-term returns through biological growth (which exhibits limited economic sensitivity), recurring income (through timber harvests), potential long-term increases in land value and increases in global demand/prices as well as other revenue sources which can enhance returns such as realising conservation, wind/solar leases, other recreational leases, carbon/biodiversity credits etc.
- Enhanced portfolio protection through positive long-term correlation with inflation (real returns) and selective harvesting e.g. longer window to harvest and sell timber depending on prevailing market prices.
- Little to no correlation with mainstream asset classes given a number of diversifying properties. Further diversification within the asset class – such as geography, species, age class and end use.
- Sustainability benefits through carbon sequestration, biodiversity and food/fibre/timber security.
- An allocation to this asset class would allow investors to meet the UN SDGs shown below.

Applicable UN SDGs:



Typical Characteristics

Expected Return	Low		High	Gilts +4.0-5.0%p.a.
Impact Return	Low		High	High
Expected Volatility	Low		High	15% p.a.
Inflation-linkage	0%		100%	High implicit inflation-linkage
Liquidity	Liquid		Illiquid	Illiquid, but liquid structures available
Diversification	Concentrated		Highly Diversified	Highly diversified
Management Fee	Low		High	0.75% to 1.00% p.a.

Implementation Considerations

Availability	Pooled fund currently available on LCIV platform
Governance	Initially high due to long queues and drawdowns, moderate ongoing – standard quarterly monitoring
Trading costs	High (acquisition fees can be 1-2%)
Turnover	Low (long-term holdings)
Lock-ins	Closed-ended options: n/a Open-ended options: Initial lock-ins tend to 2-3 years
Geography	Global (largely US, Europe, UK Australia and New Zealand)
Past Performance	TBU – asset class relatively new, timberland has the longest track record.

Proposed new asset class: Renewable Infrastructure

Infrastructure assets are required for economic, industrial and social development. Renewable Infrastructure is a sub-sector of the broader infrastructure market focusing on renewable energy generation and the energy transition movement.

Key features include:

Within infrastructure assets, there are two broad types:

‘Brownfield’ assets – mature projects that are already in operation. Brownfield infrastructure is considered to be lower risk, as projects are already operating and provide a reliable stream of cashflows.

‘Greenfield’ assets – projects which are still in the construction and/or development stage. Greenfield infrastructure is often deemed higher risk, as the investor is exposed to the construction risk of the asset, so there is less certainty of outcome and no immediate cashflows are provided to investors.

Infrastructure equity is considered an attractive investment due to:

Long duration: many of the underlying assets provide long-term, predictable revenue streams, which can act as a broad match for a pension scheme’s liabilities;

Inflation protection: asset revenues often rise with inflation thus providing protection for pension schemes’ inflation-linked liabilities;

Attractive income yield: brownfield infrastructure assets are relatively low risk and can provide high yielding income with a high degree of certainty.

Investing in renewables reduces the reliance on fossil fuel combustion for energy generation, contributing towards Net Zero targets and other UN SDGs.

Applicable UN SDGs:



Typical Characteristics

Expected Return	Low		High	Gilts + 4.6% p.a.
Expected Volatility	Low		High	12% p.a.
Shape of Outcomes	0% Contractual		100% Contractual	>50% contractual
Liquidity	Immediate		Long	Long
Diversification	Concentrated		Highly Diversified	Concentrated
Management Fee	Low		High	0.5%-1.0% p.a.
Performance Fee	No		Yes	5%-15%

Implementation Considerations

Availability	Segregated and pooled options available
Governance	High due to fund structures, queues and drawdowns
Trading costs	Up to 1%
Turnover	Low turnover of underlying investments
Lock-ins	Depending on fund structure 5 - 20 years
Active/Passive	Active only
Geography	Global / regional / UK only

Illustrative alternative portfolios – description

This slide sets out four alternative strategies that we are proposing for consideration which the Fund could look to adopt: Given the strong funding position achieved the overall theme is one of reducing investment risk and adding further ESG impact across the assets whilst maintaining a broadly similar level of return where possible.

More efficient

This strategy utilises the Fund's current investment mandates, but adjusts the allocations to some, in order to improve the risk / return efficiency of the investment portfolio. Relative to the current allocation, this strategy looks to add more inflation-linked gilts, remove private equity and slightly reduce its allocation to property and switch the Diversified Growth allocation to an uncorrelated approach.

Higher impact

This strategy alters the allocations to some of the current mandates, and also introduces a new 'Natural Capital' allocation to improve the ESG credentials of the investment portfolio whilst reducing overall investment risk. To further enhance this, part of the allocation to infrastructure equity could be redistributed to the LCIV Renewable Infrastructure Fund, however the Committee should weigh up the governance considerations associated with implementing another mandate. This strategy also sees an increase to inflation-linked gilts given their attractiveness in the current climate, funded through the removal of the Diversified Growth mandate.

Lower risk

This strategy alters the allocations to some of the current mandates, and reduces its overall allocation to Equities. It does not introduce any new allocations, but rather redistributes part of its equity allocation to offer more inflation protection and switch the Diversified Growth allocation to an uncorrelated approach.

Lower risk and higher impact

This strategy seeks to combine the higher impact and lower risk strategies, by reducing the Fund's equity exposure, add inflation protection through an increased allocation to inflation linked gilts and increase impact through introductions to new asset classes of renewable infrastructure and natural capital, funded through a reduction in the equity mandates and removal of the Diversified Growth mandate.

Illustrative alternative portfolios – overview

● Reduced ● Increased ● Introduced

		Current strategic target	Current actual allocation (incl. net commitments)	More efficient	Higher impact	Lower risk	Lower risk and Higher impact
Equity	Public Equity	45.0%	52.5%	43.0% (-10%)	43.0% (-10%)	33.0% (-10.0%)	33.0% (-10.0%)
	Private Equity	2.0%	1.9%	2.0%	2.0%	2.0%	2.0%
Diversified Growth Fund	DGF	5.0%	4.5%	- (-5.0%)	- (-5.0%)	- (-5.0%)	- (-5.0%)
	DGF (Total Return)	-	-	5.0% (+5.0%)	-	5.0% (+5.0%)	-
Credit	Multi Asset Credit	15.0%	15.7%	15.0%	15.0%	15.0%	15.0%
UK Government Bonds	Index-Linked Gilts	8.0%	6.2%	11.0% (+3.0%)	11.0% (+3.0%)	18.0% (+10.0%)	18.0% (+10.0%)
Real assets	Long-Lease Property	5.0%	3.2%	6.0% (+1.0%)	6.0% (+1.0%)	9.0% (+4.0%)	9.0% (+4.0%)
	UK & Global Commercial Property	6.0%	7.0%	4.0% (-2.0%)	4.0% (-2.0%)	4.0% (-2.0%)	4.0% (-2.0%)
	Infrastructure Equity	9.0%	5.8%	9.0%	6.5% (-2.5%)	9.0%	6.5% (-2.5%)
	Renewable Infrastructure	-	-	-	2.5% (+2.5%)	-	2.5% (+2.5%)
	Affordable Housing	5.0%	2.0%	5.0%	5.0%	5.0%	5.0%
	Natural Capital	-	-	-	5.0% (+5.0%)	-	5.0% (+5.0%)
Cash	Cash	-	1.2%	-	-	-	-
Total		100%	100%	100%	100%	100%	100%

Illustrative alternative portfolios – key metrics

	Current strategic target	Current actual allocation (incl. net commitments)	More efficient	Higher impact	Lower risk	Lower risk and higher impact
Expected return (% p.a.)	8.8%	8.8%	8.7% (-0.1%)	8.8% (-)	8.4% (-0.4%)	8.5% (-0.3%)
VaR (3 yr, 1 in 20 chance)	£816m	£861m (+6%)	£786m (-4%)	£770m (-6%)	£681m (-16%)	£659m (-19%)
% of assets with direct inflation linkage ¹	c. 21%	c. 16%	c. 24%	c. 26%	c. 34%	c.36%
% illiquid assets	c. 27%	c. 20%	c. 26%	c.31%	c. 29%	c.34%
ESG impact	-	-	Limited improvement – option to switch all passive equity holdings to LGIM Future World approach	Material improvement through new allocations to renewable infrastructure and natural capital	Limited improvement	Material improvement through new allocations to renewable infrastructure and natural capital
Governance ²	12 mandates, managed by 7 managers	12 mandates, managed by 7 managers	11 mandates, managed by 6 managers	13 mandates, managed by 6 managers	11 mandates, managed by 6 managers	13 mandates, managed by 6 managers
Indicative overall fees (£m)	6.2	5.8	5.9	6.8	6.3	7.1

Note: ¹ Uk and global property assumed to be 50% inflation linked.

² For mandates invested via the London CIV, we consider LCIV to be the investment manager.

Source: Hymans Robertson data, Isio calculations as at 31 March 2025.

Environmental, Social and Governance ("ESG") Considerations

UN Sustainable Development Goals (“UN SDG”) focus areas

The below United Nations Sustainable Development Goals (“UN SDGs”) have been identified as key areas of focus for the Fund, its investment managers and advisors when making investment decisions. These have been documented in the Investor Beliefs Statement. Goals were previously set at a session in 2022, and the Committee held a further session in 2025 to reassess these, with **the updated priorities shown below in bold**.

Environmental

Climate Action (SDG 13) – Goal: Taking urgent action to tackle climate change and its impacts.

Affordable and Clean Energy (SDG 7) – Goal: To ensure access to affordable, reliable, sustainable and modern energy for all.

Life Below Water (SDG 14) – Goal: To conserve and sustainably use the world’s oceans, seas and marine resources.

Life on Land (SDG 15) – Goal: To sustainably manage forests, combat desertification, halt and reverse land degradation, and halt biodiversity loss.

Social

Good Health and Well-Being (SDG 3) – Goal: To ensure healthy lives and promote well-being for all at all ages.

Sustainable Cities and Communities (SDG 11) – Goal: To make cities inclusive, safe, resilient and sustainable.

Quality Education (SDG 4) – Goal: To ensure inclusive and equitable education and promote lifelong learning opportunities for all

Clean Water and Sanitation (SDG 6) – Goal: To ensure access to safe water sources and sanitation for all.

Decent Work and Economic Growth (SDG 8) – Goal: To promote inclusive and sustainable economic growth, employment and decent work for all.

Responsible Consumption and Production (SDG12) – Goal: To ensure sustainable production and consumption patterns.

Peace, Justice and Strong Institutions (SDG16) – Goal: To promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels

Governance

Reduced Inequalities (SDG 10) – Goal: To reduce inequality within and among countries.

Gender Equality (SDG 5) – Goal: To achieve gender equality and empower all women and girls.

Partnerships for the Goals (SDG 17) – Goal: To revitalize the global partnership for sustainable development.



UN SDG alignment in investment strategy

		Current target allocation	Current strategy	Going forward
Equity	Public Equity	45.0%	Active equity allocation (12.2%) in Paris-aligned fund. Passive allocation partially invested in LGIM Future World Global Equity Fund (17.0%), with a broad ESG (including climate) tilt, with remainder invested under a traditional market cap approach.	The Fund should consider switching all passive exposure with LGIM to an ESG tilted approach. The Fund could consider other ESG focussed equity funds on the LCIV pool – including the LCIV PEPPA fund and other sustainable active equity funds on LCIV.
	Private Equity	2.0%	No specific ESG focus in current mandate.	No easily accessible ESG products currently in the market, LCIV are currently developing a product with parameters TBC.
Diversified Growth Fund	DGF	5.0%	No specific ESG focus in current mandate, however our Sustainable Investment research team highly rate Baillie Gifford's capabilities and commitment at the firm level.	No options available with specific ESG objectives on LCIV pool, but sustainable DGF options available off-pool.
	DGF (Total Return)	-	N/A	No options available with specific ESG objectives on LCIV pool, but sustainable DGF options available off-pool.
Credit	Multi Asset Credit	15.0%	No specific ESG focus in current mandate, however our Sustainable Investment research team highly rate both PIMCO and CQS's capabilities and commitments at the firm level.	No options available with specific ESG objectives on LCIV pool, but "best in class" sustainable MAC options available off-pool. Ensure LCIV engaging with managers to drive change and/or plan to launch sustainable version of their MAC offering.
UK Government Bonds	Index-Linked Gilts	8.0%	No specific ESG focus in current mandate.	Currently no 'green' index-linked gilts options available in the market, but may be a future development.
Real assets	Long-Lease Property	5.0%	No specific ESG focus in current mandate.	Ensure LCIV engaging with managers to drive change.
	Commercial Property	6.0%	No specific ESG focus in current mandates.	Limited specific ESG specific products in the market currently but a developing area.
	Infrastructure Equity	9.0%	Allocation to renewable energy infrastructure via the LCIV Infrastructure Fund (c.25% of total exposure).	Positive alignment through elements of existing mandate. LCIV have a renewable energy focussed infrastructure equity fund available on pool which could be considered.
	Renewable Infrastructure	-	N/A	LCIV have a renewable energy focussed infrastructure equity fund available on pool which could be considered.
	Affordable Housing	5.0%	Allocation to housing via the LCIV Affordable Housing Fund – Strong ESG alignment, focussing on social factors.	
	Natural Capital	-	N/A	LCIV have recently launched a Nature Based Solutions Fund which has socially focused objectives which could be considered

Net zero alignment (1)

The London CIV have published their ambition of becoming a Net Zero entity by 2040. Given the movement for LGPS Funds to pool their assets. Without a specific Net Zero target agreed for the Fund, the Committee should therefore consider 2040 to be a proxy deadline by which to achieve Net Zero within the investment portfolio.

Fund	Fund net zero target present?	Firm-wide net zero target?	Notes
LCIV Diversified Growth Fund (<i>Baillie Gifford</i>)	No	Yes	LCIV have published their ambition of becoming a Net Zero entity by 2040
LCIV MAC Fund (<i>CQS & PIMCO</i>)	CQS (Yes) ; PIMCO (No)	Yes	CQS: Interim decarbonisation target commitment of 50% reduction by 2030 from a 31 December 2019 baseline for the Credit Multi Asset Fund. PIMCO: Seek to achieve 35% reduction in WACI by 2025 and 60% reduction by 2030, relative to a 2021 baseline, and maintain the WACI in line or below benchmark at all times.
LCIV Infrastructure Fund (<i>Stepstone</i>)	No	Yes	The LCIV Infrastructure Fund was designed with a minimum of 25% of commitment in renewable energy exposure. The current asset allocation is aligned to this.
LCIV Real Estate Long Income Fund (<i>Aviva</i>)	No	Yes	LCIV have published their ambition of becoming a Net Zero entity by 2040
LCIV Global Alpha Growth Paris Aligned Fund (<i>Baillie Gifford</i>)	Yes	Yes	The fund aims to have a weighted average greenhouse gas intensity that is lower than that of the MSCI ACWI Climate Paris Aligned Index (10% annual self-decarbonisation). Baillie Gifford is a signatory to the Net Zero Asset Managers initiative ("NZAMi"), which is an international group of asset managers committed to supporting the goal of net-zero greenhouse gas emissions by 2050 or sooner.
LCIV UK Housing Fund	No	Yes	LCIV have published their ambition of becoming a Net Zero entity by 2040
Harris Global Equity	No	No	Harris does offer the capability to implement carbon intensity and Net Zero targets to client portfolios, although not currently implemented in the Fund's mandate.

Net zero alignment (2)

Fund	Fund net zero target present?	Firm-wide net zero target?	Notes
CBRE Property Fund	No	Yes	CBRE Investment Management is a signatory to the Net Zero Asset Managers initiative ("NZAMi"). For the Fund's portfolio there is no overall target net zero target set for the portfolio as a whole. CBRE closely monitor the net zero carbon commitments of each underlying fund for both scopes 1 and 2 (emissions within the control of the landlord) and scope 3 (emissions for which the tenant is responsible).
Partners Group Real Estate Secondaries Fund	N/A	Yes	All of the funds within the portfolio will wind-down before 2050. The company has wider net zero goals across all of their investments. They aim to be net zero by 2050, to achieve a 50% reduction by 2035 and achieve a 20% reduction during their holding period on direct assets (~5 year hold).
HarbourVest Private Equity Fund	No	No	Through its role in various initiatives, HarbourVest helped develop the iCI-ERM GHG Accounting Reporting Guidance for Private Equity along with the Bain Private Markets Decarbonisation Roadmap (PMDR) in 2023. In 2025, HarbourVest also began requesting PMDR portfolio alignment data from its GPs which it uses to track decarbonisation progress within its investments and to report to climate-focused investors.
LGIM Index Linked Fund	No	Yes	LGIM has committed to support the goal of net zero GHG emissions by 2050, in line with global efforts to limit warming to 1.5°C. As part of this commitment, LGIM has set a net zero AUM target of 70% by 2030.
LGIM Market Cap World Equity			
LGIM Future World Global Equity			

Implementation of Strategy Changes

Pooling Considerations (1)

Fit for the Future legislation

- From 31 March 2026, control over implementation of the Fund’s investment strategy will fall with the London CIV.
- Resultantly, by regulation the Fund will be required to invest entirely with London CIV products from end March 2026 onwards.
- Exceptions being:
 - Passive products invested with L&G and/or BlackRock;
 - Operational cash; and
 - Directly (non-fund) held legacy assets.
- As such, in implementing the agreed investment strategy, the Committee should consider the funds currently available on the London CIV platform in the first instance. We have provided high level details of the London CIV fund range over the following pages in this section of the report.
- While technically there exists the option to invest in products away from the pool in the immediate term before the March 2026 deadline, we would advise against this approach cognisant of the additional transition costs that would be attributed to moving the proceeds back onto the pool ahead of the deadline – as required by regulation.
- London CIV Partner Funds (including the Fund) will also be required to set out their approach to local investment, including setting a target range for local investment in their Investment Strategy Statements.
- London CIV is currently working with its Partner Funds to build on the initial asset pooling transition plans, cognisant of the impending deadline. Plans are expected to be finalised over Q4 2025.

Strategic Asset Allocation (“SAA”) buckets

- While not an obligation for this review, in future the UK Government will require the SAA agreed between Partner Funds and their pools to be no more granular than that of the following template 9 SAA buckets:

Asset class	SAA (%)	Tolerance range (±%)
Listed equity		
Private equity		
Private credit		
Property / Real estate		
Infrastructure		
Other alternatives		
Credit		
UK Government bonds		
Investment cash		

- We also understand the Government is considering an “impact allocation” bucket.
- Specifically, decisions on geographic allocation, active vs passive, style management, choice of index etc. will rest with your pool.
- Partner Funds will remain responsible for setting high level strategy objectives and SAA in line with the above template. Partner Funds will also remain responsible for setting responsible investment and local investment objectives.
- Overleaf, for illustration we have set out how the Fund’s current investment strategy and presented alternatives translates to this SAA template. We have not incorporated a tolerance range for the purposes of this exercise.

Pooling Considerations (2)

Asset class	Current SAA	Option 1 SAA	Option 2 SAA	Option 3 SAA	Option 4 SAA	Current Fund(s)	Pool-aligned? (Y/N)	Action needed
Listed equity	45%	45%	45%	35%	35%	LCIV Global Equity Growth Harris Global Equity Value LGIM Passive & LGIM Sustainable Passive	Y – passive pool-aligned	The Committee has previously agreed to transition from the Harris mandate to the LCIV Global Equity Value Fund.
Private equity	2%	-	-	-	-	Harbourvest	N	None prior to March 26 deadline then consider LCIV product once launched.
Private credit	-	-	-	-	-	-	-	-
Property / Real estate	16%	15%	15%	18%	18%	CBRE (Directly held) LCIV UK Long Lease Property LCIV Affordable Housing Partners Global Real Estate	Y	The Fund has confirmed the CBRE assets will transition to the CBRE managed mandate on pool. The Fund could consider exiting the Partners Group mandate ahead of the pooling deadline, or allow an LCIV exit in due course.
Infrastructure	9%	9%	14%	9%	14%	LCIV Infrastructure	Y	Options 2 and 4 include the use of the LCIV Sustainable Infrastructure Fund and LCIV Nature Based Solutions.
Other alternatives	5%	5%	0%	5%	0%	LCIV Diversified Growth Fund	Y	Options 1 and 3 include allocating to a different LCIV Diversified Growth Fund
Credit	15%	15%	15%	15%	15%	LCIV Multi-Asset Credit	Y	-
UK Government bonds	8%	11%	11%	18%	18%	LGIM ILG	Y – passive pool-aligned	-
Investment cash	-	-	-	-	-	-	-	-

LCIV current product range (1)

● Currently invested

Fund	Size	Number of Investors
Equity		
LCIV Global Alpha Growth Fund	£1,651m	5
LCIV Global Alpha Growth Paris Aligned Fund	£2,692m	11
LCIV Global Equity Fund	£677m	3
LCIV Global Equity Focus Fund	£1,214m	6
LCIV Global Equity Quality Fund	£730m	3
LCIV Global Equity Value Fund	£363m	3
LCIV Emerging Markets Equity Fund	£630m	8
LCIV Sustainable Equity Fund	£1,421m	7
LCIV Sustainable Equity Exclusion Fund	£1,059m	6
LCIV Passive Equity Progressive Paris Aligned Fund	£1,228m	5
Multi-Assets		
LCIV Global Total Return Fund	£110m	1
LCIV Diversified Growth Fund	£264m	3
LCIV Absolute Return Fund	£1,073m	10
LCIV Real Return Fund	£43m	1

Source: LCIV as at 30 September 2025

LCIV current product range (2)

● Currently invested

Fund	Size	Number of Investors
Fixed Income		
LCIV MAC Fund	£2,375m	18
LCIV Alternative Credit Fund	£755m	5
LCIV Global Bond Fund	£976m	10
LCIV Short Duration Buy and Maintain Credit Fund	£185m	4
LCIV Long Duration Buy and Maintain Credit Fund	£805m	7
LCIV All Maturities Buy and Maintain Credit Fund	£495m	3
Real Assets		
LCIV Infrastructure Fund	£475m committed (£389m drawn down)	6
LCIV Renewable Infrastructure Fund	£1,109m committed (£610m drawn down)	16
Place-based		
The London Fund	£250m committed (£119m drawn down)	4
Private Debt		
LCIV Private Debt Fund	£625m committed (£420m drawn down)	8
LCIV Private Debt II Fund	£388m committed (£104m drawn down)	5
Property		
LCIV Real Estate Long Income Fund (LCIV RELI)	£213m committed (£213m drawn down)	3
LCIV UK Housing Fund	£530m committed (£207m drawn down)	9
Natural Capital		
LCIV Nature Based Solutions Fund	£344m committed (£159m drawn down)	5

Source: LCIV as at 30 September 2025
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Further implementation considerations

Passive equity

The Fund has a split allocation to market cap passive and Future World passive both held with LGIM. Given the Future World fund is now more established with a longer track record we believe the Committee should consider a full switch to the Future World approach to further improve ESG impact credentials.

Harris equity

The Fund has already agreed to terminate the holding in the Harris equity fund, reinvesting proceeds in the LCIV Global Equity Value Fund. At the time of writing, this transition is ongoing and expected to conclude in December 2025 or early 2026.

Baillie Gifford DGF

Due to recent material changes to the fund structure and team we have developed a negative research view on the Baillie Gifford DGF. This gives further rationale to recommend the disinvestment from the strategy.

Sale of Global Real Estate

The Fund holds three illiquid global real estate mandates with Partners Group. Performance has been disappointing and LCIV has already indicated that they will disinvest following 31 March 2026. Isio are working with Officers to investigate if a sale is practical and possible ahead of 31 March 2026.

Private Equity

The Fund also holds private equity with Harbourvest. This is expected to pay back over the medium term. This allocation remains unchanged in the strategic asset allocation of any proposed strategies and the Committee should consider the LCIV product in this area once launched.

Summary and Next Steps

Summary and next steps

Summary

- The initial results of the March 2025 Actuarial Valuation indicate a strong and improved 136% funding level position as at that date. We have reviewed the Fund's investment strategy in light of this position, and the agreed strategic objectives, and investor beliefs. The requirements for the Fund's investment strategy have evolved considerably, alongside materially different investment market conditions since the point of the last strategy review in 2022. The strong funding position gives flexibility to reduce investment risk (and expected return), if this is something the Committee is minded to do, as well as increase the ESG impact of the asset portfolio.
- We believe the Fund's current target strategy will generate a long term return of 8.8% p.a. which we believe is sufficient to meet the Actuary's assumed return requirements under the current funding basis. We have proposed several alternative strategies with lower expected return and risk, and varying degrees of ESG impact, because of this.
- All of the alternative strategies presented offer an evolution from the Fund's current investment strategy in order to continue to drive returns in a risk managed way, and increase ESG impact.
- If the Fund were minded to pursue a strategy that retains a similar level of return, but with a slightly lower risk profile, then either of the first two alternative strategies suggested would be appropriate.
- Further, if the Fund is minded to increase the focus on ESG impact, then we have proposed two options to do this. Similarly if the Fund wished to pursue a materially lower risk strategy.

Summary (cont.)

- **On balance, we believe the "Lower risk and higher impact" is the most suitable strategy for the Committee to take forward, given the blend of attractive investment characteristics and ESG impact this offers.**
- The Fund should also consider both the governance implications of the number of mandates/managers and the potential ongoing management costs before making any final decisions.

Next steps

- The Committee should consider its views on:
 - the alternative asset allocations put forward in this paper
 - the new asset classes proposed;
 - the method of sale of the private market mandates;
 - the level of ESG impact desired within the strategy;
 - how the strategy should evolve in the long-term and whether / when the Committee would look to reduce investment risk further.
- We look forward to discussing this report with the Committee.

Appendices

A1: The Committee's agreed Investment Beliefs

There are a number of high level principles that the Fund is clear about and will communicate to interested parties to guide its approach to markets, asset allocation and investing in general:

- 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 and places equal weight on both
- Investment costs are important and should be minimised where possible after taking net performance into account

A2: Baillie Gifford – news update

RATING UNDER REVIEW

Meets Criteria

Change to personnel and fund structure

News update

- Management of mandates previously overseen by the Multi Asset team (including the Diversified Growth Fund) has been transferred to the Monthly Income team, effective 5 November.
- James Squires, Portfolio Manager and Head of the Multi Asset team, will leave Baillie Gifford at the end of Q1 2026 following a transition period with the Monthly Income team.
- Nicoleta Dumitru, who previously split time between the Multi Asset and Monthly Income teams, will remain part of the decision-making group within the Monthly Income team.
- While Baillie Gifford cannot comment on other personnel for legal reasons, our expectation is that the remainder of the Multi Asset team will either leave the firm or move into new roles.
- Baillie Gifford expects to propose merging the Diversified Growth Fund and the Monthly Income Fund in Q1 2026.
- In the interim, James Squires and Nicoleta Dumitru will oversee the Diversified Growth Fund, likely on a “care and maintenance” basis.

Isio view

Baillie Gifford cited changing client circumstances as the main driver for these changes, noting that assets under management (AUM) in the Diversified Growth Fund have fallen materially in recent years. This reflects broader trends, including UK Defined Benefit schemes de-risking following the 2022 Gilts crisis. Similar AUM declines and fund closures have occurred across the asset class. The LCIV holding represents c.25% of remaining AUM (with Camden’s holding being c.10% of the total fund).

While we are assessing the overlap between the two funds, our understanding is that there are clear differences in investment approach and implementation. For example, the Monthly Income Fund places less emphasis on asset classes such as structured finance (typically viewed as strong diversifiers) and focuses more on delivering ongoing income.

We see these changes as significant: a completely new team will manage the Diversified Growth Fund, and a different process and philosophy will apply once the merger takes effect.

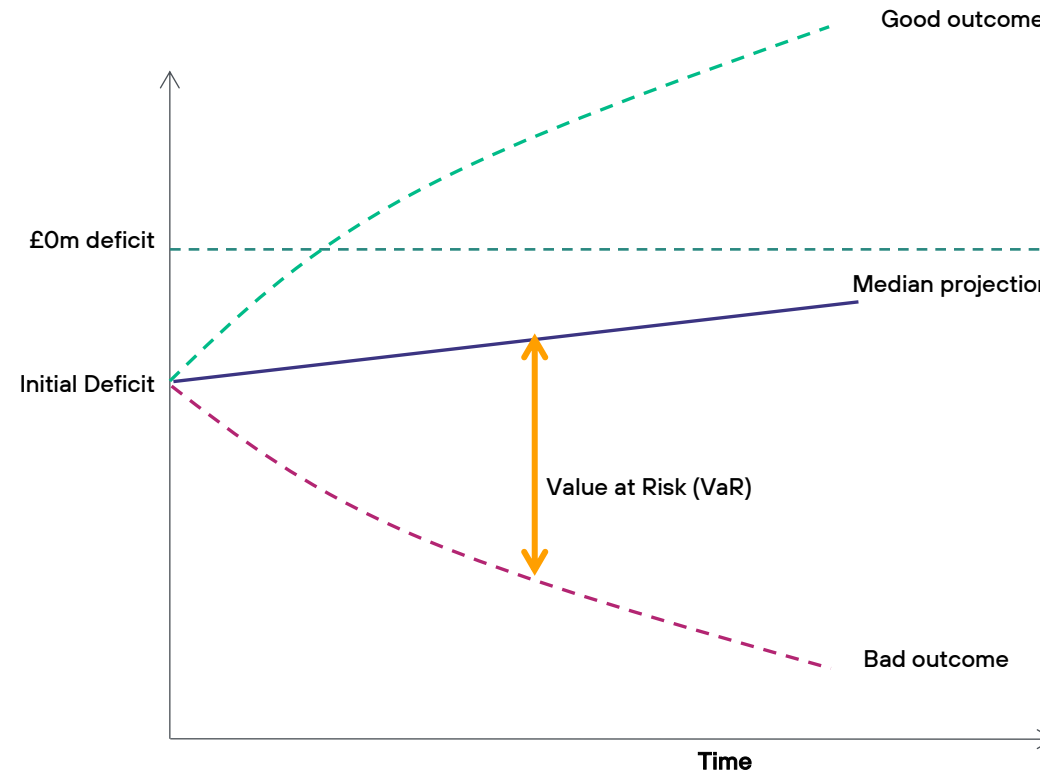
We are engaging with Baillie Gifford to obtain further details on team structure and the Monthly Income Fund. Based on our initial call, these changes are likely to impact our rating of the Diversified Growth Fund negatively, and we are advising clients to review their allocation.

We held a call with Officers and a senior member of our multi-asset research team to discuss next steps. We were planning to recommend disinvesting from the Baillie Gifford fund before this news broke and this reinforces the investment advice.

A3: Value at Risk – an explanation

Value at Risk ("VaR")

- The 1 in 20 value at risk is the difference between the 5th percentile outcome and the expected (median) outcome. The VaR measure gives a sense of how much better or worse the funding position could be relative to the central expectation for different market conditions. This is an important metric when comparing investment strategies and setting contribution rates.



Note: the above chart is for illustrative purposes only.

A4: Return and volatility assumptions as at 30 June 2025 (1)

Introduction to the assumptions

- These are our “best estimate” asset class return, volatility and correlation assumptions. We believe there is a 50:50 chance that the actual outcome will be above/below our assumptions.
- The assumptions are long-term, for a 10-year period, expressed in Sterling terms.
- Return assumptions are:
 - Annualised (i.e. geometric averages), rounded to the nearest 0.1%.
 - Expressed relative to the yield on fixed interest gilts (the annual yield at the 10-year tenor on the Bank of England spot curve). This yield was 3.8% at 31 December 2022.
 - Net of management fees.
 - Before tax. UK pension schemes are exempt from tax on investments. The impact of taxation may reduce returns for other investors.
- Volatility assumptions are based on the standard deviation of annual returns over a 10-year period, rounded to the nearest 0.5%.
- Correlation assumptions are based on the correlation of annual returns over a 10-year period, rounded to the nearest 5%.

Introduction to the assumptions cont.

- Bond volatilities are sensitive to the duration of the index. Our Fixed Interest Gilts (FIG) and Index-Linked Gilts (ILG) assumptions both relate to Over 15 Year indices, but the cashflow profile of the ILG index is considerably longer than the FIG index. Hence the difference in volatilities does not necessarily mean that real yields are assumed to be more volatile than fixed yields.

Limitations and risk warnings

- There can be no guarantee that any particular asset class or investment manager will behave in accordance with the assumptions.
- The assumption setting process is subjective and based on qualitative assessments rather than a wholly quantitative process. Newer asset classes can be harder to calibrate due to the lack of a long-term history. Some asset classes may rely on active management to help deliver the assumed return. The returns on illiquid assets may vary by vintage; in these cases the quoted return expectation is necessarily an estimate encompassing multiple vintages.
- Where these assumptions are used within asset-liability modelling, please note that the model's projections are sensitive to the econometric assumptions. Changes to the assumptions can have a material impact upon the modelling output

A4: Return and volatility assumptions as at 30 June 2025 (2)

Category	Asset Class ¹	Return ²	Volatility ³
Equity	Developed Markets – Passive	4.0%	20.0%
	Developed – SmallCap Passive	4.6%	24.0%
	Emerging Markets – Passive	5.5%	28.0%
	Private Equity	6.5%	26.0%
Real Assets	UK Balanced Property	2.7%	13.0%
	UK Long Lease Property	2.5%	8.0%
	UK Private Rented Sector	3.0%	13.0%
	UK Social/Affordable Housing	2.0%	7.0%
	Global Balanced Property	2.0%	15.0%
	Infrastructure Equity (core)	4.2%	10.0%
	Infrastructure Equity (core plus)	4.9%	15.0%
	Infrastructure Equity (value add)	5.5%	20.0%
	Timberland	4.5%	15.0%
Multi-Asset	Diversified Growth Funds	3.2%	12.5%
	Diversified Alternatives	6.0%	18.0%
	Hedge Funds – Multi-Strategy FoF	2.5%	10.0%
	Hedge Funds – Global Macro	3.0%	13.0%

Notes: Please refer to full explanations and caveats on previous pages.

¹ Includes active management except where specified as passive.

² Expected return per annum, net of fees, relative to the yield on fixed-interest gilts.

³ Expected standard deviation of absolute annual returns.

⁴ Includes allowances for downgrades and defaults.

⁵ “Lower risk” and “higher risk” are relative descriptions within the asset category only, with no wider meaning.

Source: Isio

Category	Asset Class ¹	Return ²	Volatility ³
Credit ⁴	Corp. Bonds (IG All-Stk) – Passive	0.4%	8.5%
	Corp. Bonds (IG All-Stk) – Active	0.7%	8.5%
	Corp. Bonds (IG >15y) – Passive	0.4%	12.5%
	Corp. Bonds (IG >15y) – Active	0.7%	12.5%
	Absolute Return Bonds	1.5%	4.0%
	Asset-Backed Secs (IG lower risk) ⁵	1.0%	2.5%
	Asset-Backed Secs (IG higher risk) ⁵	2.0%	5.0%
	Direct Lending	4.2%	10.5%
	Distressed Debt	7.0%	18.0%
	Diversified Credit	2.5%	11.0%
	Diversified Private Credit	4.2%	10.0%
	High Yield Credit	3.0%	11.0%
	Infrastructure Debt – Senior	2.0%	6.0%
	Infrastructure Debt – Junior	3.3%	9.5%
	Multi-Asset Credit (lower risk) ⁵	2.6%	6.5%
	Multi-Asset Credit (higher risk) ⁵	3.3%	9.0%
	Private Debt Secondaries	5.0%	11.0%
	Real Estate Debt – Senior	1.8%	6.0%
	Real Estate Debt – Whole Loan	3.5%	9.0%
	Real Estate Debt – Junior	5.0%	14.0%
	Secured Finance (lower risk) ⁵	2.5%	6.0%
	Secured Finance (higher risk) ⁵	3.3%	8.5%
	Semi-Liquid Credit	3.5%	9.0%
Gilts	Fixed Int. Gilts (>15y) – Passive	0.0%	13.5%
	Index-Linked Gilts (>15y) – Passive	0.0%	12.5%
Cash	Cash	0.0%	2.0%

A5: Modelling methodology (1)

Data and sources

- Information on characteristics of the Fund's liability profile, including the split between membership types and the chart illustrating the shape of future cashflows, and liability information was taken from information provided by Hymans Robertson as at 31 March 2025, supplemented by emails from Hymans Robertson.
- Asset portfolio information was sourced from the 31 March 2025 email from the Pension Fund Accountant.
- We judge that the use of high-level liability information, rather than detailed scheme-specific cashflow projections, is sufficient for the purpose of the modelling in this report.

Modelling principles

- SOFIA is a stochastic model that simulates a large number of possible future economic outcomes, in which financial conditions develop in a number of different ways, defined by assumptions for average outcomes, range of variability, and inter-dependency between different markets.
- The high-level market scenarios are generated by a third-party Economic Scenario Generator (ESG) provided by Moody's Analytics. The ESG is an industry-standard tool that is widely used by financial institutions (e.g. insurers, asset managers, and investment banks).

Modelling principles cont.

- Based on the scenarios generated by the ESG, SOFIA simulates asset-class returns calibrated to Isio's asset-class assumptions.
- SOFIA takes the initial starting position of the assets and the liabilities, and projects these values forward under the simulated scenarios, taking into account any relevant inflows and outflows.
- Different investment strategies are modelled in order to illustrate the effects of different allocations. In each case, SOFIA assumes that the strategy remains constant over the full projection period. Assets are annually rebalanced back to the original allocations.

Modelling results

- The results of the projections are shown by ranking the calculated results from best to worst in each year, and presenting the following outcomes:
- Median: this is the middle outcome and can be thought of as the "expected result". Half of the modelled outcomes are better than this and half are worse.
- Bad: this splits the results so that there is a one in five (20%) chance of having a worse outcome. This is a measure of risk.
- Very Bad: this splits the results at a one in twenty (5%) chance of having a worse result. This is a more extreme measure of downside risk.

A5: Modelling methodology (2)

Modelling results cont.

- Good and Very Good (where shown): these illustrate possible positive outcomes at the 20% and 5% levels respectively.
- The “Value at Risk”, where shown, is defined as the difference between the Median outcome and the Very Bad outcome, i.e. it represents the variability of funding outcomes and shows the magnitude of the possible downside from the expected result. Please note that this is not the same as the possible downside loss from the starting position.

Compliance statement

- This report, and the work relating to it, complies with “Technical Actuarial Standard 100: Principles for Technical Actuarial Work” (“TAS 100”).
- This report has been prepared for the purpose of assisting the addressee in their review of the investment strategy. If you intend to use it for any other purpose or make any other decisions after considering this report, please inform Isio and we will consider what further information or work is needed to assist you in making those decisions.

Material assumptions

- Isio’s central asset-class assumptions are assessed and revised at each calendar quarter-end. The assumptions used within this modelling exercise are set out in the Appendix.
- Certain assumptions are sourced directly from the Moody’s Analytics ESG and available market data, or set via adjustments to these sources. Where required or deemed to be more appropriate, assumptions are entirely determined by Isio. The assumption setting process is subjective and based on qualitative assessments rather than a wholly quantitative process. Where judgement is required, input is received from Isio’s internal asset-class research teams.

Limitations and risk warnings

- The only risk factors considered in our modelling are those that affect the values of pension schemes’ assets and the financial assumptions used to value schemes’ liabilities. Some of the risks that are not reflected include demographic risks (e.g. uncertainty of life expectancy), future changes to members’ benefits, and legislative risks. The modelling results should therefore be viewed alongside those risks, as well as other qualitative considerations including portfolio complexity, governance burden, and liquidity risk.

A5: Modelling methodology (3)

Limitations and risk warnings cont.

- The model's projections are sensitive to the starting position and the econometric assumptions. Changes to the assumptions can have a material impact upon the output. There can be no guarantee that any particular asset class or investment manager will behave in accordance with the assumptions. Newer asset classes can be harder to calibrate due to the lack of a long-term history.
- The modelling analysis is based on portfolios containing a range of asset classes and different approaches to fund management. Clients should not make decisions to invest in these asset classes or approaches to fund management based solely on the modelling analysis.
- Portfolios that make use of derivatives are exposed to additional forms of risk and can experience losses greater than the amount of invested capital.
- No guarantee can be offered that actual outcomes will fall within the range of simulated results. Actual outcomes may be better than the simulated 95th percentile or worse than the simulated 5th percentile.

Liability basis

- Where the model illustrates a scheme-specific funding basis (e.g. Technical Provisions), the funding basis is calculated in the same way across all the investment portfolios modelled. We therefore focus on the effect of investment strategies on asset values and hence surplus/deficits, without the distorting effect of differing discount rates. However, in cases where the discount rate allows for a risk premium, the magnitude of the risk premium may depend on the proportion of return-generating assets in the portfolio, and therefore in practice the funding basis may be different under different investment strategies.

Contribution basis

- The model's projections may be based on either fixed or variable contributions:
- "Fixed contributions" means that the current schedule of deficit contributions is assumed to remain in place for the full projection period. The purpose of this is to illustrate pure investment risk, showing the effect of differing investment strategies without the distorting impact of different amounts of money being contributed. In practice, however, the long-term downside outcomes would be less likely to be reached, as poor intermediate outcomes would lead to a requirement for additional contributions after future valuations.

A5: Modelling methodology (4)

Contribution basis cont.

- “Variable contributions” means that the model simulates future actuarial valuations every three years, and calculates the future deficit contributions that might be required under the particular situations being projected. This illustrates the range of possible future contribution requirements.
- In addition to the deficit contributions, the model also calculates contributions required to fund future service accrual, if there are active members accruing additional pension entitlements. In this case a small amount of variability arises from the range of possible future inflation projections. Therefore the “fixed contribution” projections may still show minor differences in contributions between, for example, Median and Bad outcomes.

A6: Disclaimers

- This report has been prepared for the sole benefit of the London Borough of Camden, as administering authority of the London Borough of Camden Pension Fund, and is based on their specific facts and circumstances and pursuant to the terms of Isio Group/ Isio Services Ltd's Services Contract. It should not be relied upon by any other person. Any person who chooses to rely on this report does so at their own risk. To the fullest extent permitted by law, Isio Group/ Isio Services Ltd accepts no responsibility or liability to that party in connection with the Services.
- The information contained within the report is available only to relevant persons, and any invitation, offer or agreement to purchase or otherwise acquire investments referred to within the report will be engaged in only with relevant persons. Any other person to whom this communication is directed, must not act upon it.
- In the United Kingdom, this Report is intended solely for distribution to Professional Clients as defined by the Financial Conduct Authority's Conduct of Business Sourcebook.
- This report has not therefore been approved as a financial promotion under Section 21 of the Financial Services and Markets Act 2000 by an authorised person.
- Isio Service Limited is authorised and regulated by the Financial Conduct Authority FRN 922376.
- The output from our modelling is based on a large number of underlying assumptions. Changes to these assumptions can have a material impact on the results of the modelling.
- The outcomes shown above are not intended to be the best possible, or worst possible outcomes. The actual outcome could be worse than the 5th percentile, or better than the 95th percentile.
- The modelling analysis is based on portfolios containing a wide range of asset classes and different approaches to fund management. Clients should not make decisions to invest in these asset classes or approaches to fund management based solely on the modelling analysis.
- The only risk factors we have considered in our modelling are those that affect the values of pension schemes' assets and the financial assumptions used to value schemes' liabilities. Some of the risks we have not considered include demographic risks such as the life expectancy of pension schemes' members and future changes to members' benefits.

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