



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

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