



Meeting: **Investment Subcommittee**

Date/Time: **Wednesday, 13 October 2021 at 10.00 am**

Location: **Sparkenhoe Committee Room, County Hall**

Contact: **Miss. C. Tuohy (Tel. 0116 305 5483)**

Email: **cat.tuohy@leics.gov.uk**

Membership

Mr. T. Barkley (Chairman)

Cllr. A. Clarke Cllr. Malise Graham MBE
Mr. D. A. Gamble CC Mr. D. J. Grimley CC
Mr. Z. Limbada

AGENDA

<u>Item</u>	<u>Report by</u>	
1. Minutes of the meeting held on 28 July 2021.		(Pages 3 - 10)
2. Question Time.		
3. Questions asked by members under Standing Order 7(3) and 7(5).		
4. To advise of any other items which the Chairman has decided to take as urgent elsewhere on the agenda.		
5. Declarations of interest in respect of items on the agenda.		
6. Recommended Investment into: LGPS Central Private Equity 2021 Vintage, LGPS Central Private Debt High Return 2021 Vintage and the Christofferson Robb & Company CRF 5 Product.	Director of Corporate Resources	(Pages 11 - 14)
7. Date of Next Meeting - 15 December 2021		



8. Exclusion of the Press and Public.

The public are likely to be excluded during consideration of the following items of business in accordance with the provisions of Section 100 (A) (4)of the Local Government Act 1972 (Exempt Information).

9. Supplementary Information on Recommended Investment into Christofferson Robb and Company Capital Relief Fund 5 Product. (Pages 15 - 34)

Representatives from Christofferson Robb and Company will be in attendance to provide a presentation on the item.

10. Supplementary Information Informing the Recommended Investment into LGPS Central Private Equity 2021 Vintage. Director of Corporate Resources (Pages 35 - 58)

Representatives from LGPS Central will be in attendance to provide a presentation on the item.

11. Supplementary Information on Recommended Investment into LGPS Central Private Debt High Return Product. Director of Corporate Resources (Pages 59 - 84)

Representatives from LGPS Central will be in attendance to provide a presentation on the item.

12. Any other items which the Chairman has decided to take as urgent.



Minutes of a meeting of the Investment Subcommittee held at County Hall, Glenfield on Wednesday, 28 July 2021.

PRESENT:

Leicestershire County Council

Mr. T. Barkley
Mr. D. Grimley

Leicester City Council

Cllr. A. Clarke

Staff Representative

Ms. J. Dean (on-line)

Independent Advisers and Managers

Hymans Robertson

Emma McCallum
Philip Pearson

LGPS Central (Minutes 12 and 13 refer)

Nadeem Hussain
Ian Brown
Mark Hardwick

Apologies:

Cllr. M. Graham MBE, Mr. Z. Limbada, Mr. D. Gamble
CC

1. Election of Chairman.

That Mr. T. Barkley CC be appointed Chairman of the Investment Subcommittee for the period ending with the date of the Annual Council meeting in May 2022.

2. Minutes of the meeting held on 31 March 2021.

The minutes of the meeting held on 31 March were taken as read, confirmed and signed.

3. Question Time.

The Chief Executive reported that no questions had been received under Standing Order 35.

4. Questions asked by members under Standing Order 7(3) and 7(5).

The Chief Executive reported that no questions had been received under Standing Order 7(3) and 7(5).

5. To advise of any other items which the Chairman has decided to take as urgent elsewhere on the agenda.

There were no urgent items for consideration.

6. Declarations of interest in respect of items on the agenda.

The Chairman invited members who wished to do so to declare any interest in respect of items on the agenda for the meeting. No declarations were made.

7. Change to the order of business.

8. Recommended Investment into LGPS Central and Partners Private Debt Product.

The Subcommittee considered a report by the Director of Corporate Resources which provided members with information in respect of a recommended investment into LGPS Central Private Debt and Partners Private Debt Product. A copy of the report marked '8' is filed with these minutes.

RESOLVED:

That the report be noted.

9. Recommended Investment: LGPS Central Infrastructure Fund.

The Subcommittee considered a report by the Director of Corporate Resources which provided members with information in respect of a recommended investment in the LGPS Central Infrastructure Fund. A copy of the report marked '9' is filed with these minutes.

RESOLVED:

That the report be noted.

10. Date of Next Meeting - 13 October 2021

It was noted that the next meeting would be held on 13 October 2021 at 10am.

11. Exclusion of the Press and Public

RESOLVED

That under Section 100(A) of the Local Government Act 1972 the public be excluded from the meeting for the remaining items of business on the grounds that they involve the likely disclosure of exempt information as defined in Part 1 of Schedule 12(A) of the Act.

12. **Supplementary Information informing Recommended Investment into LGPS Central and Partners Private Debt Products.**

The Subcommittee considered a briefing paper produced by the Fund's investment advisors, Hymans Robertson, which was followed by questions from members. A copy of the briefing note is filed with these minutes marked '13'. The note was not for publication by virtue of Paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

Arising from the discussion the following points arose:-

- i. Hymans Robertson advised the Committee that they felt confident LGPS Central was of sufficient size and experience to manage the strategy set out. Furthermore, they were content with Central's investment philosophy and robust manager selection process, which gave meaningful consideration of responsible investment factors.
- ii. The design and investment strategy for LGPS Central's Private Debt Product was in line with Hymans and Leicestershire's expectation as it sought appropriate diversification across geographies and sectors.
- iii. Regarding the proposed investment in Partners Multi Asset Credit (MAC) fund, Members noted that the Fund had invested in the previous four iterations of the MAC fund and that the process remained largely unchanged from what had previously proven successful. Members noted that Partners had the resource and credentials to manage the private lending strategy on a global basis and provided an efficient and effective governance process.
- iv. The Subcommittee noted that both proposed investments presented favourable costs to the Fund. LGPS Central due to the benefits of pooling, and Partners from the long successful partnership it held with Leicestershire Pension Fund.
- v. The proportionate split between LGPS Central and Partners was dependant on the funding achieved by the LGPS Centrals sub-fund to ensure it did not overcommit in comparison to other partner funds. As a result, it was recommended authorisation be given to the Director of Corporate Resources, in consultation with the Chairman of the Investment Subcommittee, to invest in the two funds as set out within the report.

[At this stage of the meeting representatives from LGPS Central joined the meeting]

The Subcommittee received a presentation by representatives from LGPS Central. A copy of the presentation is also filed with these minutes. Arising from the question and answers the following points were noted:-

- i. LGPS Central detailed the robust strategy and the process they were undertaking in the appointment of managers which the Subcommittee supported.
- ii. Members queried how LGPS Central would monitor the Environmental, Social and Governance (ESG) of underlying managers, an issue especially relevant for Private Debt funds. Members were assured that Central would only invest in companies that reported on ESG factors and it was clear that the push for that across the investment world was resulting in change in companies who did not previously report on such matters.
- iii. Members noted that the margins within lending markets had reduced, Central felt the margin was still sufficient to receive return and higher yield from listed credit by the time a underlying manager deployed the credit.
- iv. The number of underlying managers Central sought to appoint was dependant on the funding level reached, this was to ensure funding was not spread between managers too thinly and there was a balance between fees and diversification.

[At this stage representatives from LGPS Central withdrew from the meeting]

RESOLVED:

- (a) That a combined investment totalling a maximum of £160million in the LGPS Central Private Debt 2021 low-return vintage and Partners Group Multi Asset Credit be approved.
- (b) That the Director of Corporate Resources, following consultation with the Chairman of the Investment Subcommittee, be authorised to invest in the two funds as detailed in paragraph 46 to 49.

13. Supplementary Information Informing Recommended Investment : LGPS Central Infrastructure Fund.

The Subcommittee considered a briefing paper produced by the Fund's investment advisors, Hymans Robertson, which was followed by questions from members. A copy of the briefing note is filed with these minutes marked '13'. The note was not for publication by virtue of Paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

Arising from the discussion the following points were noted:-

- i. The Fund held 7.4% in infrastructure against a target allocation of 9.75%. Officers anticipated an additional £90million was required to address the shortcoming, which a £70million commitment to invest in

Central's core/core-plus would help address.

- ii. Hymans set out the complexity of the core/core-plus fund in comparison to other funds Leicestershire invested in, due to the nature of the fund. Hymans were confident that Central's strong manager selection process would help ensure positive long-term returns.

[At this stage of the meeting representatives from LGPS Central joined the meeting]

The Subcommittee received a presentation by representatives from LGPS Central. A copy of the presentation is also filed with these minutes. Arising from the discussion the following points were noted:-

- iii. It was considered most appropriate within the core/core-plus sleeve to retain a stable cash flow through proven technologies, and Members recognised the sustainability debate around hydrogen and electric was yet unresolved.
- iv. Capital raising projections were promising and it was expected partner funds would start to see real benefits from pooling after the first few years of the sub-fund. The savings found would be as a result of aggregation, first close benefit and negotiation as the sub-fund progressed.
- v. The commitment made by partner funds would be shared among all managers in the core/core-plus sleeve on a prorated basis, irrespective of when they committed to the sleeve as a result of the open-ended nature of the fund. Members noted this was different to close-ended vintages that Leicestershire normally invested in.
- vi. Commitments would be made on a quarterly basis and not be drawn until required and called down on a prorated basis. Once committed partner funds would gain exposure to their prorated share of all underlying investments, including any existing investments. Distributions from income and return of capital would also be made on a quarterly basis rather than re-invested.
- vii. While the structure of the fund allowed for it to be bought and sold at any time, as the sub-fund would invest in inherently illiquid investments, such as closed-end primary funds, redemption rights were limited by Central to avoid any asset-liability mismatch and to protect the sub-fund and the interests of partner funds invested in it. However, Members were assured that significant redemption was considered unlikely given partner funds were long-term investors.
- viii. There was an equalisation mechanism in place that would repay earlier investors for fronting initial capital to ensure they were not worse off in comparison to later investors.

[At this stage representatives from LGPS Central withdrew from the meeting]

RESOLVED:

- a) That the supplementary information provided by Hymans Robertson and the presentation by LGPS Central be noted.
- b) That a £70million commitment to invest into the LGPS Central core/core-plus infrastructure fund, subject to paragraphs 39 to 40 be approved.

14. Public Session and Inquorate meeting.

[The meeting moved back into Public Session]

Cllr. A. Clarke left the meeting at 11.30am, making the meeting inquorate. The remaining Members decided to continue considering the remaining item on the agenda to note and comment as considered appropriate.

15. Strategic Asset Allocation Update and Cash Deployment Plans.

Members present considered a report by the Director of Corporate Resources which provided members with an update on the Fund's Strategic Asset Allocation and Cash Deployment plans. A copy of the report marked '7' is filed with these minutes.

The Director informed Members of the positive cashflow nature of the Fund it held £220million in cash at the end of June 2021. The position of the Fund was due to payments to pensioners and dependants being lower than pension contributions received, as well as a number of closed end funds returning capital to the Fund. As a result, the Fund needed to continue to reinvest its funds to ensure realignment with the Strategic Asset Allocation agreed in January 2021.

Members noted that the Subcommittee's earlier decisions would help offset that cash, however given the time it took to call money and the continuing return of capital from the Fund's existing managers. the Fund would need to continually assess future investments needed.

Members welcomed the report and plan to invest cash held, recognising the positive cashflow nature of the Leicestershire Fund noting it allowed the Fund to make more liquid decisions, compared to a cashflow negative funds.

The Members present noted the report.

Wednesday, 28 July 2021
10.00-12.00

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INVESTMENT SUBCOMMITTEE – 13 OCTOBER 2021

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

**RECOMMENDED INVESTMENT INTO:
LGPS CENTRAL PRIVATE EQUITY 2021 VINTAGE
LGPS CENTRAL PRIVATE DEBT HIGH RETURN 2021 VINTAGE
CHRISTOFFERSON ROBB & COMPANY (CRC) CRF 5 PRODUCT**

Purpose of the Report

1. The purpose of this report is to provide information in respect of recommended investments into:
 - a. LGPS Central's Private Equity (PE) 2021 vintage,
 - b. LGPS Central's Private Debt high return 2021 vintage, and
 - c. the CRC Capital Relief Fund 5 (CRF 5).

Background

2. The three proposed investments are those required to balance the Fund to the Strategic Asset Allocation (SAA) which was approved by the Local Pension Committee in January 2021.
3. In the case of the Private Equity proposal the Fund is currently overweight to private equity versus the SAA target, but officers have forecasted future cashflows from legacy PE investments in order to understand the need to invest this year.
4. Investments into Private Debt high return and CRF 5 are in line with the SAA. Both investments fall within the private debt asset class where the Fund is underweight and as such both would go toward closing the gap to the target weight.
5. In all three cases the Fund does not need to divest in order to raise funds. The Fund has adequate cash resources, c£200m at 30th June 2021. These commitments if approved will be called by the investment managers over the next 24 months.
6. It is the Investment Subcommittee's role to assist the Local Pension Committee in pro-actively managing the Fund's assets, including assisting in the selection of investment managers and changes in asset allocation as agreed in the SAA.

LGPS Central Private Equity 2021

7. The Fund's strategic asset allocation (SAA) as approved by the Local Pension Committee in January 2021 stated a target allocation of 5.75% to private equity.

8. As at 30th June 2021 the Fund's private equity allocation totalled c£360m or 6.7% of total fund assets. The Fund is currently overweight to this class by c1% as at the end of June 2021.
9. The Fund has previously invested with Central into PE with a £10m commitment in 2018. This investment is still being called and in the investment phase. The uncalled amount as at March 2021 was c£7m.
10. The Fund has recently committed to two investments with Adams Street Partners, the global secondaries fund 7, £27m approved by the Investment Subcommittee in March 2021 and the 2020 global fund with £20m was approved at the October 2020 meeting.
11. It is important to maintain vintage diversification and as such the Fund makes regular investments. It should be noted that over time the actual weight to this class will drift around the target weight owing to the change in underlying asset valuations versus the rest of the portfolio, as well as amounts invested and distributed from PE.

Summary Private Equity

12. Overall Hymans are supportive of a £30m allocation to LGPS Central's 2021 PE Vintage, which will allow the Fund to:
 - a. Maintain the strategic allocation to PE
 - b. Maintain vintage year diversification
 - c. Reduce management fees associated with the PE programme albeit modestly
 - d. Support Central in its development, whilst managing the associated new manager risk

LGPS Central Private Debt High Return 2021 Vintage

Background

13. The Fund has a target allocation of 10.5% of total Fund assets to the Private Debt asset class. This allocation was approved at the January 2021 Local Pension Committee meeting. As at 30th June 2021 the actual allocation was 6.5%, implying an underweight position of 4.0% or c£220m.
14. At present the Fund has exposure to this asset class with £352m invested over five Partners Group private debt vintages (£245m), three M&G distressed debt vintages (£71m) and a smaller position with CRC (£36m) who manage a niche bank risk transfer strategy. This equates to 6.5% of total assets.
15. Private Debt is the name given to an asset class where money is loaned to companies that has not originated from a bank. Companies choose to raise capital from this source for a number of reasons including the cost of the loan, availability of traditional banking credit and the ability to negotiate terms specific to a deal, for example.
16. The loan (or debt/credit) that the investment manager extends to the company is likely to involve more complex structures bought about by price dislocations,

restructuring of capital and may involve stressed borrowers. The strategy will avoid the highest risk areas such as distressed lending and non performing loans.

Summary private debt

17. Hymans have considered the Central high return product and proposed a £60m investment alongside the already agreed investments to Partners Group MAC 6 and Central low return both agreed at the July 2021 ISC.

CRC Capital Relief Fund 5

Background

18. The Fund has a target allocation of 10.5% of total Fund assets to the Private Debt asset class. This investment falls within this asset class. At present the Fund has exposure to this asset class with £352m invested over five Partners Group private debt vintages (£245m), three M&G distressed debt vintages (£71m) and a smaller position with a previous CRC vintage (£36m). This equates to 6.5% of total assets.
19. The Fund last invested with CRC in 2017 when a £40m commitment was approved by the ISC. At 30th June 2021 this investment is valued at £36.5m and is in its distribution phase. There have been distributions paid equal to about 45% of the amount invested.
20. The CRF buys portfolios of loans from banks and are paid an insurance premium by the bank to do this. The investment manager, CRC, is highly specialised in this area and has been carrying out bank risk transfer transactions since 2002 and has been able to produce good returns for investors. Although the premium paid to the manager by the banks is significant given the overall risks associated with the portfolios, it is still financially advantageous for them to do this as it frees up capital for other uses that would be otherwise reserved for underlying loans defaulting.

Summary CRF 5

21. Hymans have considered the CRF 5 investment and conclude it is a suitable investment for the Fund. Their report contains a Hymans overall view section which highlights the reasons for arriving at this conclusion alongside a number of risks previously contained within the paper which the Fund should take into account when deciding on the investment. Hymans will cover these points during the private session of today's meeting.

Supplementary Information

22. Exempt papers which are of a sensitive nature is included elsewhere on the agenda contain supplementary information on the potential investments into:
- a. LGPS Central's Private Equity (PE) 2021 vintage,
 - b. LGPS Central's Private Debt high return 2021 vintage, and
 - c. the CRC Capital Relief Fund 5 (CRF 5).

Recommendations

23. The Investment Subcommittee is recommended to consider an investment into:

- a. LGPS Central's Private Equity (PE) 2021 vintage of £30m
- b. LGPS Central's Private Debt high return 2021 vintage of £60m, and
- c. the CRC Capital Relief Fund 5 (CRF 5) of £52m

Appendices

None

Equality and Human Rights Implications

None

Officers to Contact

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