PENSIONS FOR PURPOSE

Market scoping project for London Borough of Islington pension fund (updated August 2024)

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Market scoping project for London Borough of Islington Pension Fund

We are pleased to provide London Borough of Islington with this updated summary of potential **private markets impact funds** for the pension fund which are aligned to your preferred impact themes.

Brief

A high-level summary of some potential impact funds in three key impact areas, simultaneously aligning to the pension scheme's climate goals:

- Inclusive economy/supporting UK SMEs
- Regional UK (London/South East)
- Biotech/life sciences focus

Please kindly note that we have not undertaken investment/operational/impact due diligence on these funds, nor are we FCA authorised to give investment advice or recommendations on individual funds. (Due diligence and advice can, however, be delivered by your investment consultant, Mercer, and/or by Apex Group through your independent adviser.)

Approach

We directly requested information from the (updated) list of private markets managers shown below. Clean Growth Fund, ICG Life Sciences and Schroders Life Sciences were new managers not listed in our original report. Please click on each manager's name to link to their more detailed information.

- **Climate-focused funds**
  Fund name: Clean Growth Fund 2
  Other funds:
  Darwin Alternatives – other/bespoke fund
- **Life Sciences Funds:**
  Future Planet Capital – life sciences fund
- **ICG Life Sciences – life sciences fund**
- **Schroders Capital LIFTS LTAF – life sciences fund**
- **Temporis Capital – climate focused fund**

Key to Impact Symbols


Climate-aligned


SME-aligned/inclusive economy


South-East regionally-aligned

Biotech/life science focus

Fund information

The following funds have been grouped into the following:

- Climate-focused funds
- Life-Sciences funds
- Other

Climate-focused funds

Fund name: Clean Growth Fund 2

Summary fund objective: The fund is seeking to invest in the UKs most promising, early stage, clean growth companies with commercially viable solutions, in innovations that reduce greenhouse gas emissions or improve resource efficiency across power, buildings, industry agriculture, transport and waste. It is targeting a net IRR of 20%. Currently raising funds for Fund 2 which has a target fund size of £150 million.

Primary impact alignment: this fund is supporting **UK SMEs**. It invests in "Seed to Series A" investments. (Seed funding is used for startup organisations, Series A is for larger funding, after the company has developed its business model). The fund is closely aligned to the pension fund's **climate commitments**. This is a UK fund which has some investments in the Southeast, but it is not regionally targeting the Southeast.

Strategy: CGF's investment strategy is focussed on the technologies that reduce scope 3 emissions, which are important to listed portfolio companies that must act and decarbonise. Initial investments by the fund will be between £500k to £5 million per transaction and must have the potential to deliver at least a 10x return.

Prior fundraising success: Fund I reached its target at £101 million and was backed by top tier investors including three LGPS (Strathclyde, Merseyside and South Yorkshire), Aviva Insurance, CCLA, and Queens College Cambridge, with investments of between £10 and £20 million. To date Fund 1 has a TVPI (Total Value to Paid In capital) of 1.2x. A number of the investors in Fund 2 are re-upping their commitment to Fund 2.

Positives of this fund: The team is highly experienced: the founder, Beverley Gower-Jones OBE, has 35 years' experience in clean technology as entrepreneur & investor. Her partner, Dr Jonathan Tudor, has 25 years' experience. The manager has successfully launched a prior fund with a similar investment strategy, with investments prior to March 2022 delivering 33% gains on average. The internal team will commit £750,000 to Fund 2 if it reaches £150 million. The organisation is a B Corp with a score of 133.8, making it the highest-ranking Venture Capital firm that is B Corp certified (i.e. meeting high standards of social and environmental performance, transparency, and accountability).

Negatives of this fund: Although 40% of Fund 1 is in London and the Southeast, the fund does not have an explicit preference for a regional allocation.

Next close: the first close is targeted for December 2024 but could slip into Q1 2025. The aim is to hold a final close 18 months later between June 2026 and Dec 2026.

Temporis Capital

Fund name: Temporis Impact Strategy V ('TIS V')

Summary fund objective: A value add/opportunistic infrastructure investment in renewables development equity and in sustainable technologies, balanced by deployment in construction and operating assets, funding early-stage development, acting in partnership with best-in-class UK SMEs.

Primary impact alignment: the fund is primarily aligned to the pension scheme's climate goals, investing in the decarbonisation transition. However, it is funding early-stage projects by making investments in local SMEs to help drive their growth and generate new investment projects for the fund and also through their heavy use of local supply chains. Extensive pipeline of assets in the Southeast and London (although this is not a specific target geography). The immediate pipeline includes development projects where a large portion of two key projects totalling 1.7GW will be invested in the Southeast of England.

Strategy: this is a £350m target fund (hard cap £500m), investing in renewable energy and the low carbon transition in the UK. There is a 5-year investment period, and a 10-year final maturity. The fund has a target IRR of 14-15% net of fees. Specifically:

- 25% of the funds are targeted for low risk, operational assets targeting an 8-11% IRR.
- 20% of the fund is targeted for the construction of battery projects targeting an 11-13% IRR.
- 15% of the fund is targeted for the construction of renewable energy projects targeting an 9-11% IRR.
- 15% of the fund is targeted for the development of battery projects targeting a 2-5x cash-on-cash multiple.
- 10% of the fund is targeted for the development of renewable energy projects targeting a 2-5x cash-on-cash multiple.
- 15% of the fund is targeted for enabling technologies – this includes higher risk, higher return investments that are not in our core technologies of wind, hydro, solar and battery targeting a 20-20% cash-on-cash multiple.

Prior fundraising success: £174m has already been invested or allocated out of a target £350m. There is a discounted fee for the LPGS (of 5 bps). So far three LGPS have already invested in the fund: London borough of Southwark Pension Fund, Croydon Pension Fund and Strathclyde Pension Fund. The manager expects an additional three LGPS to invest at the final close as well other investors (fund of funds, private wealth bank and family offices).

Positives of this fund: this fund is closely aligned to the pension scheme's climate goals whilst simultaneously supporting UK SMEs and has a good proportion of investments in the Southeast.

Negatives of this fund: there is a potential overlap with some of the investments in Quinbrook's portfolio and this would need to be explored in due diligence.

Next close: the manager intends to have a final close in mid-December 2024.

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Life Sciences Funds:

Future Planet Capital

Fund name: British Co-investment Fund

Summary fund objective: an open-ended venture capital fund with a six-to-ten-year lock-up and a target IRR of 25% p.a. The fund aims to bring together the UK's most productive primary centres of innovation to invest in companies that come out of research centres, the Home Nations & regions and angel networks.

Primary impact alignment: the fund intentionally invests in UK SMEs. The focus is on startup companies which can have scalable innovation, and which impact the economy and the global startup ecosystem. 75% of the portfolio will be allocated to a concentrated portfolio of scale-up companies with traction. The remaining 25% will be allocated earlier-stage companies to build pipeline, exposure and diversification. The portfolio will include engineering biology investments in the biotech/life sciences sector. The fund aims to extend the manager's success in SME financing, job creation, and sustainable impacts, by investing in companies dedicated to sustainability, wellbeing, and security, with the goal of contributing to a circular and fair economy with measurable outcomes, such as reductions in GHG emissions, improvements in millions of lives, and resource savings.

Strategy: the fund targets an internal rate of return (IRR) of 25%, deploying (a) 10-12 investments of £5 to £15m in high-growth, deep tech companies with strong, defensible technologies, benchmarked globally, and (b) 50 Seed to Series A stage investment of £250k to £1m alongside partner university and venture investors and accelerators, targeting 10% ownership (aiming for 10-100x returns). It will have a minimum 70% allocated to the UK, targeting strategic impactful technologies as identified by the UK Government, for example, climate tech, engineering biology, quantum computing, AI and semiconductors, sourced from across the UK's leading research centres. Approximately a third of the portfolio is likely to focus on climate tech and sustainability, aligning with UK strategic initiatives such as the National Wealth Fund, GB Energy, and the UK Infrastructure Bank. A third will include health and engineering biology, and a third will be geared towards strategic deep technologies.

Prior fundraising success: The firm has already secured commitments of up to £50 million, including £25-50 million from existing investors, such as LPPI and the Timpson Group.

Positives of this fund: the fund is closely aligned to the pension fund's impact goals, including biotech/life sciences and supporting UK SME's. It is also partially aligned to the fund's climate goals through its allocation to climate tech. The fund was designed to allow LGPS, DC Pensions and Institutional Investors to support UK impactful technology companies in line with the Mansion House reforms.

Negatives of this fund: In February, the manager indicated that they were aiming for a first close in May, with a second close in September, so there have been some delays which would need examining in due diligence.

Next close: targeting £150 million and aiming for a first close by the end of Q1 2025. The manager is targeting to secure cornerstone commitments by the close of Q4 2024.

ICG Life Sciences

Fund name: ICG Life Sciences

Summary fund objective: the fund will invest in novel medicines with a focus on treatments designed to significantly improve patient outcomes and quality of life. It will invest across difference stages, geographies (mainly UK and Europe) and therapeutic areas. The target fund size is $750 million with a target 30% net IRR. The fund term is 10 years from the final close.

Primary impact alignment: The primary impact focus of the fund is – as its name suggests – in life sciences. The strategy aims to build a portfolio of approximately 15 to 20 preclinical and clinical stage growth opportunities with equity investments of $20-100m per company, although this is across the UK, Europe and the US.

Strategy: It will invest in companies with the ability to develop transformational medicines, in healthcare innovation and with a focus on patients who can significantly improve their condition with minimal treatment options. It aims to capture the global market opportunity for life sciences.

Prior fundraising success: In terms of other LGPS the fund has not had any firm commitments to date, but there has been interest from several funds, including other Mercer-advised funds, and one or two pools. British Business Bank, Phoenix Insurance and ICG Plc are investing at the first close.

Positives of this fund: there is close alignment to the life sciences impact goal. The fund is also supporting small to medium organisations who are progressing from human studies to clinical proof of concept to late stage clinical and eventual product approval and sales. The British Business Bank is backing this fund with a £100 million investment.

Negatives of this fund: this is a global fund so has less regional focus than other funds in this report. The fund has yet to receive any other LGPS commitments.

Next close: the manager is aiming to hold the first close at the end of October 2024. If the pension fund committed for this close, it would join the British Business Bank, Phoenix Insurance and ICG Plc as other investors. The expectation is that there will be rolling first closes thereafter on the same terms (first close discounts etc).

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Schroders Capital LIFTS LTAF

Fund name: Schroders Capital Long-term Investment for Technology and Science (LIFTS) LTAF (web link not available)

Summary fund objective: This is a fund that follows an announcement, back in March 2024, that Schroders had been selected to manage the Long-Term Investment for Technology and Science (LIFTS) Initiative, to be seeded with £300m of capital provided by The British Business Bank and Pheonix Capital. It is an open-ended fund focused on technology and life sciences. The fund will invest across venture and growth stages of the typical company lifecycle, and is targeting returns in excess of 10% over 5-7 years.

Primary impact alignment: the focus of the fund is on UK technology and life sciences, so this is the primary impact alignment in this investment. Up to 25% of the fund will be in UK SME's, so the fund is also partially aligned to SME's. With a UK focus there is also partial alignment to regional, Southeast companies although this is not an intentional feature of the fund. There is a focus on eight innovation themes including frontier tech, cybersecurity, fintech, consumers, software, Security and Intelligence (S&I) tech including climate tech, hardware, and biotech and oncology.

Strategy: The investment strategy is focused on venture and growth stages of the typical company lifecycle. The largest share of its capital will be deployed in the scale-up capital rounds of leading, innovative UK companies. The manager expects 75% of the portfolio to be deployed into direct/co-investments scaling companies at the venture and growth stage (series B+). The fund will also target a small exposure to seed and series A companies, through fund investments in top-tier UK venture capital funds.

Prior fundraising success: The fund only recently received its FCA approval and will launch towards the end of October. It is being backed by the British Business Bank.

Positives of this fund: this is an institutional-targeted fund from a manager with experience in venture capital seeking investment from broadly aligned investors (DC pensions schemes, DB pension schemes, institutional investors, family office, endowment clients). The British Business Bank is backing this fund with an investment.

Negatives of this fund: this is a new fund so there is some uncertainty at this stage regarding other investor commitments.

Next close: In terms of structure, the LTAF is open ended. Dealing is quarterly with 5-year lock up post launch.

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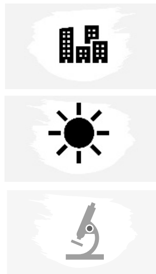
Other funds:

Darwin Alternatives

Fund name: Darwin Bereavement Services Fund (DBSF)

Summary fund objective: investment in a portfolio of cemeteries, crematoria and other bereavement services assets in the UK. The fund targets a stable, long-term return of 6–8% per annum, with a target yield of 6% p.a. from an ungeared, asset-backed portfolio, in an open-ended fund with quarterly dealing. Assets are illiquid so a holding period of ten years is assumed for delivering target returns.

Primary impact alignment: this fund is supporting UK SMEs. All the operating businesses owned by the fund are SMEs. The fund currently invests in five assets (no change since February 2024):



- Greenacres (multi-faith cemeteries and ceremonial parks)
- Memoria (crematoria and memorial parks)
- CDS (bereavement services consulting to local authorities and private sector operators)
- RNS (supplier of information booklets and hospital guides)
- Addfield (waste incineration systems to replace gas cremators)

The fund is also aligned to the pension scheme's climate goals. It invests in cremators that are cleaner, eco-friendly and more efficient than conventional gas-fired cremators. These are fully customizable and deliverable in flat pack format to enable retro-fitting of existing gas-fired facilities.

The fund has a number of assets within the Southeast of England, within the Greenacres portfolio the woodland burial parks of Epping Forest and Heatherly Wood are in Essex and Hampshire, whilst Memoria has crematoriums in Faversham (Kent) and 2 in Oxfordshire - North Oxfordshire and South Oxfordshire. Other assets are across the UK, however, so regional impact alignment is partial for this fund.

Strategy:

- To buy and build a portfolio of cemeteries, crematoria and other bereavement services assets in the UK.
- To create a virtuous circle of value creation through the interaction between these different assets and to extend this in the selection of additional assets for the portfolio.
- To leverage the Fund's existing portfolio of assets (and its criteria for new asset acquisition) to champion sustainability and environmental responsibility across the bereavement industry.
- To operate the businesses so as to deliver long-term, consistent, stable free cash flows with a target net return to investors of 6-8%, principally as dividend income.

Prior fundraising success: The fund is open-ended and the target is for it to reach 350m. Currently, it stands at £228.9 million. It already has six LGPS investors plus the GLA, as well as other investors. The manager has had previous fundraising successes across three different funds, with 13 LGPS clients (two of these invest in all three funds).

Positives of this fund: The manager is willing to work with councils to consider long term sale and leaseback arrangements for their crematoria. The strategy is a strong diversifier of traditional pension fund asset classes. The team is experienced, and the organisation is well established amongst the LGPS, with 13 authorities investing across the three funds.

Negatives of this fund: the target return is 6-8%; however, the most recent performance over 12 months to end June saw a return of +4.66%. The manager attributes this to it being early days for the fund, plus some headwinds in the low-cost funeral sector.

Next close: this is an open-ended fund with quarterly dealing days.

Independent advisor's feedback:

In terms of next steps, detailed due diligence will be required on a subset of these funds. There are several considerations to take into account:

Impact focus – a heavy focus in one area will result in less diversification. One consideration is whether to opt for due diligence on multiple funds in one area, or to progress due diligence on one fund from two or three different impact areas.

- Climate focus: Clean Growth Fund, Temporis
- Life sciences focus: Future Planet, ICG, Schroders
- Other focus: Darwin

Return/risk focus – a consideration for the committee is what the return/risk focus of this allocation will be. These funds have different target levels of return (and risk).

Fund	Target return
Darwin	6-8%
Schroders	10%
Temporis	14-15%
Clean Growth Fund	20%
Future Planet	25%
ICG	30%

The committee could still consider a higher risk opportunity, even if the allocation has a lower target return overall, by combining it with one of the less risky funds/lower return funds in the table above, or by allocating a smaller amount to the riskier fund.

Fundraising progress and aligned investors - the stage that a manager is at, in terms of fundraising progress, may indicate the likely success of closing the fund within the timeline proposed. Existing LGPS commitments is also an indication of the likely alignment with other investors.

Fund	Fundraising progress	Investors
Darwin	£228.9m of £350m	6 LGPS plus GLA
Schroders	£300m raised so far	British Business Bank (BBB) and Phoenix
Temporis	£174m of £350m	3 LGPS
Clean Growth Fund	No commitments yet - Target £150m - but fund 1 reached target	Fund 1 had 3 LGPS
Future Planet	£25-50m raised so far	LPPI and Timpsons
ICG	£200m of £570m	BBB and Phoenx

For more information, please email Karen Shackleton, Founder and Chair, at karen.shackleton@pensionsforpurpose.com or call 01524 389326.