

Commercial and in Confidence



London Borough of Croydon Pension Committee

5th June 2018



A collective Investment Vehicle for London Local Authorities (LLA) Pension Funds which delivers broader investment opportunities and enhanced cost efficiencies than LLAs can achieve individually and overall better risk adjusted performance.

London CIV Update



£14.2bn AUM
Including passive

New governance
framework agreed

12 Active
Sub-Funds

30 LLAs
'pooled'

Wide range of
Passive funds
available

40% of London's
assets are now
pooled

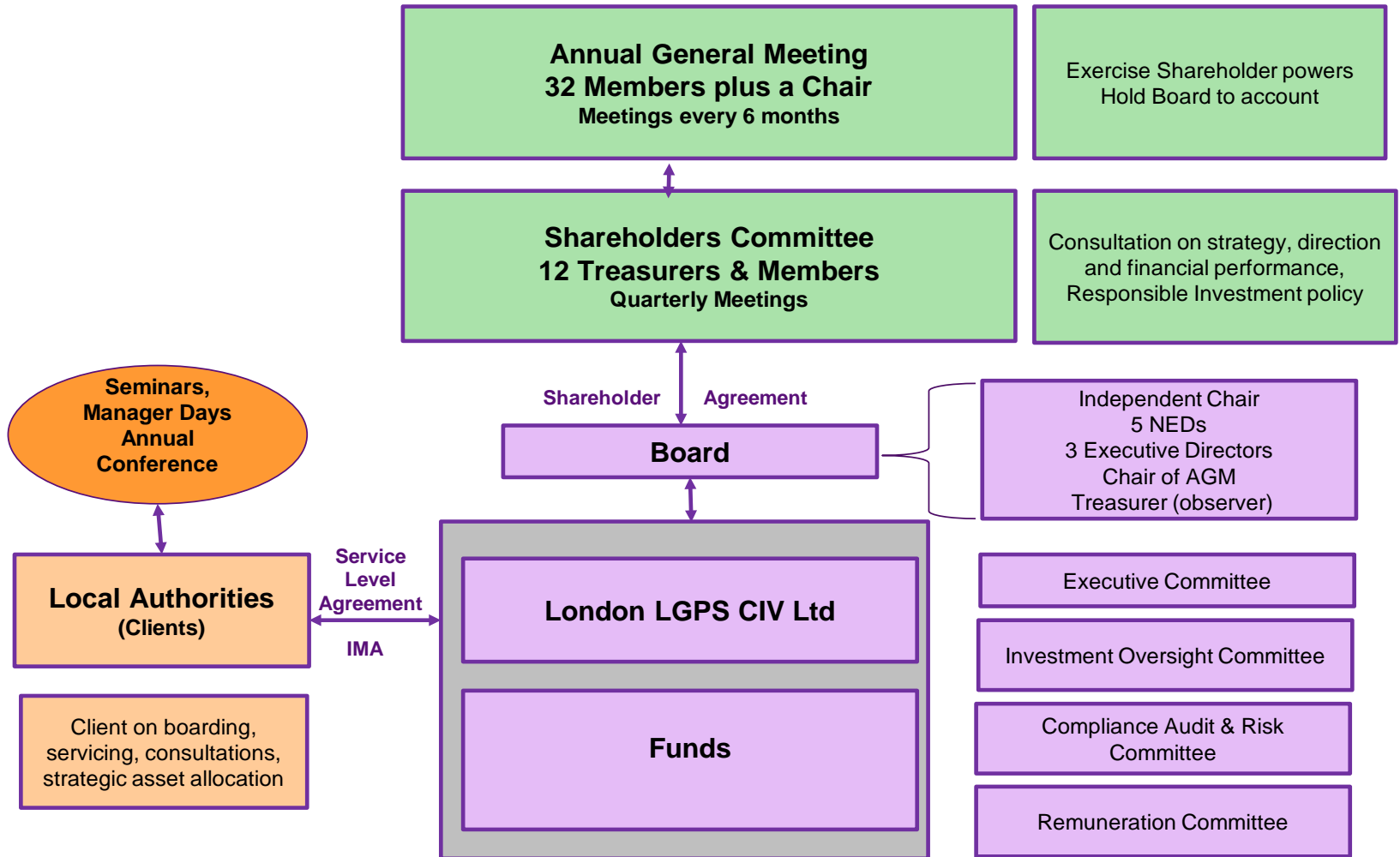
£1bn of
commitments
for Q2

Total savings
exceed total costs

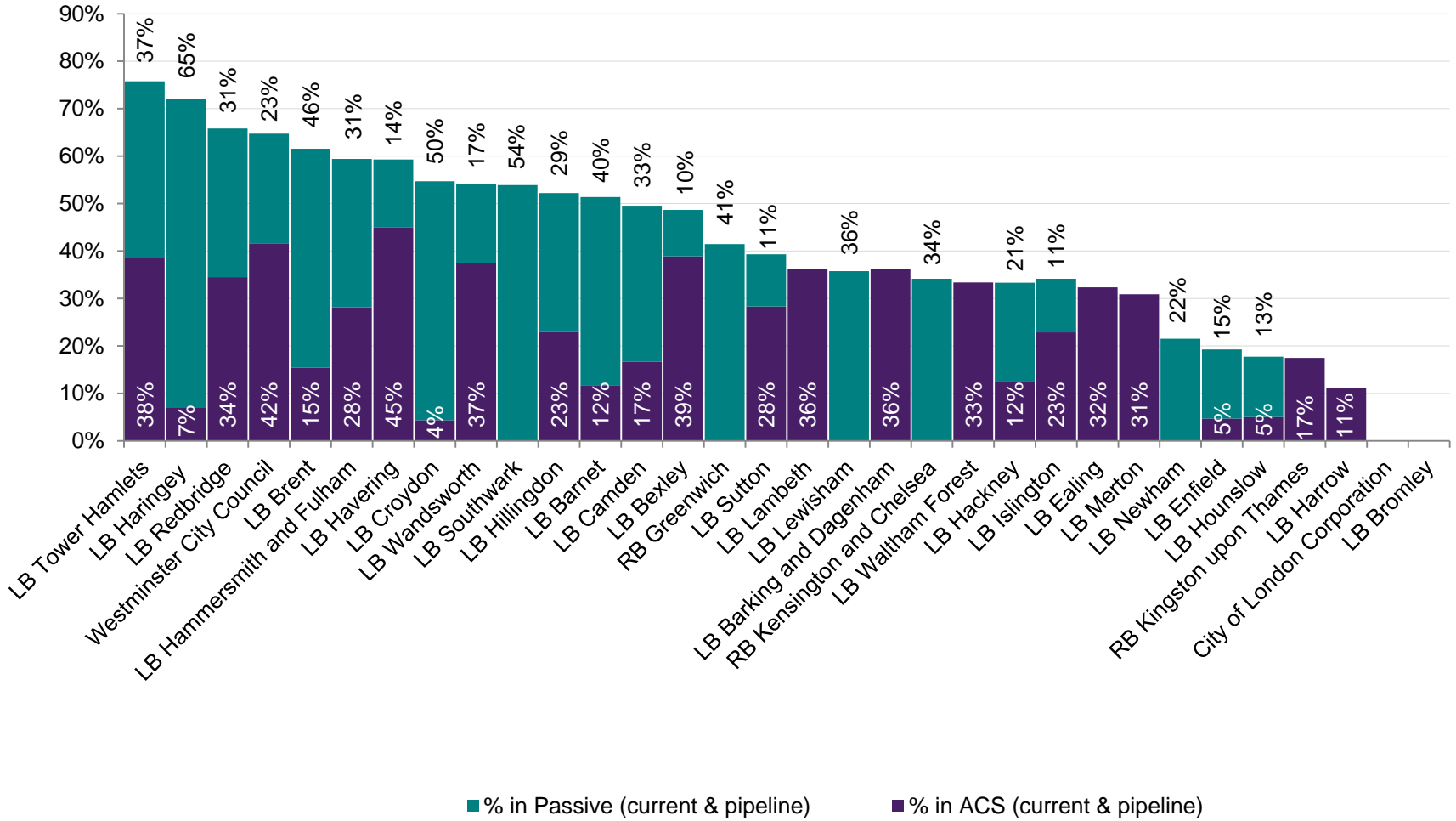
3 new sub
funds launched
in 2018

First Fixed
Income fund
launched 1st
June

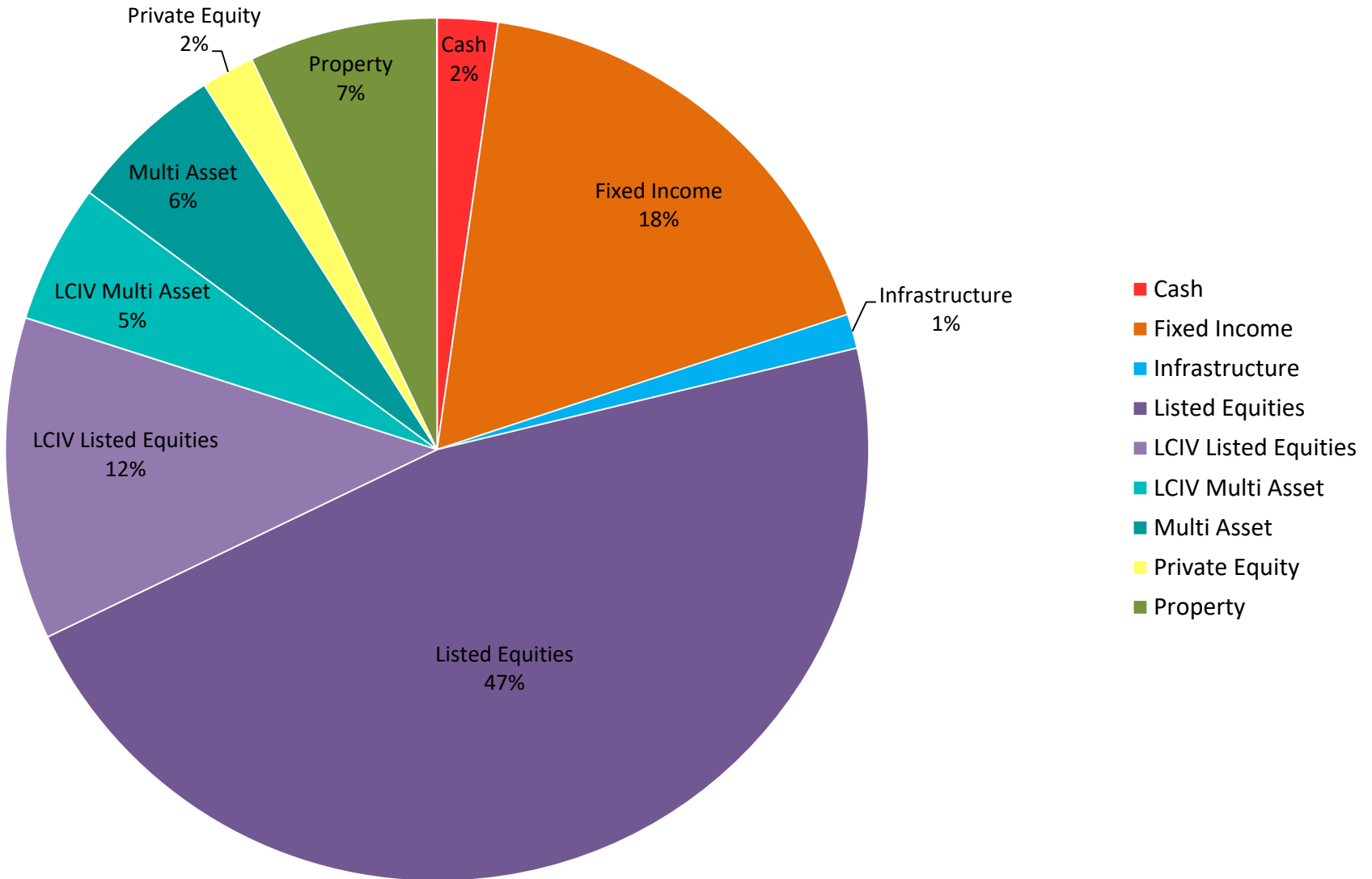
New Governance arrangements agreed



Percentage AUM pooled per Borough



Current allocations



LCIV news



New Bespoke reporting

- Commentary on your Personalised Investment Mandate via both qualitative and quantitative analysis.
- New information sheets to follow!



Daily and Monthly updates

- Newsletters are now available in the news section below funds
- LLA LCIV Valuations are updated on the client portal daily.



Save the Dates

- Presentations from the LCIV Managers
- Finalised Governance arrangements will be finalised at the AGM.

Future Manager days:

16th August 2018

15th November 2018

AGM:

12th July 2018

1-2-1s with every LLA in the next several months.

LCIV Emerging Market Equity Fund

- ▶ Fund launched in January 2018
- ▶ £107m invested as at 30 May – two investors
- ▶ A further £180m in the pipeline – three investors
- ▶ Bottom up strategy providing long-term capital growth
- ▶ Can invest in developed market companies as well as frontier markets

Fixed Income range



- **LCIV MAC Fund**
 - Launched 1st June
 - 4 Boroughs invested with £280m at launch
- **LCIV Global Bonds Fund**
 - Target launch date 27 July
 - Commitments being sought
- **LCIV Global Liquid Loans Fund** Ready to proceed with launch as soon as commitments received
- **LCIV Private Debt Fund**
 - Ready to proceed with launch as soon as commitments received
- **LCIV Long/Short MAC Fund**
 - Ready to proceed with launch as soon as commitments received

LCIV MAC FUND

Multi Asset Credit

April 2018

Please note LCIV has not formally launched the Fund therefore information in this presentation are for information purposes and to be read as a guide only. Please refer to the prospectus when available before making a decision to invest, and for reference to the final investment terms, restrictions and risks.

LCIV MAC Fund

- LCIV MAC Fund Objective
 - LIBOR +4-5% per annum over a 4-year rolling period
 - Expected Volatility 4-6% over a 4-year rolling period
- Diversifier to long-only fixed-income strategies
 - Sub-IG credit focus across a range of credit strategies to provide more downside protection
 - Short duration; large portion of investments are floating rate (e.g. Loans and ABS)
 - Means that interest rate risk should be less than broader bond market
- Launch Date: 1 June 2018

Asset Strategy Limits (% NAV)	
Loans	60%
High Yield Corporate Bonds & CDS	50%
Investment Grade Corporate Bonds & CDS	50%
Convertible Bonds	15%
ABS	25%
Cash	15%

LCIV GLOBAL BONDS FUND

April 2018

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LCIV Global Bonds Fund

- Active, low-turnover strategy
 - 100% hedged to GBP
 - Weighted average investment grade rating

- Main bond types include:
 - Government bonds
 - Investment grade corporate credit
 - High Yield corporate credit (limited to 15%)
 - Emerging markets (limited by issuer and credit rating)

- The fund will delegate day to day management of assets to PIMCO¹
 - PIMCO are a Global firm with offices in USA, Europe, Asia
 - Clear strategic focus on bonds and credit
 - \$1.7 trillion in total AUM; \$250 billion AUM in credit (effective 11/2017)

¹ LCIV may, upon prior notification, replace or add additional managers to the fund if deemed appropriate. The fund will maintain objectives as outlined in the prospectus in this event. Please see the prospectus for further details.

LCIV Global Bonds Fund

Investment Guidelines

- Objective: To outperform Barclays Global Aggregate - Credit Index Hedged (GBP) over a 3 year rolling period with low turnover.
- Turnover: <20% Bonds p.a.
- Duration: Benchmark ± 3 years
- Average Credit Quality of Portfolio: A (Minimum: BBB+)
- Individual Security Position Limits
- Portfolio Concentration Limits

Rating	Max: Non-Government Issuer	Max: Government Issuer
AAA	10%	100%
AA	5%	20%
A	4%	5%
BBB	3%	5%
BB	2%	3%
B	1%	3%

Type	Max Limit
Aggregate Government Issuer	50%
Single Non-government Issuer	10%
Below Investment Grade	15%

LCIV GLOBAL PRIVATE DEBT FUND

May 2018

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LCIV Global Private Debt Fund

- The fund will delegate day to day management of assets to Ares Capital Management- Direct Lending Team
- Experienced credit pickers; selective underwriting process
- Track record has been strong with minimal losses
- **Size is a differentiator**
 - Total size of AUM ~\$40 billion in Private Debt (effective December 2017)
 - This makes Ares one of the largest managers in this area and with a 10+ year record
 - Size gives the team unique access to new loan deals
 - Compared with other Private Debt investors, Ares has truly global coverage
 - 13 year US and 10 year for European track records to December 2017
 - Offices in USA, London, Paris, Frankfurt, Luxembourg, Stockholm, and Asia-Pacific
 - With over 40 team members in Europe, they believe they can cover 600 deals per annum (effective December 2017)
 - Ares is sole investor on 80 – 90% of deals underwritten
- **Private Debt investment**
 - Will be held in an closed-ended fund
 - Ares will hold whole private loans in the fund
 - Income can be distributed
 - Capital will be distributed when loans mature or are refinanced

Investment Guidelines

- The LCIV Global Private Debt Fund invests primarily in middle market direct lending including unitranche loans, senior debt, junior debt and other similar debt, mezzanine and equity investments and equity co-investments in or related thereto.
- Objective: To target a return of 3mth LIBOR (GBP)+ 6-8% net of fees.
- The Fund will be a closed ended structure.
 - Investment Period of 3 years
 - Harvest Period of 3-5 years
 - Total Fund Term 7-10 years
- EBITDA: 4.0x-6.0x, target range across the portfolio
- Portfolio must have a minimum 75% in Senior Secured Loans and Senior Secured Floating Rate Notes
 - Min. 25% and Max. 75% in Western Europe;
 - Min. 25% and Max. 75% in North America
- Target position size: 3-5% for senior debt.
- Maximum position size:
 - Single position maximum of 8% of aggregate capital commitments per senior issuer.
 - Single position maximum of 4% of aggregate capital commitments per Junior issuer
 - Single position maximum of 2% of aggregate capital commitments for unsecured debt and equities.
 - Net Equity Co-investment positions are limited in aggregate to 10% of the portfolio.

Investment Guidelines

➤ Eligible Assets:

- Senior Corporate Direct Lending
- Unitranche Corporate Direct Lending
- Mezzanine / Subordinated Corporate Lending
- Infrastructure Debt
- Real Estate Debt
- Potential for upside via equity co-investment alongside debt obligations.
- Manager will not invest in equity positions without having accompanying positions in the debt.

➤ Currency: Portfolio will be hedged to GBP.

➤ Distributions:

- The Fund will make capital distributions from investments as they mature after the initial three years net of expenses.
- It is intended that proceeds from portfolio investments will be reinvested in the initial 3 years consistent with the Fund's investment strategy

➤ Subscriptions:

- The Fund will take subscriptions for the first 12 months from launch before closing.

Private Debt – Summary

- **Loans offer yield, but without assuming interest rate risk associated with bonds**
 - This protection from duration could be crucial in a rising rate environment
 - Need for Private Debt capital should not decrease if rates rise
 - For European Private Debt, the economic cycle is just beginning to accelerate, compared with the USA
- **Loan security remains strong**
 - Offers better recovery value in a credit downturn
 - Covenants and protection are a crucial aspect of Private Debt underwriting
- **Ares Capital is a proven manager in Private Debt**
 - Significant scale in terms of assets under management
 - Long track record
 - Stringent underwriting process, good network for deals have produced good returns

LCIV GLOBAL LIQUID LOANS FUND

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LCIV Global Liquid Loans Fund

- The fund will delegate day to day management of assets to Ares Capital Management¹
- Ares Capital Management – Global Liquid Credit team
 - Global firm with offices in USA, Europe, Asia
 - As of 30 September 2017; 895 employees globally, 405 investment professionals
 - Ares was founded to run Credit mandates
 - Credit spans Global Liquid Credit (leveraged / liquid loans) and Direct / Private Lending
- Experienced credit pickers with a value-oriented approach
- Liquid Loans investment
 - Will be held in an open-ended fund
 - Will hold tradeable liquid / leveraged loans and credit loan obligations in the fund
 - Income can be distributed or reinvested
 - In limited capacity the fund may hold corporate bonds from time to time
 - For Cash Management and Defensive Purposes: the fund may hold Cash & Money Market Instruments, US Treasuries, UK Gilts & Bunds, FX forwards, futures and credit default swaps
 - The fund will be hedged to GBP.

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Investment Guidelines

- **Objective: To outperform over a 3-year rolling period net of fees a composite of the following benchmark:**
 - 50% Credit Suisse Leveraged Loan Index (GBP)
 - 50% Credit Suisse Western European Leverage Loan Index (GBP)

- **Duration: <1.5 years**

- **Average Credit Quality of Portfolio: B+ (Minimum: B)**

- **Portfolio must have a minimum 75% in Senior Secured Loans and Senior Secured Floating Rate Notes**
 - Min. 25% and Max. 75% in Western Europe;
 - Min. 25% and Max. 75% in North America

- **Individual Security Position Limits**

Rating	Max: Single Position
Investment Grade	5%
BB	4%
B	4%
CCC	2.5%

LCIV LONG/SHORT MAC FUND: Long/Short Multi Asset Credit

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LCIV Long/Short MAC Fund

- Fund Objective: To generate stable absolute returns from a well diversified portfolio of corporate credit investments.

- This strategy invests across the credit market to find:
 - Market opportunities to buy (long positions)
 - Market opportunities to sell (short positions)
 - Relative Value Opportunities (buying both a long and short asset with similar risks but different prices)

- Focus is on
 1. Capital Preservation
 2. Absolute Return

LCIV Long/Short MAC – Summary

- **LCIV Long/Short MAC combines yield + total return with downside protection**
 - Long positions can earn steady income and potential for capital appreciation
 - Certain segments (e.g. smaller issuers) can earn higher yields
 - Credit selection can also provide an edge to managers
 - Short positions can insulate against market risk
 - This insurance helps to provide an anchor for the yields earned on long positions
- **Low correlations versus bonds → Good diversification for a portfolio**
 - For a credit-focused strategy, returns are largely from individual credit picks
 - Less interest rate risk than a long duration bond strategy
 - Use of floating rate loans also reduces correlation to interest rate risk
- **MidOcean has a strong record in Long/Short MAC**
 - Excellent record of risk-adjusted returns compared with market indexes (see slides 7 & 8)
 - Proprietary CARS system has been tested as a tool for credit selection
 - Evidence of downside protection when examining past drawdowns (see Appendix)

Disclaimer



Important information

London CIV

59½ Southwark Street
London
SE1 0AL

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Registered office: 70 Great Bridgewater Street, Manchester M1 5ES.