



# The London Fund (‘The Fund’)

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Indicative Terms & Structure

February 2021

**LPP**

Local Pensions Partnership  
Investments

*For Professional Investors in the UK*

# London Fund Overview

Local Pensions Partnership Investments (LPPI) and the London LGPS CIV Ltd (LCIV) have jointly set up 'The London Fund' to help access investment opportunities in Greater London across real estate, infrastructure and growth capital opportunities.

## What will The London Fund do?

Deliver competitive investment returns...      ... with positive social benefits...      ...in Greater London.



Target return of **CPI +3% pa**  
(exceeds actuarial discount rate)



Job creation, area regeneration, positive environmental impact



c. 80% of investments targeted within Greater London

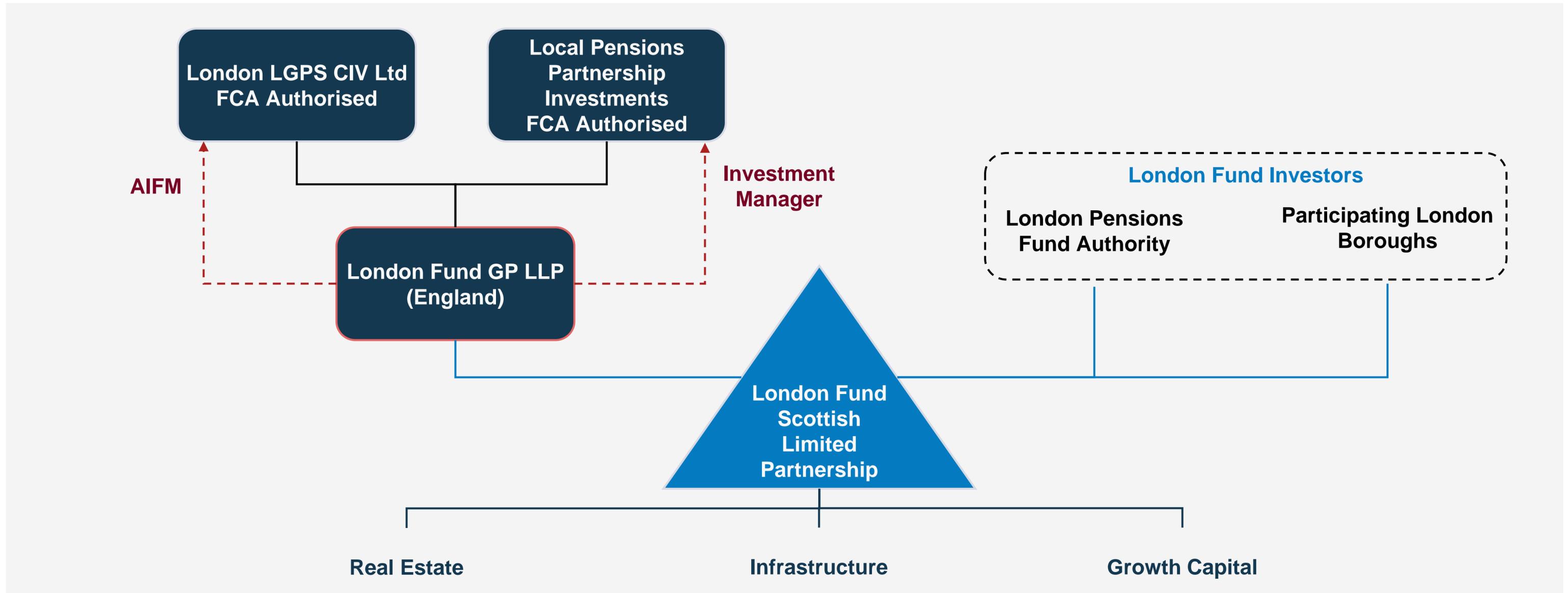
# Why invest?

The London Fund creates a platform for responsible investors to access unique investment opportunities focused on London by offering:

<b>Scale:</b>	<p>Combining capital from many LGPS funds across London offers wider opportunities. The London Fund is intended to reach c. £500m over several years.</p> <p>LPFA is a seed investor, the first close was held in December 2020 with £100m commitment. A further £50m is expected to be committed at the end of Q1 2021</p>
<b>Collaboration:</b>	<p>Opportunities to build positive relationships and shared knowledge between London stakeholders including LGPS funds</p>
<b>Social benefit:</b>	<p>An objective to generate social benefit in London and aid its development (investments will be borough agnostic)</p> <p>Aligned with the London Quality of Life Indicators published by the London Sustainable Development Commission</p>
<b>Risk and return:</b>	<p>Investing primarily in real assets, with a focus on generating stable long-term cashflows</p>

# Structure and governance

London CIV is the AIFM and has overall responsibility for risk management, while LPPI has delegated responsibility for portfolio management. Investments will be vetted by a co-mingled Joint Committee comprising of LCIV and LPPI members, while The London Fund Investors will form part of the Advisory committee



# Fund terms

The high-level Fund terms are summarised below:

Area	Fund terms
<b>Fund Term</b>	15 years with ability to extend for two consecutive periods of two years each (with approval from Investors)
<b>Investment holding period</b>	Un-constrained: Open ended and termed investments permitted.
<b>Investment Period</b>	4 Years from Final Close
<b>Capacity</b>	£500 million
<b>Primary objective (return)</b>	Target CPI +3% p.a. over seven years (full business cycle), net of all fees, costs and expenses
<b>Yield Target</b>	50% of total return after building out portfolio
<b>Secondary objective</b>	Generate positive social outcomes in Greater London i.e. area regeneration and positive environmental impact
<b>Investment Limits</b>	Not more than 25% of Commitments on Single Asset (calculated on a look through basis)
<b>Equalisation Mechanism</b>	Standard fund equalisation mechanism
<b>AIFM</b>	LCIV
<b>Portfolio Manager</b>	LPPI
<b>Management cost</b>	Both the LCIV and LPPI will be looking to charge the London Fund on a cost recovery basis
<b>Leverage</b>	The Fund will not use leverage at a portfolio level but may enter into hedging/ working capital facilities

# Responsible Investment Approach

The London Fund's purpose is to support the sustainable development of London whilst generating long term returns.

## UNIVERSE

1. Does it meet the required return?
2. Does it deliver sufficient Positive Social Outcomes?
3. Does it meet geographical focus?

## PIPELINE

### Prospect Joins Pipeline

Stage 1 (ODD/IDD)

Joint Committee Decision

Stage 2 (ODD/IDD/Tax/Legal)

Joint Committee Decision

**PSO Audit**

Impact dimension
<input type="checkbox"/> What
<input type="checkbox"/> Who
<input type="checkbox"/> How Much
<input type="checkbox"/> Contribution
<input type="checkbox"/> Risk

**Manager ESG Evaluation**

RI DDQ

PSO Metrics

**Monitoring & Reporting Requirements**

**IRIS**  
IMPACT REPORTING & INVESTMENT STANDARDS

## PORTFOLIO

### Investment joins portfolio



## MONITORING

- Portfolio Monitoring
- Manager Reporting
- Client Reporting

**Investment Performance**

**Positive Social Outcomes**

## LPPI RI Policy

# Illustrative pipeline opportunities

The London fund team are progressing a number of transactions, the table below sets out some of the pipeline opportunities over the next 12 months.

Asset	Description	Equity ticket	Deployment timeline	Positive Social Outcomes
<b>PRS &amp; Affordable housing</b>	2,848 operational units, 5,250 units in the development pipeline	£50m	Q1 2021	<ul style="list-style-type: none"> <li>Reduced Emissions</li> <li>Green spaces</li> <li>Quality affordable housing</li> </ul> 
<b>Mixed use regeneration scheme</b>	Mixed use incl. affordable office space, commercial and residential RE	£30m	Q2 2021	<ul style="list-style-type: none"> <li>Urban regeneration</li> <li>Community inclusivity</li> <li>Affordable commercial units</li> </ul> 
<b>Shared Ownership Scheme</b>	Shared ownership property across London	£30 - £40m	• Q2/Q3 2021	<ul style="list-style-type: none"> <li>Reduced Emissions</li> <li>Quality affordable housing</li> <li>Increased access to property ownership</li> </ul> 
<b>EV Infrastructure</b>	Electrification of public buses	£25 - £50m	Q3 2021	<ul style="list-style-type: none"> <li>Decarbonisation of transport</li> <li>Reduced carbon footprint</li> <li>Cleaner air across the capital</li> </ul> 
<b>Digital Infrastructure opportunity</b>	Investment in FTTP/FTTH rollout across parts of London	£25 - £30m	Q4 2021 / Q1 2022	<ul style="list-style-type: none"> <li>Improved communication infrastructure</li> <li>Access to faster internet connection for SMEs and homes</li> </ul> 

# Illustrative case study: PRS & affordable housing

An opportunity has arisen to be an investor in a large-scale diversified Housing joint venture. The platform has been behind the regeneration of a 67 acre site in London and has led in the provision of high-quality homes, including affordable accommodation, improving the choice of housing locally



Photo by Jocke Wulcan

The opportunity is being considered as a seed investment for the London Fund. It is a large-scale diversified housing platform that will deliver a large quantity of high-quality homes, including a range of affordable accommodation:

-   
**2848+ operational homes**
-   
**c. 4400 secured pipeline incl. c. 400 affordable homes**
-   
**ESG embedded into operations of developer**
-   
**Leading on large-scale regeneration projects in London**
-   
**GRESB 5\* rated**
-   
**Vision to grow platform to 10,000+ homes**
-   
**London focus with over 85% GAV expected to be within London**
-   
**Highly attractive housing market fundamentals**

The company have also formed their own registered provider for social housing, which will develop and retain management of affordable housing falling under two definitions: London Living rent (LLR) & Discounted Market Rent (DMR).

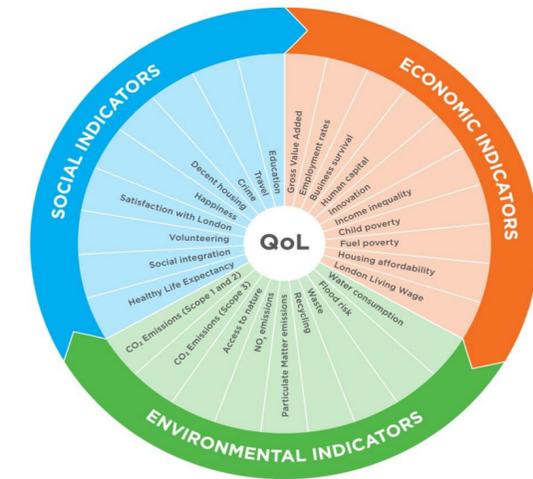
The London Fund is also looking to invest in other suitable affordable housing opportunities.

# Measurement and monitoring

Investors will receive periodic reporting on positive social outcomes delivered by investments. Metrics will look to reference London Quality of Life Indicators /UN SDGs. Some illustrative examples of metrics are presented below:

Target Sector	Example Metrics
 <p><b>Real Estate</b></p>	<ul style="list-style-type: none"> <li>Number of new units of housing developed</li> <li>Affordability of housing developed (<math>\leq 30\%</math> of monthly income)<sup>1</sup></li> <li>Amount invested to improve energy efficiency outcomes</li> <li>Amount invested in regeneration</li> </ul>
 <p><b>Infrastructure</b></p>	<ul style="list-style-type: none"> <li>Amount of renewable energy capacity produced (GWh)</li> <li>Level of CO2 emissions avoided</li> <li>Amount invested in sustainable infrastructure to drive positive economic outcomes</li> <li>Passenger volumes for transport/ Customers with access to fibre broadband</li> </ul>
 <p><b>Growth Capital</b></p>	<ul style="list-style-type: none"> <li>Number of new direct/ indirect jobs created</li> <li>Amount invested in supporting Small &amp; Medium enterprises</li> <li>Amount invested in life sciences and digital innovation supporting improvements in health outcomes</li> </ul>

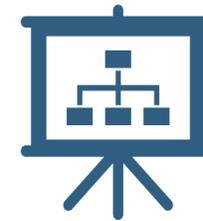
The London Quality of Life (QoL) Indicators and UN Sustainable Development Goals (SDGs) will be used as guidance for thinking about sustainability:



<sup>1</sup>Source: ONS Alternative measures of housing affordability: financial year ending 2018

# Appendix

## What will The London Fund invest in?



Real Estate	Infrastructure	Growth Capital
<ul style="list-style-type: none"><li>• Private Rented Sector (PRS)</li><li>• Affordable Housing</li><li>• Regeneration Schemes</li><li>• Co-living spaces</li><li>• Senior Living</li></ul>	<ul style="list-style-type: none"><li>• Digital infrastructure</li><li>• Solar energy</li><li>• Waste to energy</li><li>• Electric vehicles</li><li>• Rail networks</li></ul>	<ul style="list-style-type: none"><li>• Growth capital for small and medium businesses</li><li>• Venture investment in life science businesses</li></ul>

# Blended Approach to Portfolio Construction

## Majority of portfolio invested in assets that:

- Are income generating
- have an element of inflation linkage
- Are generally de-risked, operational assets
- Are at lower end of risk spectrum
- Could include opportunities such as stabilised PRS, operational renewable energy projects etc.

**Target return of CPI + 3%  
with material yield component**

## A small percentage of the portfolio invested in assets that:

- Are focused on capital gains
- Have a higher degree of risk usually involving development or construction risk
- Could include opportunities such as EV charging, Fibre roll out, etc.

**The Fund will hold the ability to invest directly but the majority of investment will be through third party fund managers**

# Portfolio construction

The tables below set out the guidelines for portfolio construction. The ranges are expressed as percentages of the total amount committed to the Fund, but actual exposure may vary considerably from these ranges during the investment phase:

Sector	Percentage
Real Estate	0 – 80%
Infrastructure	0 – 80%
Growth capital	0 – 20%

Stage	Percentage
Construction	0 – 50%
Operational	0 – 100%

Capital Structure	Percentage
Equity	0 – 100%
Debt	0 – 40%



Real Estate Sector	Percentage <sup>1</sup>
Private Rented Sector	0 – 40%
Affordable housing	0 – 40%
Regeneration schemes	0 – 40%
Specialist accommodation (e.g. Senior living, Co-living)	0 – 40%
Other	0 – 40%

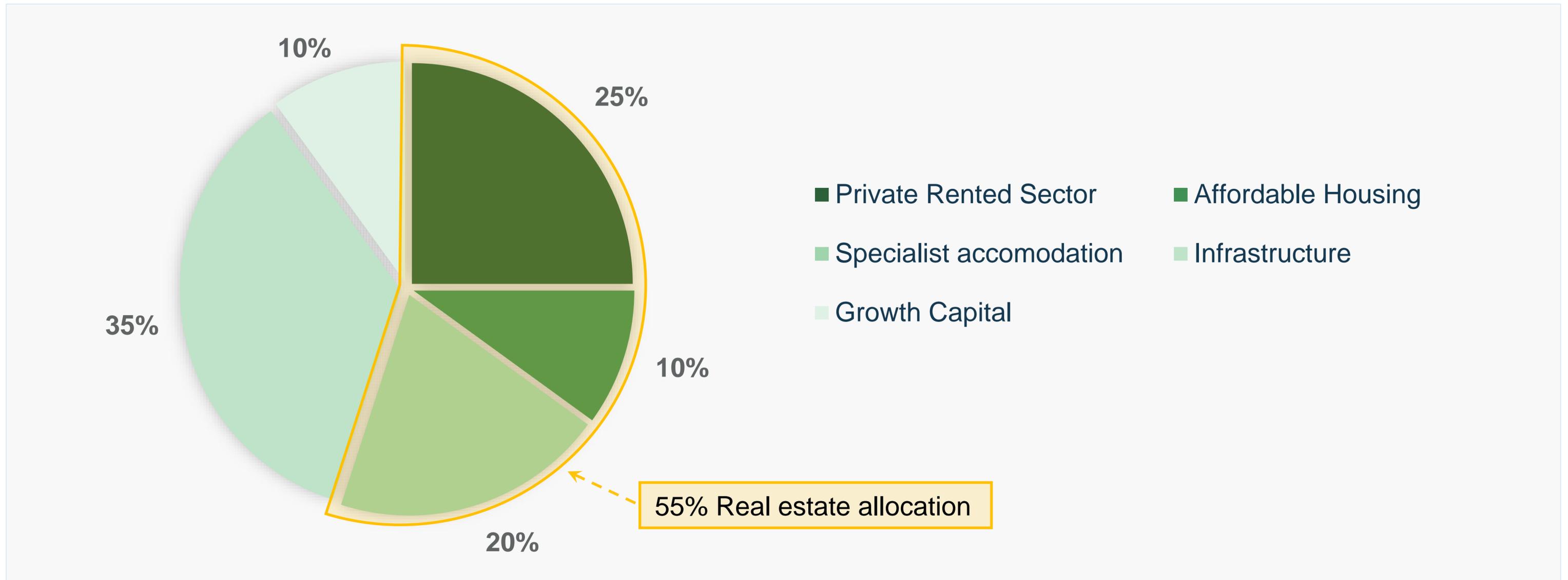
<sup>1</sup>Of the total fund commitments and not just the Real Estate allocation



Geography	Percentage
London	0 – 100%
Regions	0 – 20%

# Illustrative portfolio

The chart below sets out an illustrative example of what the London Fund portfolio might look like. This Information is meant to be informative and for illustrative purposes only. The ultimate allocation of capital may vary considerably albeit within the portfolio construction guidelines set out on the previous slide.

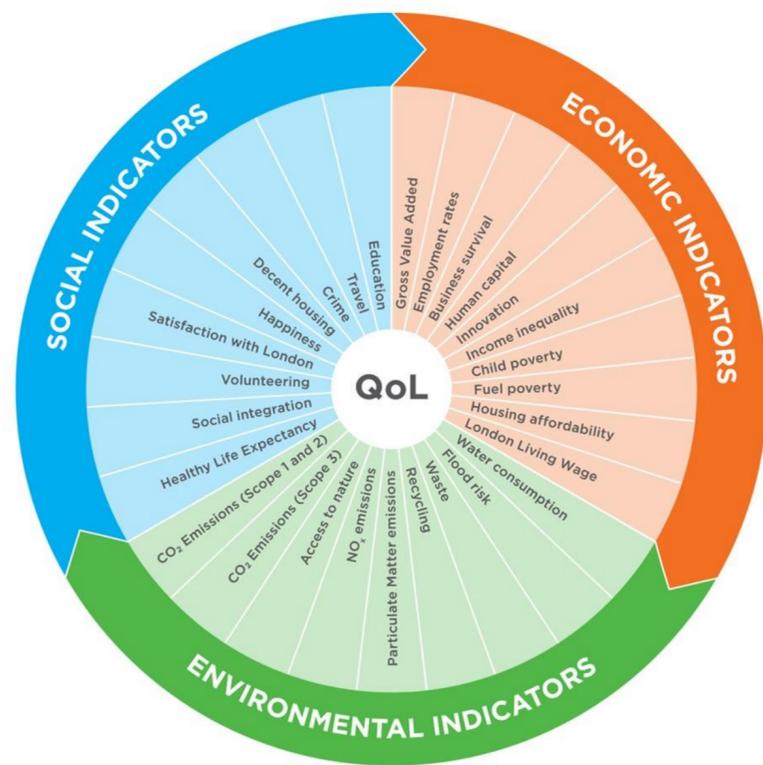


# Sustainability frameworks

The London Fund will source and select sustainable projects for which there is enduring demand. Frameworks for evaluating sustainability will include the London QoL Indicators and UN SDGs among other sector specific standards

- The London Quality of Life report presents 32 indicators designed to measure how London is performing against the key attributes of a sustainable city. The 2017<sup>1</sup> QoL report identifies a number of areas of improvement including decarbonisation, quality of housing and health outcomes.
- The QoL report also maps it's indicators against the UN's Sustainable Development Goals<sup>2</sup>. The 2030 UN Agenda for Sustainable Development developed 17 Sustainable Development Goals (SDGs), which are set out below.

2017 London Quality of Life Indicators



UN Sustainable Development Goals



<sup>1</sup> [https://www.london.gov.uk/sites/default/files/lcdc\\_-\\_qol\\_2017\\_summary.pdf](https://www.london.gov.uk/sites/default/files/lcdc_-_qol_2017_summary.pdf)

<sup>2</sup> <https://sustainabledevelopment.un.org/sdgs>

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