



Meeting: **Investment Subcommittee**

Date/Time: **Wednesday, 31 March 2021 at 10.00 am**

Location: **Microsoft Teams**

Contact: **Miss. C. Tuohy (Tel. 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. A. Clarke Mr. Z. Limbada
Cllr. Malise Graham (One Scheme Member
Representative)

AGENDA

<u>Item</u>	<u>Report by</u>	
1. Minutes of the meeting held on 14 October 2020.		(Pages 3 - 8)
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. Strategic Asset Allocation Update and LGPS Central Climate Fund Transition.	Director of Corporate Resources	(Pages 9 - 16)
7. Recommended Investment into LGPS Central Multi Asset Credit Fund.	Director of Corporate Resources	(Pages 17 - 20)



8. Recommended Investment into Adams Street Partners Global Secondary Fund 7. Director of Corporate Resources (Pages 21 - 32)

9. Date of Next Meeting - 28 July 2021

10. Exclusion of the Press and Public.

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

11. Supplementary Information informing the proposed investment in LGPS Central Multi Asset Credit Director of Corporate Resources (Pages 33 - 48)

12. Presentation of the Investment Manager - LGPS Central Multi Asset Credit Fund Fund Manager (in attendance) (Pages 49 - 66)

13. Supplementary Information Informing the Recommended Investment into Adams Street Partners Global Secondary Fund 7. Director of Corporate Resources (Pages 67 - 70)

14. Presentation of the Investment Manager - Adams Street Partners - Global Secondary Fund 7. Fund Manager (in attendance) (Pages 71 - 104)

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, 14 October 2020.

PRESENT:

Leicestershire County Council
Mr. P. C. Osborne CC (Chairman)
Mr. T. Barkley CC
Dr. S. Hill CC

Leicester City Council Representative
Cllr. A. Clarke

District Council Representative
Cllr. Malise Graham

Staff Representative
Mr. N. Booth

46. Minutes of the meeting held on 16 October 2019.

The minutes of the meeting held on 16 October 2019 were taken as read, confirmed and signed.

47. Question Time.

The Chief Executive reported that no questions had been received under Standing Order 36.

48. 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).

49. 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.

Dr. S. Hill CC declared a personal interest in Agenda Item 10 (Minute 10) as Aegon administered some personal investment services on her behalf.

50. Multi Asset Credit Update.

The Subcommittee considered a report by the Director of Corporate Resources which provided an update on LGPS Central's development of a Multi-Asset Credit (MAC) sub fund. A copy of the report is marked 'Agenda Item 5' is filed with these minutes.

Arising from the discussion the followings points were noted:-

- i. The MAC strategy allowed managers flexibility to move opportunistically between asset sectors, enabling them to create excess return via a combination of a wider variety of asset classes such as secured or non-secured debt. It was felt that MAC was an attractive strategy and provided yield enhancement compared to traditional fixed income strategies held by the Fund.
- ii. Work had been undertaken between the Fund's advisor, Hymans Robertson and LGPS Central with a view to design a MAC product that would be fitting for the Fund, prior to going to market for potential mangers. It was agreed that the designed mandate would have less than 10% weightings to investment grade corporate bonds and less than 10% weighting to emerging market debt as well as other limits to help manage risk.
- iii. While Managers would be able to invest in a wider pool of securities (thus having higher risk and expected return), the performance target was set at 4% net over the benchmark (three-month GBP London interbank overnight rate, that was at present around 0.05%). The Fund believed that the realistic target reduced the potential for mangers to take overly risky positions with securities such as collateral loans.
- iv. Members raised concerns regarding the link to collateralised loans (also known as 'junk bonds'). It was clarified that while managers could invest on Central's behalf into collateralised loans, the 4% benchmark combined with the limits imposed upon the mandate, and Central's stringent manager approval process and checks, would protect the Fund from significant risks. Nevertheless, it was queried whether the risks were worthwhile for a relatively modest return rate of 4%. Members were assured that once Central had chosen its mangers and been approved by the Financial Conduct Authority, Hymans would conduct due diligence for the Fund, in advance of a proposal being brought to the Subcommittee or Local Pension Committee for approval. At that stage members would be able to raise further questions and concerns with representatives from LGPS Central.

RESOLVED:

That the report be noted.

51. Recommended Investment: Adams Street Partners Private Equity Fund and JP Morgan Infrastructure Fund.

The Subcommittee considered a report by the Director of Corporate Resources which provided members with information in respect of a proposed investment with Adam Street Partners Private Equity product, 2020 Global Fund and a proposed further commitment with JP Morgan's Infrastructure Fund. A copy of the report marked 'Agenda Item 6' is filed with these minutes.

Arising from discussion the following points were noted:-

- i) The Fund held in the region of £400million in infrastructure funds with four managers, however the Fund remained 1.05% short of the target (around £50million). The Fund had two investments with two managers in open ended infrastructure funds, JP Morgan and IFM.
- ii) The Local Pension Committee had received a presentation from JP Morgan's Infrastructure Investments Fund at its last meeting which set out its investment in core and core plus infrastructure with a focus on diversification, inflation protection and cash yield which represented the safer end of the infrastructure spectrum. The Fund's current holdings with JP Morgan returned around £5-6million cash per annum.
- iii) In comparison with IFM, JP Morgan had lower management fee's and was felt more suitable to the Fund due to its more defensive portfolio, it also had a lower timeframe to invest capital, at around nine months.
- iv) Officers felt that a relatively small top-up of £25million (half the current deficit) to JP Morgan's Infrastructure Fund would enable the Fund to rebalance in future years if needed as cash was returned yearly.
- v) The Fund had also indicated a £25million interest in LGPS Central's Infrastructure Fund that was due to go live before the end of the financial year and would be brought to the Sub-Committee for approval before any investment to reach its target allocation of 9.75% was made.
- vi) JP Morgan had evidenced its commitment to responsible investment with its environmental, social and governance policy that set out its aims to provide investors with stable, sustainable, long-term returns in high

quality investments.

- vii) Further investment was also required for the Fund's allocation in Private Equity that was targeted at 4.75%. While the Fund was currently overweight (due to distributions slowing as a result of COVID-19), investments in private equity using the same manager and strategy as previously taken would take up to eight years to fully invest. For example, the Adams Street Partner Global Fund 2019 vintage that the Subcommittee had approved in October 2019 had only called 8% of the investment, evidencing the importance of long-term planning to remain close to target.

- viii) Officers proposed that the Fund invest £20million GDP in the Adams Street Partners Global Fund 2020 vintage to retain its vintage diversification.

- ix) Adams Street Partners was a multi manager investor that held a portfolio of other investment funds rather than investing directly in stocks, bonds or other securities. Due to its size it was able to have far more oversight and influence on environmental, social and governance factors than the Leicestershire Pension Fund could have due to its relatively small size.

- x) Members were pleased to note that Adams Street was also committed to responsible investment, with environmental, social and corporate governance (ESG) considerations being considered as part of its investment diligence process. The manager was also signatory to the United Nations supported Principles for Responsible Investment (the PRI), a voluntary initiative promoting the integration of ESG considerations into investment processes and encouraging ongoing engagement with broader ESG issues.

RESOLVED

That the report be noted.

52. Dates of Future Meetings.

RESOLVED:

It was noted that the next meeting would be held on 16 December 2020 at 10am.

53. 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.

54. Supplementary information informing Proposed Investment in Adams Street Partners Private Equity Fund and JP Morgan Infrastructure Fund.

The Subcommittee considered a supplementary paper containing further information on the proposed investment in Adams Street Partners Private Equity Fund and JP Morgan Infrastructure Fund, which was followed by questions from members. A copy of the report filed with these minutes marked 'Agenda Item 9'. The report 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:

- a) That the supplementary information provided be noted.
- b) That a £20m commitment to invest in Adams Street Partners 2020 Global Fund be approved.
- c) That a further £25m commitment to invest in JP Morgan Infrastructure Investments Fund be approved.

55. Aegon (formally known as Kames) Active Currency Hedge.

The Subcommittee received a presentation from representatives of Aegon Asset Management on their active currency hedge, which was followed by questions from members. A copy of the PowerPoint presentation is filed with these minutes marked 'Agenda Item 10'. The presentation 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 report be noted.

56. Pending Transitions Update.

The Subcommittee received a updating them on Pending Transitions from the Director of Corporate Resources. A copy of the report is filed with these minutes marked 'Agenda Item 11'. The report was not for publication by virtue of Paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

The Subcommittee noted current progress set out within the report and that

further updates would be brought to the Subcommittee or Local Pension Committee where relevant to detail any transition approaches and estimated costs.

RESOLVED:

That the report be noted.

Wednesday, 14 October 2020
CHAIRMAN



INVESTMENT SUB COMMITTEE – 31 MARCH 2021

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

STRATEGIC ASSET ALLOCATION UPDATE AND LGPS CENTRAL CLIMATE FUND TRANSITION

Purpose of the Report

1. The purpose of this report is to update the Investment Sub Committee (ISC) on the plans to enact the 2021 strategic asset allocation (SAA) and update on the outcome of the transition from Legal and General passive equities to the LGPS Central Climate Balanced fund.

Background

2. Hymans Robertson, the Fund's Actuary, completed the 2021 SAA as part of the Funds annual investment review. The Strategy was reviewed by officers and was approved by the Local Pension Committee at the January 2021 meeting.
3. The Fund, as a part owner of LGPS Central (Central), has an aim to transition investments to cost effective and relevant products at Central as and when they are made available.
4. Local management of investments will continue in the medium term for closed-ended funds, whereby an investment manager is appointed to fulfil a specific purpose via funds that are set up to run for a specified period of time. These investments will be managed locally until the capital is repaid, due to the lack of a natural ability to exit the investment in the event of issues arising.
5. As at 31st December 2020 the Fund is an investor in five Central funds and the 2018 private equity vintage, the total value managed by Central is c£1.6bn or about a third of total Fund assets. In addition the Fund has advisory mandates with Central covering another £900m in assets or 18% of the Fund. Together this is about 50% of the Fund. The Fund's LGIM passive equity holdings which are classed as pooled add another 17%, so in total 67%.
6. During 2020, the Fund invested into the following Central products:
 - a. Central Investment Grade Corporate Bond fund
 - b. Central Climate Balanced Multi Factor Fund
 - c. Central Emerging Market Debt Fund

SAA 2021 Recap

7. The Fund's 2021 SAA was approved at the January 2021 Pension Committee. The quarterly independent valuation reports will reflect the new SAA targets from next quarter when the Fund reports on the quarter from January 2021 to March 2021.
8. A reminder of the 2021 SAA is shown in the table below.

	Proposed target weight (%)	Comments
Growth (55.25%)	55.25	
Listed equity	42.0 (40.0-44.0)	Broad factor based passive allocation implemented December 2020, using LGPS Climate multi-factor sub-fund
Private equity (inc secondaries)	5.75	Increase in strategic target reflecting existing allocations Consider opportunistic investment in Adam Street Secondaries
Targeted return	7.5	Currently higher allocation. Use to fund sub-inv grade credit allocation; Review LGPS sub-fund when details available
Income (36.75%)	36.75	
Infrastructure (inc timberland)	9.75	Review and use LGPS sub-fund
Property	10.0	Consider introducing residential property; Consider LGPS Central proposals
Emerging market debt	2.5	-
Global credit – liquid sub inv grade markets	4.0	Existing JP Morgan fund holding and reduction in Target Return used to fund allocation, subject to due diligence
Global credit - private debt	10.5	Review M&F DOF team mid-year to decide whether to make further allocation to distressed debt
Protection (8%)	8.0	
Inflation-linked bonds	4.5	0.5% reduction in strategic allocation, reflecting recognition of cash held to manage currency hedge
Investment grade credit	3.0	Including up to c.0.5% retained by Aegon to support currency hedge programme
Currency hedge cash	0.5	Recognition of cash held by Aegon for this mandate. Adjust benchmark hedge ratios used by Aegon from 50% to 30%
Total	100.0	

Current investment allocation vs 2021 SAA

9. The table below shows the three main asset groups as at 31st December 2020 versus the 2021 SAA to highlight the changes that need to be made. The column on the far right shows the change in millions of pounds required to balance the asset group to the SAA target.

	Actuals 31/12/2020 £k	2021 SAA	31/12/20 Actual weight %	Difference, actual to 2021 SAA	£m to SAA weight
Growth	3,052	55.25%	61.7%	6.5%	-321
Income	1,311	36.75%	26.5%	-10.2%	506
Protection	452	8.00%	9.1%	1.1%	-57
Cash	129	0.00%	2.6%	2.6%	-129
	4,944	100.00%	100.0%		

10. The bigger changes are within the growth and income asset groups. The 2021 strategy to balance to the SAA weights for the underlying holdings is described further below.
11. The Fund's position entering 2021 versus the SAA is overweight growth and underweight income. A simple summary would say, sell growth assets and buy income assets whilst utilising the cash position.
12. The strategy for growth assets is described below.

Growth	31/12/20 Actual			Difference, actual to 2021	
	31/12/2020 £k	2021 SAA	weight %	SAA	£m to target weight
Listed Equity	2,245	42.00%	45.4%	3.4%	-169
Targeted Return	513	7.50%	10.4%	2.9%	-142
Private Equity	294	5.75%	6.0%	0.2%	-10

13. Targeted Return: The Fund is overweight by 2.9% or c£140m. This is largely as a result of the target allocation being changed downwards and the unavailability of a suitable Central product to transfer to. When the Multi Asset Credit fund is available and approved by committee the Fund will sell holdings within the targeted return class to release cash to fund the LGPS Central MAC fund. The Fund may utilise a portion of the cash on hand in addition if officers deem the growth class hasn't materially moved further away from the SAA target.
14. The LGPS Central Targeted Return product is currently scheduled for launch in Q4 of 2020. When it is available and subject to due diligence, the remaining holdings from the three managers will be divested with the proceeds being used to buy units in the Central Fund at the weight prescribed within the SAA, 7.5%.
15. The Fund currently also maintains an overweight to listed equity. Officers are less concerned given the volatility and the fact that this class has a range of 40% to 44%. Compared to the top end the class, equity is 1.4% overweight. Officers will keep this under review and may act to reduce holdings within this class if the weight drifts further ahead of target. Overall, the overweight allocation would be resolved by investing in illiquid investments, but these take time to be called once committed and we are awaiting launches of products from Central for property and infrastructure.
16. The Fund also has three listed equity investments with Central, the two active multi manager funds, global emerging equity and global equity and the Climate Balanced multi factor fund which the Fund has recently invested in. Officers would look to annual SAA reviews to inform the Fund of any changes to the weights assigned to these funds.
17. Private Equity (PE) is covered elsewhere on today's agenda. The small overweight is deceptive given the mature nature of the Fund's PE investments, which results in money is being returned to the Fund as older vintages mature. It is worth mentioning that the Fund expects Central to launch a PE vintage later in 2021 which the Fund has expressed an interest in.
18. The strategy for income assets is described below:

Income	31/12/20 Actual			Difference, actual to 2021	
	31/12/2020 £k	2021 SAA	weight %	SAA	£m to target weight
Infrastructure	387	9.75%	7.8%	-1.9%	-96
Global credit - private debt	354	10.50%	7.2%	-3.3%	-165
Property	386	10.00%	7.8%	-2.2%	-109
Global Credit - liquid sub inv grade markets	72	4.00%	1.5%	-2.5%	-126
Emerging market debt	113	2.50%	2.3%	-0.2%	-11

19. The Fund is underweight 'income' assets across all sub classes. The liquid sub investment grade credit allocation, which is waiting for the launch of Central' MAC product, has been addressed earlier in the paper.
20. The private debt allocation is one of the larger planned commitments in 2021. The Fund maintains the majority of its current holding with Partners Group over a number of vintages with the last commitment being approved in Q4 of 2019. The Fund has a smaller allocation to distressed debt via M&G. Central are planning to launch a private debt product and officers hope to update the Committee in the Summer. If the product is delayed or doesn't meet the Fund's requirements officers may look into an offering from the existing manager so that the Fund does not drift further from the target weight.
21. It is worth noting that investments in private debt require time to be fully called by the manager and so officers are aware that potential delays in product launches, together with the return on capital from existing private debt vintages may require oversized commitments into single vintages which the Fund would like to avoid from a risk perspective. Given the Fund is informed of distributions at short notice the Fund may be in a position where it receives a sizeable return of cash that, if there are delays launching the Central product may precipitate an investment outside of Central.
22. The Property allocation is currently underweight by 2.2% or c£100m. Officers are looking to address this gap using a number of options:
 - a. Continued investment with the Fund's direct property manager Colliers who officers maintain regular contact with, in order to update them regarding the Fund's allocation to property. Colliers are aware that if they see a suitable asset on the market that fits the current portfolio then they will bring it to officers' attention. For example, the Fund added an 80,000 sq ft industrial warehouse for c£9m in Q4 2020.
 - b. Recycling and continued investment as we receive distributions from LaSalle (the Fund's largest indirect property fund manager) so that the Fund at least maintains allocation. The LaSalle portfolio is a collection of closed and open ended funds which provide income and capital back to the Fund. LaSalle have informed officers, that in line with the mandate they are looking to invest into M&G's UK residential fund which will satisfy the SAA requirement regarding building an allocation to residential property. With a forecast total holding of c£19m the holding would equate to around 10% of the LaSalle total valuation. Officers estimate that the net commitment with LaSalle will be relatively minor unless new opportunities are sourced. Like Colliers, officers keep in contact with the manager so that opportunities can be taken advantage of whilst we are awaiting news of the Central product. If the Central offering is delayed then the Fund has the ability to invest further with LaSalle albeit this will lock up the funds for a number of years.
 - c. An investment to the LGPS Central direct property fund which has slipped to the second half of 2021 with Infrastructure being prioritised by Central given the higher overall interest from partner funds. The Fund has expressed interest in the property fund. Whilst the Fund is awaiting this product to

allocate once due diligence is passed, officers are mindful of straying further from target weight and as such are keeping in contact with current managers. Under ideal circumstances the Fund will pick up the difference to property target weight using the Central product and use the two other managers mentioned above to avoid slipping further behind target weight.

23. The Fund's infrastructure allocation is currently 1.9% behind target or c£100m. The Fund has a number of options to close this gap.

- a. The Fund has a current commitment that has not been called for £25m to the JP Morgan infrastructure investments fund (IIF). At the October 2020 ISC when this investment was approved this fund had a queue for new money of nine months. The Fund currently expects this money to be called in the coming three to six months. The Fund also has outstanding commitments to M&G Infracapital of £12m.
- b. Central will be launching an Infrastructure product and are awaiting legal and tax queries to be formally completed. Hymans have been instructed to commence due diligence on behalf of the Fund. Officers currently expect to bring a proposal to the July Investment Subcommittee. The commitment will be informed by due diligence which will include a view on the amount to invest whilst considering existing managers fund's. The Fund currently has a number of investments with open and closed ended vehicles including a niche manager which invests in sustainable forestry which given the specialist nature may not be an area that Central will cover in the future vintages. The current estimated investment if the Fund does not invest further with existing managers could be significant, this is an area that will be picked up during due diligence. Depending on estimated timing the Fund should be able to fund this investment from existing cash balances.

24. The difference to Emerging Mrket Debt (EMD) is small, at present officers do not see a need to make an investment. If the difference were to increase officers will make a top up investment to the Central product the Fund transitioned to in December 2020.

25. The strategy for 'protection' assets is described below:

Protection	31/12/2020 £k	2021 SAA	31/12/20 Actual weight %	Difference,	
				actual to 2021 SAA	£m to target weight
Inflation linked bonds	251	4.50%	5.1%	0.6%	-28
Investment grade credit	111	3.00%	2.2%	-0.8%	38
Currency hedge	91	0.50%	1.8%	1.3%	-66

26. Both inflation linked (IL) bonds and investment grade (IG) credit require smaller changes to align with the SAA targets. 0.5% of the 0.8% variance within IG credit is in the process of being utilised by a new allocation to a short-dated investment grade investment that was approved at the February 2021 Local Pension Committee meeting. This £25m allocation will be funded from cash reserves and or the cash held with Aegon that has been realised from the hedges that have been in

place as Sterling has appreciated. Taken together the Fund's cash holdings amount to £218m or 4.4% of total fund and will be utilised as calls are made to commitments in place and where new investments are to be made as described through this paper.

27. Given the relatively low variance on index linked bonds we propose to leave the holding slightly overweight, if the variance increases, officers will take appropriate action to rebalance the realised funds elsewhere.

Change to the Aegon Currency Hedge mandate

28. At the January 2021 meeting the Local Pension Committee approved that the Director of Corporate Resources, following consultation with Aegon and the Fund's investment consultants, be authorised to determine the appropriate time to reduce the Fund's foreign currency exposure within the Aegon Currency Hedge mandate from 50% to 30%.
29. Officers have engaged with Aegon to understand the options and considerations for moving to a 30% hedge in one move or transitioned over a period of time.
30. Aegon's thoughts revolve around using the USD exposure to analyse liquidity, collateral required to be held with Aegon and the number of transactions involved in a move to 30% hedged exposure.
31. They note that in their experience there is little benefit finessing the movement by changing in a number of steps. Ultimately it comes down to market timing and officers note that since the end of January 2020 the USD (the main currency exposure for the Fund) has stayed in a fairly tight range having depreciated from mid October to end the of January 2021. This depreciation of the USD is a headwind to the Fund's USD holdings which will have reduced in value when translated to GBP, however the USD hedge will have gained in value to partially offset the losses.
32. The change to a neutral hedge position of 30% of the Fund's foreign currency exposure will be undertaken in one tranche in the coming weeks.

Outcome of the transition to the Central Climate Balanced Fund

33. The Fund transitioned c£750m (inc £41m in cash) to the LGPS Central Climate Balanced "Climate" fund in December 2020. The target assets and cash were subscribed into units of the Climate fund on the 9th December. This is likely to be the largest transition the Fund has to a Central pooled investment.
34. The Fund appointed MJ Hudson as the transition advisor ("advisor") using the Norfolk framework and appointed LGIM as the transition manager ("TM") under advice from the advisor.
35. Appointment of LGIM as the TM allowed the Fund to benefit from lower transfer taxes that would otherwise have been payable had the Fund used a TM other than LGIM. In addition, the Fund also benefits in range of areas when using LGIM, including but not limited to, retained ownership and exposure during owned transition account, legacy asset knowledge of the TM with respect to trading and potential liquidity opportunities within LGIM's client base.

36. The pre trade calculation outlined the expected cost of the transition. This cost is defined to include, commissions and taxes, spread from transacting and LGIM fees. The estimate was defined as 18 basis points or 0.18%. To this mid point estimate a range is added to represent the risk in trading between legacy and the target portfolio, this range, termed an opportunity cost (or benefit if the target assets become cheaper) was estimated at 45bps.
37. MJ Hudson completed a post trade report which highlighted the actual cost of the transition at 13.3bps versus the 18bps estimate, but the Fund benefited from a net benefit from various futures trades which overall left the Fund with a net benefit of 1.7 bps rather than a cost.
38. The Fund was fortunate that this transition was completed with nil cost. The Fund could not expect all transitions to end with such a low cost.

Recommendation

39. It is recommended that the Investment Sub Committee notes the report.

Equality and Human Rights Implications

40. None.

Appendix

None

Background Papers

None

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

Mr B Kachra, Senior Finance Analyst - Investments
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INVESTMENT SUB COMMITTEE – 31 MARCH 2021

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

RECOMMENDED INVESTMENT INTO LGPS CENTRAL MULTI ASSET CREDIT FUND

Purpose of the Report

1. The purpose of this report is to provide information in respect of a recommended investment into the LGPS Central (“Central”) multi asset credit (MAC) fund.

Background

2. The Fund has a target allocation of 4.0% (c£200m) of total Fund assets to the global credit liquid sub investment grade asset class. The MAC product being launched by Central sits within this class.
3. At present the Fund has £29m or 0.6% of total Fund value (Dec 2020) invested in this class via a holding with JP Morgan in their global credit fund.
4. Three partner funds have expressed an interest in the MAC fund with the mandate being formed by collective discussion with Central.
5. MAC is an investment class that combines credit sub classes. Investment managers have a wide universe of 'products' available to them and their approach to their use within each mandate can be wide ranging.
6. Assets classes such as cash, fixed and floating (variable) rate credit instruments are common. These instruments can be global or defined to specific regions or classes, for example Europe or US and Developed or emerging markets, and can cover both commercial and sovereign debt. The wide range of options available in a MAC mandate can allow a good manager to make returns under a variety of economic conditions.
7. MAC funds usually contain an allocation to investment grade corporate bonds and emerging market debt, which will create an overlap with the Fund’s existing exposure. To manage this overlap, whilst still benefiting from the MAC manager’s ability to invest in the assets where they see the most potential, MAC mandates contain limits on the maximum exposure to these and other asset classes.
8. The Fund has engaged with LGPS Central whilst they have been developing this product. FCA approval for the fund was granted in December 2020 and two managers were announced to run the mandate following the selection process.

9. The two managers selected were BMO global asset management and Western Asset Management. Over 80 fund managers expressed initial interest in tendering for the mandate.
10. The Fund has since instructed Hymans Robertson to complete due diligence with respect to the fit the product provides Leicestershire Pension Fund's investment strategy. The report from Hymans is included within the exempt section of this meeting's agenda.

Selection process

11. Central followed their standard process with internal authorisation of the investment case followed by authorisation of the mandate by partner funds in February 2020. Thereafter commenced the external search for the managers which commenced with the publication of an advert and selection questionnaire (SQ) in June 2020. 45 SQ's were submitted. The criteria used to assess both the SQ and request for proposal (RFP) was similar to that used for the corporate bond fund and emerging market debt fund launches. Questions within the SQ covered 13 categories including, staff turnover, responsible investing and engagement, portfolio turnover & the decision-making process to name a few.
12. SQ's were evaluated and 12 managers were shortlisted, these shortlisted managers were sent a RFP alongside the MAC mandate in August 2020. Central scored the managers responses and continued to the due diligence (DD) stage for the 6 managers who progressed. The DD included managers from the fixed income team as well as risk and responsible investing teams and included a partner fund representative. Two managers were chosen by the team which was approved by the investment committee at Central. Partner funds were notified of the selected managers in November 2020.

Managers and mandate

13. Western Asset is a fixed income asset manager founded in 1971 and have assets under management (AUM) of c£350 billion. Their circa 800 staff are situated worldwide with their headquarters in Pasadena California. They have a London office with circa 60 staff. Their MAC portfolio team has access to over 80 professionals covering all areas of the MAC universe including investment grade, emerging market and derivatives where low likelihood but high impact (tail risk) portfolio protection and currency hedging is managed.
14. BMO Global Asset Management (BMO), owned by Bank of Montreal cover fixed income, equity and multi asset. Fixed income is a large proportion of their assets under management with over £100bn invested for mainly institutional clients. Their fixed income business is managed from five offices across, Europe, North America and Canada
15. The Central multi asset credit fund is a sub-fund of the LGPS Central Authorised Contractual Scheme (ACS). LGPS Central Limited is the authorised contractual scheme manager. The ACS structure was selected as it delivers the most efficient vehicle based on costs, flexibility and liquidity.

16. The allowable characteristics of the mandate are listed below. Leicestershire Pension Fund already has an allocation to investment grade credit and emerging market debt and so the Fund engaged Hymans with the view to designing a product that would fit our Fund.

As such the current mandate has less than 10% weightings to investment grade corporate bonds and less than 10% weighting to emerging market debt.

- The portfolios will be actively managed
- The portfolios will be well-diversified across global, multi-asset credit sectors
- The portfolios may invest in liquid global fixed and floating rate instruments in markets including but not limited to Government, Investment Grade, High Yield, Emerging Market Debt and Loans
- The portfolios may use derivative instruments for efficient portfolio management and hedging purposes
- At least 90% of the portfolio will be hedged back to GBP

17. The limits and risk management parameters are described below.

- < 10% exposure to Emerging Market Debt (includes both Hard Currency and Local Currency)
- < 15% exposure to Government Bonds (UK Gilts/US Treasury)
- < 10% exposure to Investment Grade Corporate Bonds
- All other sectors will be limited to a maximum of 30% of the portfolio (to include but not limited to: High Yield Securities, Loans, Asset-backed Securities, Convertibles, collateralized loan obligations (CLOs), Covered Bonds, Hybrids)
- No single investment above 5% of the active portfolio
- No single investment to be more than 5% of the issue
- Hedging to ensure < 10% non-GBP currency exposure

18. Compared to the recently invested in Investment Grade Corporate Bond product this product is able to invest in a wider pool of securities and therefore has an overall higher risk and expected return. This fund is currently targeted to return 4% net over the benchmark which is 3 month GBP LIBOR (London interbank overnight rate) which will revert to SONIA (sterling overnight index average) when LIBOR is discontinued.

19. Any investment will be initially split equally between both managers with no automatic rebalancing, however Central may rebalance as necessary when further investment is received from Partner Funds.

20. Given the mandates are new and no past performance records exist Central have compiled high level records for the two managers over 1, 3 5 and 10 years and are included within the exempt section of today's agenda.

Fees

21. These are based on assets under management, Central have agreed tiered management fees. The actual fees will be set once the combined commitments from the interested partner funds is known. As the assets under management increases the management fee for the Fund will decrease although not materially.

22. Other costs that are not payable to the two managers cover costs for Central to manage the fund and for accounting, depositary and audit. There are no performance fees associated with the two managers.
23. The Fund has no comparable existing investment to compare this Central product to with funding being taken from other parts of the portfolio described below.

Funding

24. Funding of this mandate is included within the exempt section of today's agenda.

Summary

25. Taking into account, development of the Central product in line with the needs of the partner funds and the Hymans Robertson report we propose an investment to the Central MAC product.

Supplementary Information Informing the potential investment

26. An exempt paper from Hymans Robertson which is of a sensitive nature, is included on the agenda.
27. The Chief Investment Officer (CIO) and a member of the team who will manage the product on a day-to-day basis from Central will deliver a short presentation and be available to take questions from the committee regarding this proposal.

Recommendation

28. The Investment Subcommittee is recommended to consider an investment in the LGPS Central MAC fund.

Equality and Human Rights Implications

29. None specific

Officers to Contact

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INVESTMENT SUB COMMITTEE – 31st MARCH 2021

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

RECOMMENDED INVESTMENT:
ADAM STREET PARTNERS GLOBAL SECONDARY FUND 7

Purpose of the Report

1. The purpose of this report is to provide information in respect of a proposed investment into the Adam Street Partners (ASP) Global Secondary Fund 7 (GSF7).

Background

2. The Fund's strategic asset allocation (SAA) as approved by the Local Pension Committee in January 2020 stated a target allocation of 5.75% to private equity (PE) with a comment stating the Fund, 'consider opportunistic investment in Adam Street secondaries'.
3. As at December 2020 the Fund's private equity allocation totalled £294m or 6.0% of total fund assets. 0.25% overweight to the target allocation as at December 2020.
4. Private equity is an illiquid asset class, with investors required to commit for ten years or more. A secondary market in investments has arisen as the only way for individual investors to make an early exit from their private equity commitments. Adams Street Partners (ASP) Private Equity Secondary funds are built up of multiple purchases of existing private equity funds, including some ASP already own within their other funds. Funds on the secondary market are usually bought at a discount to the net asset value by virtue of the prevailing market conditions. Sellers could be institutions who require cash to fund other investments or benefits or are merely exiting to satisfy a new target weight in a revised strategic asset allocation. ASP have relationships with the private equity managers that allow, in some cases, exclusive access to these sellers. In any case the relative illiquid nature of the market can provide attractive buying opportunities.
5. The Fund has previously invested \$20million USD in ASP's Global Secondary Fund 6 in Q4 of 2017. This is the Fund's only dedicated secondary fund and is currently performing ahead of expectations.
6. Currently ASP's global funds which the Fund has invested in have an allocation to secondaries of around 20-25% which has risen over the years.
7. The Fund's last two investments with ASP were a \$39million USD investment to the 2019 Global Fund in December 2019 and \$26million USD investment to the 2020 Global Fund in November 2020.

The Fund's current private equity holdings

8. As at 30th December 2020 the Fund held £294million across three managers, ASP, LGPS Central and Aberdeen Standard Life. The majority of the Fund's private equity allocation is with ASP. The second largest allocation is with Aberdeen Standard Life's secondary fund totalling £24million. The Fund has also committed £10million to the 2018 LGPS Central Private Equity Vintage.
9. It is worth noting that LGPS Central do not have plans for a secondary 'sleeve' within their planned 2021 private equity offering. However Central are planning a 2021 vintage (covered later in this paper) that the Fund has expressed an interest in and has factored in the opportunity to potentially invest pending due diligence.
10. The Fund's holdings of private equity with ASP stretch back to 2002 and cover over 30 separate funds into which the Leicestershire Fund has committed over \$600million USD.
11. Private equity has a 5.75% target weight per the 2021 strategic asset allocation. Accounting for estimated commitments and distributions the Fund expects to receive a net distribution of c£70million over the calendar years 2021 and 2022. These numbers are based on the ASP current forecasts and can obviously change. This net distribution will lower the Funds allocation to private equity by c1.4% which, with all other things being equal, brings private equity underweight to the target allocation and hence requires commitments now given the time taken for money to be called by the managers. The table below show the expected weighting to private equity over 2021 and 2022.

	Dec-20	Jun-21	Dec-21	Jun-22	Dec-22	Note
Current PE weight	6.0%					Currently overweight
ASP secondary called in 2021			6.1%			25% called in 2021
Net distributions ASP 2021			5.5%			Effect of returning money to the Fund
Central commitment called in 2021			5.7%			20% called in 2021
ASP secondary called in 2022					5.8%	30% called in 2022
Net distributions ASP 2022					5.0%	Effect of returning money to the Fund
Central commitment called in 2022					5.23%	25% called in 2022

12. It is worth noting that the expected private equity weight at the end of 2022 is 5.23% which is c0.5% behind the target, all other things being equal. Officers believe that if the net distributions from ASP are lower then expected then the Fund still has the opportunity to further commit funds to future vintages. The Fund has planned for a decision in Summer 2021 regarding a Central private equity offering and will also have the opportunity to assess ASPs 2021 global funds offer if needed.
13. Officers propose a recommended commitment to ASP's Global Secondaries Fund 7 which takes expected future commitments and distributions into account. Officers are mindful the Fund remains diversified across multiple vintages, geographies, business sectors and sizes of private companies and hence regular investment is needed to minimise single vintage risks.

Adams Street Global Secondaries Fund 7 (GSF7)

14. ASP have a long history of secondaries investments dating back to 1986. Since then 240 investments have been completed (at 30th Sep 2020) and ASP have \$7billion USD of secondary assets under management (AUM).

15. GSF7 has a target fund size of \$1.5 billion USD and a target life of 10 years plus three one year extensions if needed, this is shorter than the global funds programme life given secondaries are usually already between three and eight years old when they are bought. Commitments are targeted to be invested within four years rather than eight years within global funds programmes. A factsheet is included within the appendix for GSF7.
16. The Fund has exposure to ASP secondary investments via the global funds and GSF6 investments. The more recent primary funds, the global funds vintages also target up to 25% into secondary funds.
17. The benefits associated with investing in secondaries are listed below:
 - a. Shorter duration than comparable ASP global funds which have a target life of 15 year plus extensions.
 - b. Secondary funds are usually available at a discount to the net asset value of the underlying companies, sometimes these can be large as was seen in the years post the global financial crisis.
 - c. ASP management fees are linked to committed capital, however underlying funds bought are between three to eight years old on purchase and so money is at work far earlier than a comparable global fund for example. GSF7 should invest all commitments within four years, whereas an equivalent investment within their global funds programme takes seven to eight years to fully invest.
 - d. Buying established funds lowers the risk profile versus a fund that would usually have a portion reserved for venture capital which is much higher on the risk spectrum of private investments. Any investments not performing would already be reflected in the price paid given ASP know the underlying holdings and are able to price them independently in many cases, this is not the case with primary investments where the managers are yet to deploy commitments.
18. With respect to discounts available, ASP expect discounts, but not at the levels seen post the global financial crisis. During 2020, ASP have witnessed a 13% discount for industry deals whilst during the years 2008 to 2012 saw far higher discounts.
19. Specific to ASP, they completed 11 secondary transactions in 2020 for \$511 million USD, at a 24% discount at close of deal to net asset value (NAV).
20. The ASP secondaries fund, GSF7, is currently attracting funding and has a first close planned in March 2021 with management fee discounts extended into April to clients who confirm their intention to invest. The strategy of this fund is similar to that of GSF6 with the highlights shown below:
 - a. Many deals, c90% are sourced through proprietary/restricted processes, some Private Equity fund's like to sell secondary investments to large investors like ASP who also invest in their primary funds.

- b. The majority of transactions are with Private Equity funds that ASP have an existing relationship with. During 2020 80%+ of transactions involved an existing ASP general partner. This allows for a deeper understanding of the underlying companies and pricing and hopefully lower risk to investors.
 - c. ASP believe that there is less competition in the area of the market they operate in (mid market) compared to the larger funds in the market that have a large amount of dry powder available to deploy.
 - d. ASP recognise investment themes they like to invest into, technology, healthcare, engineering and manufacturing and changing consumer preferences.
 - e. ASP's are able to deploy capital even during periods of volatility due to their strong links to general partners and knowledge of 100+ funds that are priced quarterly.
21. Appendix A contains a slide outlining ASP's approach to integration of Environmental, Social and Governance (ESG) factors into their investment process.

LGPS Central

22. Officers are in talks with Central alongside a number of other partner funds. Central are currently planning to launch a 2021 private equity vintage later in the year. The Fund has expressed a soft commitment to the product which will have a diverse geographic and strategy focus with a business sector focus on asset light, business critical sectors. A summary of the key features currently is shown in the table below.

Summary of key features			
Target Net Return	4% over FTSE All World Index after all costs - 15% IRR/1.7x		
Target AUM	Primary: £250m	Co-Investments: £150m	Minimum Commitment: £30m
Fund Structure	Scottish Limited Partnership		
Fund Currency	GBP		
Fund Life	10 years with up to 3 x 1-year extensions		
Investment/Commitment Period	15 months with up to 3 x 1-month extensions		
Geographic Focus	USA 35%	Europe 35%	Asia 30%
Strategy Focus	Growth/Small 30%	Mid Buyouts 50%	Large Buyouts 20%
Sector Focus	Focus on resilient, asset-light, business critical sectors		
Responsible Investment	Fully integrated approach to all investment decisions		
Target Size for Funds	5-8 investments at an average size of c£30-50m		
Target Size for Co-Investments	5-8 investments at an average size of c£20-30m		
Management Fees	As per Cost Sharing Agreement (~0.1% p.a. maximum)		
Performance Fees	Nil		

Supplementary Information.

23. 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 GSF7.

Recommendation

24. The Investment Subcommittee is recommended to consider an investment into the Adams Street Partners GSF7 fund.

Equality and Human Rights Implications

25. None

Appendices

Appendix A – Adam Street Partners ESG integration

Appendix B – GSF7 factsheet

Background Papers

26. None

Officers to Contact

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Integration of ESG Into Adams Street’s Investment Process

Signatory to Principles for Responsible Investment (“PRI”) since 2010

- ü We have adopted an ESG Policy, established an ESG Committee and conducted firm-wide training regarding integration of ESG considerations
- ü Adams Street integrates ESG Considerations into the investment process focusing on character and integrity of the leadership of the fund or portfolio company; the quality, sustainability and transparency of operations; and impacts of the fund’s investments or portfolio company’s business
- ü Although focus has been on ESG-related identification/mitigation, we have identified the 17 SDG’s* as an emerging area of interest

Interacting with GPs/Sponsors/Portfolio Companies

Pre-investment diligence

- § Evaluate applicable policies/approach to ESG
- § Identify potential ESG risks
- § Consider mitigation of ESG risks and/or positive ESG factors

Post-investment monitoring

- § Alert to ESG issues that arise
- § Make inquiries with GPs/deal sponsors/ portfolio companies
- § Note material ESG concerns and follow up as warranted

RepRisk** Monitoring

- § Continuous ESG monitoring of underlying portfolio companies
- § Proactive approach to potential ESG risks

Examples of ESG Considerations

	Risks 	Opportunities 
Environmental 	<ul style="list-style-type: none"> § Climate change § Natural resource depletion § Environmental damage 	<ul style="list-style-type: none"> § Clean tech § Technologies enhancing safety/efficiency of dangerous or harmful processes
Social 	<ul style="list-style-type: none"> § Violations of labor laws § Labor relations problems § Poor safety practices § Abuse of human rights 	<ul style="list-style-type: none"> § Creation of quality jobs § Development of tech and medicines that enhance quality of life § Improve working conditions § Increase diversity and education
Governance 	<ul style="list-style-type: none"> § Lack of transparency and disclosure § Mismanagement of finances § Corruption/bribery § Violations of laws § Conflicts of interest 	<ul style="list-style-type: none"> § Promotion of transparency and disclosure § Education on effective management techniques § Monitoring of finances

* SDG: United Nations Sustainable Development Goals.

** Adams Street has contracted with RepRisk, an ESG research provider whose coverage includes private companies.

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Global Secondary Fund 7

With over 30 years of investment experience, Adams Street has been a pioneer in the development of the secondary market. Given our secondary history and firm-wide relationships, we believe Adams Street is viewed by sellers as a highly credible and efficient buyer, and by managers of private markets funds as a desirable, collaborative partner.

1986

 First Secondary
Investment

\$7bn

 Secondary Assets
Under Management

240

 Investments
Completed

1.5x / 19%

 Since Inception TVPI¹
and Unlevered IRR^{2,3}
900 bps

 Since Inception
Outperformance vs. PME^{2,3,4}

Attractive Asset Class

Private equity secondaries offer beneficial structural characteristics and attractive risk-adjusted returns

Compelling Market Dynamics

Evolving market coupled with potential for continued volatility can create interesting market inefficiencies

Possesses Competitive Advantages

Adams Street proactively target high-quality assets at prices below intrinsic value where our GP relationships provide a competitive advantage

Adams Street Partners Private Markets Platform

- \$44bn AUM
- 5 investment strategies
- 210+ employees

Extensive Relationships

- 410+ GPs worldwide⁵
- 540+ fund advisory board seats
- 440+ institutional investors

Alignment of Interests

- 100% independent and employee-owned
- \$445mm+ invested alongside clients

Information Advantage

- 40+ years of proprietary data
- 24,000+ companies and 1,700+ funds tracked

Responsibility

- Dedicated ESG principles inform investment process
- Committed to building a diverse and inclusive workplace and supporting communities globally

SOURCING AND STRATEGY

Preferred Replacement LP:

~90% of transactions sourced through proprietary/restricted processes⁶

Proactive Asset Selection and Sourcing:

100+ funds pre-priced quarterly to enhance targeting

Highly Targeted Approach:

- ~80% of value creation from asset appreciation after purchase⁷
- ~30% of value in tech-focused companies
- ~80% of NAV with primary backed managers

SECONDARY PROGRAM PORTFOLIO CONSTRUCTION OVERVIEW⁸

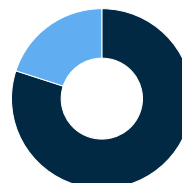
2010-2020 Investments

Deal Type



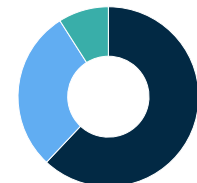
- 54% Single LP/GP Family
- 24% Targeted Portfolio
- 22% GP-Led

Subclass



- 81% Buyout & Growth
- 19% Venture / Credit / Other

Geography



- 62% North America
- 30% Europe
- 8% Rest of the World

GSF7 Return Target
1.5x / 15%+
Net Multiple and IRR⁹

Age of Funds at Close
~85%
Less than 8 Years Old

Average Investment Size
\$42mm
Per Transaction

See footnotes entitled "Notes to Performance" and "Notes to Performance: Secondary: Long and Consistent Record of Success" on the last two pages, are important components of this performance data.

DEDICATED SECONDARY TEAM

JEFF AKERS*

Partner & Head of
Secondary Investments,
Chicago
23 years of experience

TROY BARNETT*

Partner, Chicago
24 years of experience

JOE GOLDRICK*

Partner, Chicago
17 years of experience

GREG HOLDEN*

Partner, London
26 years of experience

PINAL NICUM*

Partner, London
27 years of experience

CLINTON MILLER

Principal, Chicago
8 years of experience

VICE PRESIDENTS & ASSOCIATES

Eric Klen
Alexander Silver
Samuel Gage
Elizabeth Huizenga
Tim Lee
Kushal Shah
Anastacia Taylor
Arjun Thakkar

** Indicates Secondary Investment
Committee Members*

KEY TERMS AND CONDITIONS

Adams Street Global Secondaries Fund 7

Target Fund Size	\$1.5 billion	
Fund Term	10 Years + 3 one-year extensions	
Target Commitment Period	3-4 years	
Minimum Subscription	\$10 million	
Management Fees	Subscription Amount	Management Fee[^]
	First \$25 million	100 basis points
	Over \$25 million up to \$50 million	90
	Over \$50 million up to \$100 million	75
	Over \$100 million	50
	Fees tail down starting on the 6th anniversary of the first day of the quarter in which the fund makes its first investment*	
Carried Interest	10%	
Hurdle	7%	
First Close Discount	All investors participating in the first close will receive a 20% discount to the management fee outlined above	

[^] Management Fee refers to the annual fee charged on subscription amount in the first 6 years of the Fund. For example, a \$100 million subscription would be at 0.85%

* Fees tail down to 90% of the regular fee on the 6th anniversary of the first day of the calendar quarter in which the strategy made its first investment ("Fee Commencement Date"), 80% on the 7th anniversary of the Fee Commencement Date, 70% on the 8th anniversary of the Fee Commencement Date, and so on going forward.

See footnotes entitled "Notes to Performance" and "Notes to Performance: Secondary: Long and Consistent Record of Success" on the last two pages, are important components of this performance data.

LEADING WITH FORESIGHT™

For more information, please contact your Adams Street representative or visit adamsstreetpartners.com

Important Considerations: This Strategy Overview has been distributed on a confidential and limited basis and is not intended to provide investment advice. This Strategy Overview is not an offer or sale of any security or investment product or investment advice. Offerings are only made pursuant to a private offering memorandum containing important information. Statements in this Strategy Overview are made as of February 2021, unless otherwise stated, and there is no implication that the information contained herein is correct as of any time subsequent to such date. All information with respect to portfolio investments and industry data has been obtained from sources believed to be reliable and current, but accuracy cannot be guaranteed. Projections or forward looking statements contained in this Strategy Overview are only estimates of future results or events that are based upon assumptions made at the time such projections or statements were developed or made. There can be no assurance that targets set forth in the projections or events predicted will be attained, and actual results may be significantly different from the projections. Also, general economic factors, which are not predictable, can have a material impact on the reliability of projections or forward-looking statements. The recipient agrees not to copy, reproduce, or distribute the Strategy Overview, in whole or in part, to any person or party without prior written consent of Adams Street Partners.

Past performance is not indicative of future results. There can be no guarantee that unrealized investments included in this data will ultimately be liquidated at the values reflected therein.

Notes to Performance

- Multiple is defined as the ratio of the total value of the investment (distributions to investors plus current net asset value) to the paid-in capital. Deal multiples are calculated net of underlying general partners' fees, carried interest and expenses, but are gross of Adams Street Partners' fees, carried interest and expenses, which reduce returns to investors. **For net performance of Adams Street Partners' secondary funds and secondary portions of other portfolios, see "Notes to Performance: Secondary: Long and Consistent Record of Success" below.**
- Composite performance of secondary investments in USD (including interests purchased pursuant to a right of first refusal); it includes all secondary investments from 1986 through current period in all funds or other portfolios over which Adams Street Partners exercises investment discretion (including separate accounts no longer with Adams Street Partners), with the exception of transactions that would not fit the investment criteria for Global Secondary Fund 7. This chart does not present performance achieved by any particular Adams Street Partners fund or any investor in an Adams Street Partners fund. **For net returns (which show the effect of Adams Street Partners fees, carried interest and expenses on Adams Street Partners fund returns to investors) of Adams Street Partners funds that invest primarily in secondary private equity interest ("Secondary Funds") and net returns to investors from secondary investments made by Adams Street Partners in other funds and separate accounts (together with Secondary Funds, "Secondary Portfolios"), please see the "Notes to Performance: Secondary: Long and Consistent Record of Success" chart below.** Performance early in the life of a secondary investment may not be indicative of future performance due to a pricing premium or discount.
- Capital-weighted annualized returns from inception through quarter end. IRRs (as well as TVPIs) are net of fees, carried interest and expenses charged to the underlying private equity funds, but are gross of Adams Street Partners' fees, carried interest and expenses, which reduce returns to investors. This IRR is what is compared to the PME, as described in footnote 3. **For the effect of Adams Street Partners' fees, carried interest and expenses on Adams Street Partners' Secondary Portfolios' returns to investors, please see table entitled "Notes to Performance: Secondary: Long and Consistent Record of Success" included in this presentation. There can be no guarantee that unrealized investments will ultimately be liquidated at the values reflected in this return data.** These returns may not be linked. Past performance is not a guarantee of future results.
- Public Market Equivalent (PME) is calculated using MSCI All Country World Index. PME is calculated by replicating the actual cash flows from the private equity investment in a hypothetical tracking position in the public market index. Shares of the tracking position are purchased (sold) in transaction amounts corresponding to the amount of capital calls (distributions) of the private equity investment. PME is the IRR of the investment in the tracking position.
- Represents number of general partners in whose funds Adams Street is invested
- Represents all commitments by the Secondary Investment team in the most recent fund, GSF6
- Represents all commitments by the Secondary Investment team since inception
- As of September 30, 2020. Note: Represents all commitments by the Secondary Investment team from 2010 – 2020. All percentages are based on commitments. Age of Funds at Close includes continuation vehicles as new vintages.
- GSF7 target. Target returns are net of underlying GP and Adams Street fees, carried interest, and expenses. Target returns are targets only; there can be no guarantee that the target returns will be achieved.

Notes to Performance: Secondary: Long and Consistent Record of Success

	1988 Vintage Fund ⁶ (Venture Partnership Acquisition Fund)	1990 Vintage Fund ⁶ (Venture Partnership Acquisition Fund II)	2004 Vintage Fund ⁶ (Adams Street Global Opportunities Secondary Fund)	2009 Vintage Fund ⁶ (Adams Street Global Opportunities Secondary Fund II)	2013 Vintage Fund ⁶ (Global Secondary Fund 5)	2018 Vintage Fund ^{6,8} (Global Secondary Fund 6)	Secondary Investments Outside Dedicated Secondary Funds ⁷
Vintage Year ²	1988	1990	2004	2009	2012	2017	1986-Present
Fund Size ¹ (in millions)	\$47	\$111	\$211	\$738	\$1,054	\$1,046	\$4,429
Gross IRR ³	14.2%	33.2%	15.2%	18.0%	8.0%	18.3%	16.9%
Net IRR ⁵	12.1%	25.3%	11.4%	14.2%	5.3%	29.5%	13.9%
Net Multiple ⁴	1.8x	2.0x	1.6x	1.7x	1.2x	1.3x	1.4x

- For the Dedicated Secondary Funds, the fund size is the total capital committed to the funds. For Secondary Investments Outside Dedicated Secondary Funds, the fund size is the amount of capital committed to secondary investments by other funds and separate accounts as described in footnote 9 from 1986 through present.
- Vintage year represents the year the first commitment was made by the fund.
- For the Dedicated Secondary Funds, gross internal rate of return ("IRR") represents annualized internal rate of return to Adams Street Partners, since inception. For Secondary Investments Outside Dedicated Secondary Funds, gross IRR represents composite annualized internal rate of return, since inception, at the underlying partnership (i.e., fund interest purchased on a secondary basis) level. Gross IRR reflects deduction of underlying general partner fees, carried interest and expenses, but does not reflect deduction of Adams Street Partners fees, carried interest and expenses, which reduce returns to investors.
- Net multiples are calculated as the total value (market value plus distributions) divided by the dollars drawn. For the Dedicated Secondary Funds, multiples are net to LPs and reflect deduction of underlying general partners' and Adams Street Partners' fees, carried interest and expenses. In the case of Secondary Investments Outside Dedicated Secondary Funds, multiples are calculated at the underlying partnership level and reflect deduction of a 1% management fee (the highest investor fee) and a 10% carried interest; it is not possible to deduct expenses in this calculation.
- For the Dedicated Secondary Funds, net internal rate of return ("IRR") represents annualized internal rate of return to limited partners, since inception, after subtracting underlying general partners' and Adams Street Partners' management fees, carried interest and expenses where applicable. For Secondary Investments Outside Dedicated Secondary Funds, net IRR represents composite annualized internal rate of return, since inception, at the underlying partnership level. The net IRR was calculated based on a highest fee investor at 1% management fee and a 10% carried interest; it is not possible to deduct expenses in this calculation.

See footnotes continued on following page.

Notes to Performance: Secondary: Long and Consistent Record of Success (continued)

6. Each of these funds (collectively, the “Dedicated Secondary Funds”) is primarily invested in secondary interests. The Adams Street Global Opportunities Secondary Fund and the Adams Street Global Opportunities Secondary Fund II have special investment mandates pursuant to which they participated in investments only after the eligible Global Program funds (and any eligible separate account clients) received investment allocations in accordance with Adams Street Partners’ allocation policy.
7. This data reflects all secondary investments (including interests purchased pursuant to a right of first refusal) made by funds other than Dedicated Secondary Funds and separate accounts of which Adams Street Partners (or its predecessor, The Private Equity Group of Brinson Partners, Inc.) is/was the general partner or investment manager. Includes separate accounts no longer with Adams Street Partners. Composite performance of these investments does not reflect performance of any particular Adams Street Partners or Brinson fund or the performance achieved by an investor in an Adams Street Partners or Brinson fund.
8. The Net Multiple and Net IRR reflect the effect of the demand line of credit used by Global Secondary Fund 6. These multiples do not remove the estimated impact of borrowing. The Net Multiple represents a GSF6 investor’s total value (market value plus distributions) divided by the dollars drawn, and is net of ASP fees, carried interest and expenses. The Net IRR represents a GSF6 investor’s annualized internal rate of return, and is net of ASP fees, carried interest and expenses. Net IRRs and Net Multiples are calculated using limited partner capital call dates, rather than the earlier dates on which the investment was made using the line of credit. The use of such dates generally results in higher net IRR and net multiple calculations, and the related differences in net IRR and net multiple figures could be material. Net Multiples and Net IRRs were calculated by aggregating all GSF 6 investors; because GSF 6 investors pay varying levels of fees, any given GSF 6 investor may have net multiples or IRRs that are lower than or higher than the aggregate net multiples or IRRs presented here. Key terms for GSF7 include 10% carried interest, a 7% hurdle, and annual management fees charged on subscription amounts based on the following subscription ranges – first \$25 million (100bps), over \$25 million up to \$50 million (90bps), over \$50 million up to \$100 million (75bps), over \$100 million (50bps). These amounts are charged in the first 6 years of the Fund. Fees tail down to 90% of the regular fee on the 6th anniversary of the first day of the calendar quarter in which the strategy made its first investment (“Fee Commencement Date”), 80% on the 7th anniversary of the Fee Commencement Date, 70% on the 8th anniversary of the Fee Commencement Date, and so on going forward.

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

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