



INVESTMENT SUB COMMITTEE – 14TH OCTOBER 2020

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

**RECOMMENDED INVESTMENT: ADAM STREET PARTNERS
PRIVATE EQUITY & JP MORGAN INFRASTRUCTURE**

Purpose of the Report

1. The purpose of this report is to provide information in respect of where the Pension Fund has, or is likely to have, a material difference to the strategic asset allocation and the proposed course of action. In particular a recommended investment into the JP Morgan infrastructure fund and top up investment into Adam Street Partners (ASP) Global Fund 2020.

Background

2. As at September 2020 the fund had a cash holding of c£110m with a combination of GBP and USD.
3. At present given the positive cashflow nature of the Fund (the Fund collects more from employer and employee contributions than it pays out in pensions) and the low calls and distributions the Fund is building a cash balance that could be used to rebalance in line with the Fund's strategic asset allocation.
4. The remainder of the paper outlines the areas where the allocation is below target and where additional investment may provide diversification benefit. The table below summarises our current target weight, actual position at June 2020, the variance and actions planned and an expected variance to target all other things remaining equal.

	Target Weight	Actual at Jun 2020	Var to target weight Jun 2020	Planned action	Remaining variance
Equity	47.75%	49.40%	1.65%		
Listed Equity	43.00%	43.90%	0.90%	None, within 40-44% per SAA. Equity is volatile hence the range provided within the SAA	
Private Equity	4.75%	5.50%	0.75%	Covered in paper	1.2%
Real income	24.75%	22.80%	-1.95%		
Property	10.00%	8.40%	-1.60%	Covered in paper	
Infra	9.75%	8.80%	-0.95%	Covered in paper	0.2%
IL bonds	5.00%	5.60%	0.60%	Planned sale to fund future MAC investment	0%
Alternatives/credit	27.50%	24.90%	-2.60%		
Private Debt	10.50%	8.90%	-1.60%	LGPS Central sub fund planning for 2021. Potential to invest in a Partners Group offering in early 2021.	-1.6%, await details of LGPS sub fund or
Targeted Return	7.50%	10.70%	3.20%	Planned sale to fund future MAC investment	0%
Liquid MAC	4.00%	0.60%	-3.40%	Awaiting Central sub fund	0%
Investment Grade Credit	3.00%	2.30%	-0.70%	None at present, initial investment in April 2020, review weight in 2021 with view to rebalance per new SAA.	-0.7%
EMD	2.50%	2.40%	-0.10%		-0.1%
Cash	0.00%	2.30%		2 proposed investments totalling £45m GBP to JP Morgan and Adam Street. Plus to two investment to LGPS Central re Infra and Property indicatively totalling £60m	1.3% with £45m, 0% with £105m spend
Currency hedge		0.60%			
Total	100.00%	100.00%			

If a £45m allocation is approved for JP Morgan and Adam Street a 1.3% cash allocation will remain which is marginally ahead of target. This cash may be required for property whilst Colliers are searching and is described later in the paper.

Infrastructure

- As at 30th June 2020 the Fund held c£400m in infrastructure funds between 4 managers. These investments form part the Funds 'real income' allocation. As at the last asset allocation review the infrastructure weight was 9.75% of total fund assets. The current weighting is 8.7% of Fund assets, which is 1.05% short of the target or c£50m.
- The Fund's infrastructure investments are detailed in the table below.

Investment	£m Jun 2020	% of infra assets	Closed / open	Income / accumulation
JPM IIF	92.3	23%	Open	Income
IFM Global infrastructure	105.8	27%	Open	Accumulation
KKR infrastructure	36.2	9%	Closed	Income
Stafford Timberland	143.8	36%	Closed	Accumulation
Infracapital	17.2	4%	Closed	Accumulation

7. The Fund has investments with two managers in open ended funds ie. no end dates, JP Morgan and IFM. These are attractive as there is no need usually to manage reinvestment of capital being returned and the managers would be usually investing into new investment products within their fund. Ideally the Fund would also like to invest into funds where accumulation units are available given the cashflow positive nature of the Fund.
8. The remaining three funds are closed and comprise of Stafford Timberland, which is niche, investing in timber farms globally, the Fund already has a sizeable allocation. Infracapital is reaching the end of its investing period in Jan 2023 at present and is of higher risk due to greenfield projects undertaken. The KKR investment is comprised of three infrastructure funds two of which are fully committed and are returning capital with the third 55% committed, our Fund has outstanding commitment to KKR at present of £33m USD as at 31st March 2020.
9. The two managers where the Fund has holdings in open ended investments are detailed below and are the most suitable for further investment.
10. The JP Morgan infrastructure Investments Fund (IFF) invests in core and core plus infrastructure with a focus on diversification, inflation protection and cash yield. Core and core plus represent assets and returns at the safer end of the infrastructure spectrum with value add and opportunistic representing the investments where more risk is taken.
11. The Committee received a presentation at its September meeting where JP Morgan presented their investment strategy during a private session. The cash yield is estimated at 5-7% pa on net asset value (NAV). With the Fund's current holding the cash being returned to the Fund is c£5-6m pa.
12. On balance the JP Morgan fund has a lower management fee, looks to have a safer, more defensive current portfolio and offers a lower timeframe to get capital invested whilst the IFM fund has had a historically higher return. Given the fairly small investment being proposed and the ability to rebalance in the future using income proceeds from the JP Morgan fund we propose an investment to the JP Morgan IIF fund. At present the JP Morgan investment is of smaller size and will also return cash whilst the IFM fund will grow given the Fund is invested in accumulation units.
13. A top up would take around nine months to enact by virtue of the fact there is a queuing system in place for new contributions. The Fund is invested in the LGPS income sleeve which benefits from lower fees Ideally the Fund would simply switch into accumulation units, which automatically reinvest income, but these units are not offered with the LGPS discount.
14. Officers propose an initial top up of £25m which will half the current deficit to target weight. LGPS Central's Infrastructure Fund is currently due to go live before the end of this financial year and the Fund has indicated an interest of £25m. The Central fund will invest in both open and closed ended funds and Central's due diligence has commenced on fund investments that would call capital in early 2021. The Fund would need to instruct Hymans to complete due diligence on the Central product once managers are selected, this would be brought to the Committee for

approval before any investment. This together with the top up with JP Morgan IIF investment would commit the Fund to an additional £50m.

15. Information from JP Morgan is included as Appendix A to this paper and includes their Environmental, Social and Governance procedure..

Private Equity

16. The Fund's current allocation to Private Equity is via Adam Street Partners (ASP) (5.0%) and Aberdeen Standard (0.5%). The target weight is 4.75%. As such the Fund is marginally overweight by 0.75% versus the valuation at 30th June. When the 30th September valuation is compiled the value of the Adam Street investments is likely to increase versus the prior quarter and with all things being equal a likely increase in weight. Although currently over weight to private equity target weight this isn't anything to be too concerned with as distributions have slowed this year owing to COVID-19. When distributions return to their usual rate this will bring the allocation back towards target. In addition, a proposed investment to private equity using the same manager and strategy to last year will take up to 7 to 8 years to fully invest and hence having a commitment now means not having to invest larger sums in future years.
17. The ASP 2020 Global Fund has a very similar strategy to the 2019 fund with the same preferences to themes previously identified in the last vintage such as software and technology and healthcare. It is a globally diversified core fund of funds program providing further vintage exposure with 60-65% invested in primary strategies (building value over time) and 35-40% in tactical strategies (secondaries, co-investments and direct growth; shorter duration strategies focused on exploiting market inefficiencies). The bulk of the investments will be within North America at 60-70% with 20-30% (mainly western Europe) within developed markets and 10-15% within developing markets, majority in Asia.
18. The Fund invested \$39m into the 2019 Global Fund with a decision taken at the Sub-committee in October 2019, at present just 8% has been called demonstrating the long-term planning required to stay close to target. The 2020 Global Fund is currently taking new investments and is due to close in December 2020.
19. The 2020 Global Fund will invest capital over a 7-8 period, 10% has been invested thus far but given the use of the credit line at the fund level we expect ASP to call c2.5% by the calendar year end.
20. Using a conservative estimate of distributions they are likely to be marginally higher than commitments in the coming 12 months, officers propose an investment of £20m GBP.
21. LGPS Central have recently appointed a head of private markets, which will allow the company to resurrect its Private Equity offer. The Fund made an investment into the Central Private Equity 2019 vintage, whilst Central had a Head of Private Equity. The Fund will consider the relative merits of its current private equity manager and use of LGPS Central's strategy in 2021 given the new Head will need a number of months assess the situation regarding the strategy being adopted at LGPS Central.

22. Appendix B contains a slide outlining Adam Streets approach to integration of Environmental, Social and Governance (ESG) factors into their investment process.

Other:

23. The Fund is currently underweight in property by c1.6%. Colliers have been instructed earlier in 2020 to progress the search for direct property. At the time of writing Colliers have three properties they are investigating that would fit the Fund. None of which may result in a purchase given the nature of a competitive bid process and need to negotiate with sellers. As at the time of writing Colliers have engaged with officers regarding the type of asset, location and expected costs. They have full discretionary power on acquisitions as long as they keep the Fund informed. The only restrictions are based on wanting to acquire without prior authorisation on matter of a 'substantial nature'. Colliers already have a house rule in that they do not purchase properties which represent more than 10% of the size of the portfolio at the time of acquisition, if this came about they would seek the Fund's approval beforehand.
24. The Fund has been made aware of the nature of some asset classes (such as industrial warehousing and supermarkets) being attractive in the current environment and consequently the Fund wants to be comfortable with the cost of any potential acquisition.
25. LGPS Central are also progressing with the Direct Property Fund which the Fund has an interest in. The Fund has indicatively committed an amount which leaves the Fund in a comfortable position to reach the target weight later in 2021 with or without Colliers being successful in any of the three opportunities they are assessing.

Supplementary Information.

26. An exempt paper which is of a sensitive nature is included elsewhere on the agenda which contains supplementary information on the potential investment in Adams Street Partners 2020 Global Fund and JP Morgan's IIF.

Recommendation

27. The Investment Subcommittee is recommended to consider investment into Adams Street Partners 2020 Global Fund and JP Morgan IIF.

Equality and Human Rights Implications

28. None

Appendices

Appendix A – JP Morgan IIF flipbook Q2 2020
Appendix B – Adam Street ESG integration

Background Papers

29. None

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