Meeting:	**Investment Subcommittee**
Date/Time:	**Wednesday, 14 June 2017 at 10.00 am**
Location:	**Goscote Committee Room, County Hall, Glenfield**
Contact:	**Mr. M. Hand (Tel. 0116 305 6038)**
Email:	**matthew.hand@leics.gov.uk**

Membership

Mr. P. C. Osborne CC	Ms. M. Holden
Mr. L. Breckon JP CC	Cllr. Malise Graham
Dr. S. Hill CC	Cllr. Lynn. Moore
	Mr. R. Bone

AGENDA

Item		Report by	
1.	Election of Chairman		
2.	Minutes of the meeting held on 23 March 2016.		(Pages 3 - 6)
3.	Question Time.		
4.	Questions asked by members 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.		
6.	Declarations of interest in respect of items on the agenda.		
7.	Recommended Investment In CRC Capital Release Fund III.	Director of Corporate Resources	(Pages 7 - 10)
8.	Any other items which the Chairman has decided to take as urgent.		

Exclusion of the Press and Public.

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

9.	CRC (European Bank Capital Release) Capital Relief Fund III - Due Diligence Note. (Exempt under paragraphs 3 and 10 of Schedule 12A)	Hymans Robertson	(Pages 11 - 20)
10.	CRC Capital Release - Presentation by Christofferson Robb & Company (Exempt under paragraphs 3 and 10 of Schedule 12A)	Fund Manager	(Pages 21 - 42)

Minutes of a meeting of the Investment Subcommittee held at County Hall, Glenfield on Wednesday, 23 March 2016.

PRESENT:

Leicestershire County Council

Mr. G. A. Hart CC (Chairman)
Mr. K. W. P. Lynch CC
Mr. P. C. Osborne CC

Leicester City Council/District Council Representative

Mr. J. Shutter
Cllr. M. Graham

Staff Representative

Mr, N. Booth

98. Minutes of the previous meeting.

The minutes of the meeting held on 14 October 2015 were taken as read, confirmed and signed.

99. Question Time.

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

100. Questions asked by members.

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

101. urgent items.

There were no urgent items for consideration.

102. Declarations of interest.

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.

103. Increase in Infrastructure Weighting.

The Subcommittee considered a report of the Director of Corporate Resources which provided members with background information relating to a potential additional investment in infrastructure. A copy of the report is filed with these minutes marked '6'.

The Subcommittee noted that the Leicestershire Pension Fund already held investments with J. P. Morgan and KKR and an additional investment in both/either manager would enable the Fund to realise its desired 5% infrastructure weighting which had been set by the Local Pension Committee at its strategy meeting in January 2016.

RESOLVED:

That the information provided be noted.

104. Date of Next Meeting - 27 April 2016.

It was noted that the meeting scheduled for the 27 April 2016 was likely to be cancelled due to a lack of business and replaced with by a training session for members of the Subcommittee and the Local Pension Committee. Members would be contacted by officers to confirm matters nearer the time.

105. 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 following item of business on the grounds that it involves the likely disclosure of exempt information as defined in Part 1 of Schedule 12(A) of the Act.

106. Infrastructure Investment - Presentation by Investment Managers.

The Subcommittee received presentations by representatives from J. P. Morgan and KKR which was followed by questions from members. Copies of the presentations are filed with these minutes marked '9' and '10'. The presentations were not for publication by virtue of Paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

a) That the presentations delivered on behalf of the two Investment Managers be noted;

b) That a commitment to invest an additional 2% of total Fund assets in infrastructure through J. P. Morgan Asset Management be approved.

Wednesday, 23 March 2016
10.00 am - 12.15 pm

CHAIRMAN

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Leicestershire County Council

INVESTMENT SUBCOMMITTEE – 14TH JUNE 2017

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

RECOMMENDED INVESTMENT IN CRC CAPITAL RELEASE FUND III

Purpose of the Report

1. To provide information in respect of a recommended investment in the CRC Capital Release Fund III (CRC III).

Background

2. The Fund has a target allocation of 4 – 6% of total Fund assets to the 'Opportunity Pool' concept. In broad terms these should be considered as investments that are anticipated will produce returns that are at least as high as those expected from equities markets, but which will provide an element of diversification from broad-based equity markets. They will generally not fit comfortably elsewhere within the Fund's overall asset allocation strategy, and will often be investments that take advantage of market opportunities that exist at a point-in-time but that appear unlikely to persist indefinitely.

3. At present only 1.9% of the available Opportunities Pool funding is invested, and this is all in the specific opportunities within debt markets (via three M & G Debt Opportunities Funds). A further c.£40m has been committed to Opportunity Pool investments but is currently 'undrawn' (M & G Debt Opportunities Fund III and Markham Rae Trade Capital Partners), and it is anticipated that most of this will be invested within the next 12 -18 months. This will take the Opportunity Pool up to about 3% of total assets of the Fund.

4. The first two M & G Debt Opportunities Funds are, however, fully invested and are in their distribution stages. Over the last 12 months £41m of capital has been returned from these two funds and it is probable that further significant capital sums will be returned over the coming 12 months. The Opportunity Pool may, therefore, not increase significantly in size as the drawdowns are likely to be offset to a meaningful degree by distributions.

5. There is no reason to make Opportunity Pool investments unless they are considered likely to be better (on a risk-adjusted basis) than where the money would otherwise be invested. Once the Opportunity Pool is fully utilised there will be no room to fit in other opportunities that may come along, unless there is a strategic change to the benchmark agreed by this committee, and it has always been the case that waiting for the right opportunity is a better option than simply deploying capital into the best options available at any point in time. The ultimate aim is for the Opportunity Pool to consist of about 6 - 10 investments, and for all of these to be capable of adding meaningful value at a total Fund level. The expectation is that these individual opportunities will be for between ½% and 1½% of total assets each,

with the size varying depending on the risk and potential return that is expected from each one.

6. CRC III is a fund that will effectively buy portfolios of loans from banks and be paid an insurance premium by the bank to do this. The investment manager (Christofferson, Robb and Company) is highly specialised in this area and has been carrying out these transactions since 2002, and has been able to produce very 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 because it frees up capital for them to use elsewhere within their business.

7. This report is not intended to be an exhaustive analysis of the investment opportunity, and the Hymans Robertson paper that is elsewhere on the agenda provides further details. Christofferson, Robb and Company have also produced a presentation and will be in attendance at today's meeting to explain the investment more fully.

<u>What is Bank Capital Release?</u>

8. Within the banking regulatory environment, capital has to be held as backing for loans that have been made. If a bank wishes to increase its lending activity it has to hold more regulatory capital and this capital can be expensive (having averaged a cost of c.15% over recent years).

9. By arranging a mechanism for transferring the risk of loans made, banks can receive approval from the regulators to hold less regulatory capital against existing loans and this frees up capital to support further lending activities. Because capital is expensive for banks they can afford to pay a healthy premium to the counterparty that the risk is being transferred to. The risk transfer and the approval by regulators make bank capital release attractive to both the bank and the investor.

10. In very simplistic terms, CRC III will assume all, or part, of the risk of default on the loan portfolios that it invests in. These portfolios have to pass certain 'quality' assessments before they are considered and the default risk can be estimated with reasonable accurately in advance. It is only in the event that the default rate is much higher than anticipated, and much higher than has ever occurred historically, that returns to investors start to be eroded to a meaningful extent. The target investment return for the fund is around 10% p.a. (net of all costs) and this is a highly attractive return to investors, and a return that fits in well with the expectations for the Opportunity Pool.

11. CRC III is clearly not risk-free but the manager has a long track record of avoiding meaningful defaults, and has produced highly credible returns to investors. Whilst the assets managed by them have increased in size, this has been matched with increasing investment opportunities and there is a high probability that any commitment can be deployed in a speedy manner.

Supplementary Information Informing the potential additional investment in CRC Capital Release Fund III

12. An Exempt paper by Hymans Robertson and presentation by Christofferson, Robb and Company informing the potential additional investment, which are of a sensitive nature, are included as items 9 and 10 on the agenda.

Recommendation

13. It is recommended that the Investment Subcommittee approves a £40m commitment to invest in the CRC Capital Release Fund III.

Equality and Human Rights Implications

None specific

Background Papers

None.

Officers to Contact

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By virtue of paragraph(s) 3, 10 of Part 1 of Schedule 12A of the Local Government Act 1972.

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