



Meeting: **Investment Subcommittee**

Date/Time: **Wednesday, 16 October 2019 at 10.00 am**

Location: **Goscote Committee Room, County Hall, Glenfield**

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

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

Membership

Mr. P. C. Osborne CC (Chairman)

Mr. T. Barkley CC Dr. S. Hill CC
Cllr. D. Bajaj Cllr. M. Graham
Mr. R. Bone Mr. Z. Limbada

AGENDA

<u>Item</u>	<u>Report by</u>	
1. Minutes of the meeting held on 3 April 2019.		(Pages 3 - 6)
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. Potential Investment with Adam Street Partners.	Director of Corporate Resources	(Pages 7 - 10)
7. Potential Investment with Partners Group.	Director of Corporate Resources	(Pages 11 - 14)



8. 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).

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|-----|--|---------------------------------------|----------------------|
| 9. | Briefing Notes of the Funds Investment Consultant Concerning Proposed Adams Street Investment. | Hymans
Robertson | (Pages 15 - 20) |
| 10. | Presentation of the Investment Manager - Adams Street Group. | Adams Street
Group | (Pages 21 - 56) |
| 11. | Briefing Notes of the Funds Investment Consultant Concerning Proposed Partners Group Investment. | Hymans
Robertson | (Pages 57 - 66) |
| 12. | Presentation of the Investment Manager - Partners Group. | Partners Group | (Pages 67 - 106) |
| 13. | Update on Property Investment . | Director of
Corporate
Resources | (Pages 107 -
110) |
| 14. | Dates of Future Meetings. | | |

The next meeting of the Subcommittee is scheduled to take place on 18 December 2019 at 10am at County Hall.

Future meetings of the Investment Subcommittee are scheduled to take place at 10am on the following dates.

1 April 2020
15 July 2020
14 October 2020
16 December 2020

15. 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, 3 April 2019.**

PRESENT:

Leicestershire County Council

Mr. L. Breckon JP CC

Dr. S. Hill CC

District Council Representative

Cllr Malise Graham MBE

Staff Representative

Ms. J. Dean

22. Minutes.

The minutes of the meeting held on 10 October 2018 were taken as read, confirmed and signed.

23. Question Time.

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

24. Questions asked by members.

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

25. Urgent Items.

There were no urgent items for consideration.

26. 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.

27. Update on the Launch of LGPS Central's Global Emerging Markets Product.

The Subcommittee received a report of the Director of Corporate Resources which provided an update on recent progress by LGPS Central in developing a Global Emerging Markets product. A copy of the report is filed with these minutes marked '6'.

Arising from the discussion the following points were noted:

- i) LGPS Central's Global Emerging Market Product would consist of three investment managers. BMO Global Asset Management, UBS Asset Management Limited and Vontobel Asset Management. The managers were all described as "stock-pickers" and don't have a distinct style. The overlap between managers is limited, so when combined should produce a balanced portfolio;
- ii) Whilst the three investment managers had been chosen on a long term basis, LGPS Central would be able to adjust the equal split of assets held by each of the managers by up to 7.5%, and replace them if necessary;
- iii) LGPS Central had an established governance policy which had been previously agreed with all the pool's partner authorities. Appointed investment managers were selected on the basis of their fit with the policy
- iv) Should the Subcommittee support the proposed investment, the commitment to invest £170m worth of assets currently under the management of Delaware, would only be made once information regarding the transitional arrangements was known. This would include confirmation of the cost associated with the transferral of assets and clarification that the new investment product had FCA approval.

RESOLVED

That the report be noted.

28. Date of Next Meeting.

It was noted that the next meeting would be held on 24th July 2019.

29. Emerging Market Equity Review.

The Subcommittee received a briefing note from Hymans Robertson concerning LGPS Central's Global Emerging Markets Product. A copy of the briefing note is filed with these minutes marked '9'. The briefing 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.

RESOLVED:

That the briefing note be noted.

30. Global Emerging Markets Equity Active Multi Manager Fund Business Plan

The Subcommittee received a presentation from LGPS Central on its Global Emerging Market product which was followed by questions from members. A copy of the presentation is filed with these minutes marked '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.

Following the presentation the representative from LGPS Central answered questions from the Subcommittee regarding the sub-fund. The representative then withdrew from the meeting in order for a discussion concerning the potential investment to take place between members.

RESOLVED:

- a) That the progress in LGPS Central's development of an emerging markets sub-fund be noted;
- b) That subject to the development of the sub-fund proceeding satisfactorily, the Director of Corporate Resources, following consultation with the Chairman of the Local Pension Committee, use his delegated powers to progress the Fund's initial investment in LGPS Central's Emerging Market's Equity sub-fund, as detailed in Paragraph six of the report.
- c) That further progress updates concerning the investment be considered by the Local Pension Committee.

Wednesday, 3 April 2019

CHAIRMAN

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INVESTMENT SUBCOMMITTEE – 16TH OCTOBER 2019

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

**RECOMMENDED INVESTMENT: ADAM STREET PARTNERS
PRIVATE EQUITY PRODUCT**

Purpose of the Report

1. The purpose of this report is to provide information in respect of a recommended investment into the Adam Street Partners (ASP) Private Equity product, 2019 Global Fund.

Background

2. The Fund has a target allocation of 4% of total Fund assets to the 'Private Equity' asset class. In broad terms this investment class should be considered as investments that are expected to produce returns higher as those expected from equity markets. Private equity is an alternative investment class and consists of capital that is not listed on a public exchange. Private equity is composed of funds and investors that directly invest in private companies, or that engage in buyouts of public companies. These funds are generally illiquid and can have lock in periods.
3. At present the Fund has c£235m invested (as at 30 June 2019) in a number of ASP products. This equates to about 4.6% of total assets vs a 4.0% target allocation.
4. It is projected that as a result of net distributions from ASP the Fund's private equity target allocation will be underweight by 1.0%. This requires the Fund to invest c£40m into Private Equity by the end of 2021 to maintain its target allocation .
5. Given the time required to deploy committed funds by ASP and the Fund's projected underweight target allocation, it is proposed the Fund invest £30m into the Adams Street Partners 2019 Global Fund.
6. With the preference to maintain vintage diversification it is expected the Fund would want to make an investment most years into a Private Equity product.
7. A relevant pooled product at LGPS Central became available in 2018/2019 into which the Fund invested £10m. However, with the Private Equity Investment Director leaving LGPS Central and no 2019/2020 product being available it is recommended the Fund invest with ASP until a new appointment is made at LGPS Central. When a product becomes available at LGPS Central the Fund will begin to consider new investments into these products and bring them to the Subcommittee or Local Pension Committee for consideration.

Proposed investment opportunities

Adam Street Partners 2019 Global Fund.

8. The Leicestershire Pension Fund has a long history of investing with ASP. Since 2002 the Fund has committed to investing \$592m with ASP. The net internal rate of return since inception in GBP has been 11.8%.
9. A detailed report by Hymans Robertson, the Fund's Investment Consultant, on this investment opportunity, which includes exempt information, is included later in today's agenda. A brief overview of the opportunity and why it is considered attractive is given below:
 - ASP is one of the longest established private equity managers and boasts a sizeable investment team that is one of the most experienced in the industry. The firm created the first ever fund of funds back in 1979 and has a long heritage in each private equity capability, establishing its annual global fund program in 1996.
 - The firm was originally very US-centric although it has significantly expanded its presence in Europe and Asia over recent years. One of the key benefits of ASP is its ownership structure, with the firm entirely employee-owned which we believe provides good alignment with its clients. We believe it has a strong investment process that is centred around identifying and exploiting market opportunities in a sensible, well-structured way which incorporates responsible investment considerations. We rate ASP as 'Preferred' for its private equity capabilities.
 - The 2019 Global Fund is the latest vintage of ASP's annual global fund series which provides broad exposure across the private equity market. We believe its structure and target investments are appropriate in order for it to achieve its objectives, and do not believe there are any material changes relative to the previous vintages in which the Fund has invested.

Summary

10. Taking into account the time taken from deployment of capital into relevant investments by ASP and the forecast of distributions from previous investments within the Private Equity asset class it is proposed the Fund makes a £30m commitment to the 2019 Global Fund. Advice has been sought from Hymans Robertson which is included elsewhere on the agenda.

Supplementary Information Informing the potential investment

Exempt papers by Hymans Robertson and a presentation from ASP, are included as items 9 and 10 on the agenda.

Recommendations

11. The Investment Subcommittee is recommended to consider a £30m commitment to invest in the Adams Street Partners 2019 Global Fund.

Equality and Human Rights Implications

None specific

Officers to Contact

Mr C Tambini, Director of Corporate Resources

Tel: 0116 305 6199

Email: Chris.Tambini@leics.gov.uk

Mr D Keegan, Assistant Director Strategic Finance and Property

Tel: 0116 305 7668

Email: Declan.Keegan@leics.gov.uk

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INVESTMENT SUBCOMMITTEE – 16TH OCTOBER 2019

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

RECOMMENDED INVESTMENT INTO PARTNERS' PRIVATE DEBT PRODUCT

Purpose of the Report

1. The purpose of this report is to provide information in respect of a recommended investment into the Partners Group Multi Asset Credit (MAC) V Fund.

Background

2. The Fund has a target allocation of 7% of total Fund assets to the 'Private Debt' asset class. Private Debt sits within the 'Total credit and emerging market debt' and provides an element of diversification for the Fund. Private Debt is an asset class that supplies debt financing to private and public companies for a specified length of time during which a return is earned by the debt issuing company. The returns can be secured against assets to reduce risk to the issuer.
3. At present the Fund has c£235m invested in a number of Partners Group private debt products. This equates to about 5.3% of total assets versus a 7% target allocation, a c75m shortfall.
4. In addition, it is forecast that there will be a requirement to invest a further £75m by the end of December 2020 as income and capital is returned to the Fund from previous private debt investments in 2014, 2016 and 2017.
5. Given the time required to deploy committed funds by Partners the Subcommittee will be asked to consider deploying more than the £75m shortfall to the target allocation to the MAC V product, taking the additional investment closer to £100m.
6. A relevant pooled product at LGPS Central will not be available in a time frame that would enable the Fund to transition from legacy investment managers. When a product becomes available the Fund will begin to consider available products and bring them to the Subcommittee or Local Pension Committee for approval.

Proposed investment opportunities

Partners Group Multi Asset Credit V Fund.

7. Partners Group are a large investment manager whose sole focus is on private markets; they do not offer investment management in areas such as market-listed equities and bonds. One of their areas of expertise is in private debt, which can generally be described as the lending of money directly to a company; in many cases private debt lenders are taking the place traditionally occupied by banks.

8. The Fund has invested in the previous three iterations of the Multi Asset Credit Fund, in 2014 (£100m), 2016 (£70m) and 2017 (£120m). The investment process remains largely unchanged from that which has previously proven successful.
9. A detailed report by Hymans Robertson, the Fund's Investment Consultant, on this investment opportunity, which includes exempt information, is included later in today's agenda. A brief overview of the opportunity and why it is considered attractive is given below:
- Partners Group is one of only a few managers who has the required resource, credentials and infrastructure to manage this type of private lending strategy on a global basis, and their annual fund raising provides an efficient and effective governance process in appointing Partners for subsequent mandates, given the ISC is familiar with the manager and have had a positive experience to date investing in previous MAC funds.
 - The MAC V Fund is the latest in their Multi-asset credit range. The Fund has reviewed the documentation provided by Partners from an investment perspective. It is noted that the Fund's review of the manager's literature should not be deemed as replacing the need for the Subcommittee to understand the terms of the investment.
 - Having reviewed the mandate and on the basis of the Fund's research, the mandate documentation, the size of the proposed allocation as a proportion of total LCCPF assets, we can confirm that in our opinion the MAC V Fund is an appropriate fund for LCCPF to invest in.

Summary

10. Taking into account the time taken from deployment of capital into relevant investments by Partners and the Fund's forecast of capital and income within the Private Debt asset class it is proposed the Subcommittee make a £75m - £100m commitment to the MAC V fund. The Fund has taken advice from Hymans Robertson whose report is included elsewhere on the agenda.

Supplementary Information Informing the potential investment

11. Exempt papers by Hymans Robertson and a presentation from Partners Group MAC V, which are of a sensitive nature, are included as items 11 and 12 on the agenda.

Recommendations

12. The Investment Subcommittee is recommended to consider a commitment to invest in the Partner Group MAC V fund as detailed in paragraphs four and five.

Equality and Human Rights Implications

None specific

Officers to Contact

Mr C Tambini, Director of Corporate Resources

Tel: 0116 305 6199

Email: Chris.Tambini@leics.gov.uk

Mr D Keegan, Assistant Director Strategic Finance and Property

Tel: 0116 305 7668

Email: Declan.Keegan@leics.gov.uk

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