Meeting: **Investment Subcommittee**

Date/Time: **Wednesday, 27 April 2022 at 10.00 am**

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

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

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

Membership

Mr. T. Barkley CC (Chairman)

Mr. A. Clarke	Cllr. M. Graham
Mr. D. A. Gamble CC	Mr. D. J. Grimley CC
Mr. G. Lawrence	Mr. Z. Limbada

AGENDA

Item		Report by	
1.	Minutes of the meeting held on 13 October 2021.		(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.	Date of Next Meeting - 27 July 2022.		
7.	Strategic Asset Allocation Update and Cash Deployment Plans. Representatives from DTZ Investors will be in attendance to deliver a presentation.	Director of Corporate Resources	(Pages 9 - 42)

8. Any other items which the Chairman has decided to take as urgent.

9. Exclusion of the press and public.

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

10.	Property Portfolio Review and Proposed Investments.	Director of Corporate Resources	(Pages 43 - 100)

Minutes of a meeting of the Investment Subcommittee held at County Hall, Glenfield on Wednesday, 13 October 2021.

PRESENT:

Leicestershire County Council

Mr. T. Barkley (Chairman)
Mr. D. Grimley

Leicester City Council/District Council Representative

Cllr. A. Clarke (Online)
Cllr. M. Graham MBE

University Representative
Mr. Z. Limbada

Staff Representative
Mr. N. Booth (Online)

Independent Advisers and Managers
Hymans Robertson
Mr. P. Pearson
Ms. P. Cochrane
Ms. E. Sim (Online)

Christofferson Robb and Company (Minute 24 refers)
Mr. J. Christofferson
Mr. E. Glaister

LGPS Central (Online) (Minute 26 and 27 refer)
Mr. I. Brown
Mr. J. Sidhu

16. Minutes of the meeting held on 28 July 2021.

The minutes of the meeting held on 28 July 2021 were taken as read, confirmed and signed.

17. Question Time.

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

18. 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).

19. To advise of any other items which the Chairman has decided to take as urgent elsewhere on the agenda.

There were no urgent items for consideration.

20. 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.

No declarations were made.

21. Recommended Investment into: LGPS Central Private Equity 2021 Vintage, LGPS Central Private Debt High Return 2021 Vintage and the Christofferson Robb & Company CRF 5 Product.

The Subcommittee considered a report by the Director of Corporate Resources which provided members with information in respect of recommended investments into LGPS Central Private Equity Vintage, LGPS Central Private Debt High Return 2021 Vintage and the Cristofferson Robb and Company CRF 5 Product. A copy of the report marked 'Agenda Item 7' is filed with these minutes.

Arising from the discussion the following points were noted:-

i. The Fund was overweight to the Private Equity asset class by around one percent, however the proposed investment would maintain vintage year diversification, and maintain the strategic allocation as investments returned to the Fund.

ii. The proposed investment into the LGPS Central Private Debt High Return 2021 vintage would supplement the Investment Subcommittee's previous investments at the July 2021 meeting, with investment into Partners Group MAC 6 and Central's Private Debt Low Return sleeve.

iii. The Fund had previously invested with Christofferson Robb and Company (CRC) in 2017 when a £40million commitment had been approved, which had performed well.

iv. The Pension Fund was able to fund each investment from its cash resources, circa £200million as at 30th June 2021. The Fund benefitted from its positive cash flow nature, and it was important to reinvest it in order to support the Fund long-term.

v. If approved the commitments would be drawn down as called by investment managers over the next 24 months.

RESOLVED:
That the report be noted.

22. Date of Next Meeting - 15 December 2021

It was noted that the next meeting would be held 15 December 2021 at 10am.

23. 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.

24. Supplementary Information on Recommended Investment into Christofferson Robb and Company Capital Relief Fund 5 Product.

The Subcommittee considered a briefing paper produced by the Fund's investment advisors, Hymans Robertson, which was followed by questions from members. A copy of the briefing note is filed with these minutes marked '9'. The 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.

Hymans Robertson advised the Subcommittee of the due diligence undertaken on Christofferson Robb and Company (CRC) in managing Capital Relief transactions. The investment was considered suitable to address the underweight position of the Private Debt asset class allocation.

[At this stage of the meeting representatives from CRC joined the meeting]

The Subcommittee received a presentation by representatives from CRC. A copy of the presentation is also filed with these minutes. Arising from the question and answers the following points were noted:-

i. CRC set out their strong track record in risk sharing transaction with banks', that improved banks' capital ratios and provided CRC funds with investments that generated returns that held up, even under extreme economic stress. Members noted the previous investment in 2017 by the Leicestershire Pension Fund had performed well.

ii. The Capital Relief fund would only draw down capital once it had investments for them to be drawn into.

iii. CRC discussed the potential changes in European banking regulations. It was felt the quick drawn down of funding mitigated such a risk.

iv. CRC would work with investors regarding the type of Environmental, Social and Governance reporting that they required. ESG factors also played an important role in CRC's processes when looking at the governance of the management company and promoting effective corporate governance in Europe.

RESOLVED

a) That the supplementary information provided be noted.
b) That a £52million commitment to invest in Cristofferson-Robb and Company's Capital Relief Fund 5 product be approved.

25. Change to the Order of Business.

The Chairman sought and obtained the consent of the Subcommittee to vary the order of business from that set out on the agenda for the meeting.

26. Supplementary Information on Recommended Investment into LGPS Central Private Debt High Return Product.

The Subcommittee considered a briefing paper produced by the Fund's investment advisors, Hymans Robertson, which was followed by questions from members. A copy of the briefing note is filed with these minutes marked '11'. The 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.

Arising from the discussion the following points arose:-

i. Hymans set out key risks and mitigating features regarding the Private Debt High Return sleeve. Members considered the blind pool risk as no underlying managers had been selected, though were assured by Hymans support of Central's selection processes, and the credibility of the shortlisted managers.

ii. The product was close-ended as the underlying loans targeted in the strategy were illiquid.

iii. The proposed commitment, including to the low return sleeve previously invested in, would amount to 25% of the total allocation to private debt which was considered a reasonable balance between the risk of committing to a new multi-manager and the benefits of pooling.

[At this stage of the meeting representatives from LGPS Central joined the meeting]

The Subcommittee received a presentation by Ian Brown from LGPS Central. A copy of the presentation is also filed with these minutes. Arising from the question and answers the following points were noted:-

iv. Only well-established underlying managers with a strong track record on at least three previous Funds were considered by LGPS Central.

v. LGPS Central assured the Subcommittee that the team had only minimal departures in the previous 24 months and did not consider its staffing level a going concern.

vi. LGPS Central reported and monitored its responsible investment at manager level for primary commitments and at the portfolio company level for co-investments which were reported though its quarterly reporting.

RESOLVED:

a) That the supplementary information received be noted.
b) That a £60million commitment to invest in LGPS Central's Private Debt High Return 2021 Vintage be approved.

27. Supplementary Information Informing the Recommended Investment into LGPS Central Private Equity 2021 Vintage.

The Subcommittee considered a briefing paper produced by the Fund's investment advisors, Hymans Robertson, which was followed by questions from members. A copy of the briefing note is filed with these minutes marked '10'. The 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.

Arising from the discussion the following points arose:-

i. Hymans set out key risks and mitigating factors to the Fund, including blind pool risk. The Subcommittee were assured that the processes set out for Manager Selection had assured Hymans adequately.

ii. Given underlying investments were realised to the Fund the investment into LGPS Central's Private Equity 2021 Primary Sleeve would enable the Fund to maintain its target allocation to the asset class through to the end of 2022.

[At this stage of the meeting representatives from LGPS Central joined the meeting]

The Subcommittee received a presentation by representatives from LGPS Central. A copy of the presentation is also filed with these minutes. Arising from the question and answers the following points were noted:-

i. LGPS Central had a fully integrated responsible investment and engagement process covering its due diligence of potential managers. It had further integrated its responsible investment processes across policy, people, process and performance.

ii. LGPS Central reported and monitored its responsible investment at manager level for primary commitments and at the portfolio company level for co-investments which are reported though its quarterly reporting.

RESOLVED:

a) That the supplementary information provided be noted.
b) That a £30 million commitment to invest into LGPS Central Private Equity 2021 Vintage be approved.

28. Any other items which the Chairman has decided to take as urgent.

The Committee considered this matter, the Chairman having decided that it was of an urgent nature…

Wednesday, 13 October 2021

Agenda Item 7

Leicestershire County Council

INVESTMENT SUB-COMMITTEE – 27 APRIL 2022

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

STRATEGIC ASSET ALLOCATION UPDATE AND CASH DEPLOYMENT PLANS

Purpose of the Report

1. The purpose of this report is to update the Investment Sub Committee (ISC) on the cash holding of the Leicestershire County Council Pension Fund (Fund) and the plans for its deployment for the next 12 months.

2. The Committee will also receive a presentation from DTZ International, appointed property managers for the LGPS Central UK direct property fund.

Background

3. Hymans Robertson, the Fund's investment advisor, completed the 2022 Strategic Asset Allocation (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 2022 meeting.

4. 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.

5. Over the next 12 months, there is one product that is being delivered that the Fund is currently interested in, the LGPS Central Targeted Return Fund. There are of course new vintages of closed ended products that Central will look to deliver, these are the private debt and private equity products which are available to invest in on an 18 month cycle at present,

6. In some cases, owing to the complex nature of building products suitable for a variety of partner funds, delays have been experienced. As a result, the Fund has been conscious of making investments outside of Central in order to not stray further from the strategic allocation whilst maintaining an interest in any potential Central product when it becomes available.

Current cash holding

7. The Fund, as of 31st March 2022 held £116m in cash, or 2.0% of total Fund assets (based on the £5.8bn valuation as at 31st December 2021). In addition, the Fund held £51m as collateral with Aegon for the active currency hedge mandate.

8. Owing to the positive cashflow nature of the Fund, due to payments to pensioners or dependants being lower than pension contributions and funds returning money, the cash balance grows without regular re investment to realign to the SAA.

9. The Fund has held a higher amount of cash during 2021 whilst awaiting to deploy funds into underweight areas of the asset allocation. These underweight areas have been within the income portion of the portfolio and mainly within the more illiquid investments, property, infrastructure and private credit.

SAA 2022 Recap

10. The Fund’s 2022 SAA was approved at the January 2022 Pension Committee. A reminder of the SAA is shown in the table below.

	Proposed target weight (%)	Comments
Growth (55.25%)		
Listed equity	42.0 (40.0-44.0)	Review to be carried out Q4 2022/Q1 2023
Private equity (inc secondaries)	5.75	Director of Corporate Resources to manage ongoing commitments as required
Targeted return	7.5	Review LGPS sub-fund when final details confirmed with expectation to transition holdings in H1 2022 (subject to due diligence)
Income (36.75%)		
Infrastructure (inc timberland and infracap)	9.75	Enhanced monitoring of Infracapital; Review allocation to LGPSC Infrastructure Fund (Value-Add/Opportunistic) sleeve; Explore potential allocation to social infrastructure and infrastructure secondaries; Potential to increase target allocation to 12.5% (funded from listed equity) subject to review once current target has been achieved
Property	10.0	Review of property allocation to be carried out in H1 2022
Emerging market debt	2.5	-
Global credit – liquid sub inv grade markets	4.0	-
Global credit - private debt (inc M&G/CRC)	10.5	Review allocation to distressed debt in mid-2022
Protection (8%)		
Inflation-linked bonds	4.5	-
Investment grade credit	3.0	-
Currency hedge	0.5	-
Total	**100.0**	

Current allocation versus SAA

11. The allocation versus the 2022 SAA using the 31st December Fund valuations is shown below.

	Benchmark SAA 2022	Actual Dec-21	Difference Dec-21
Growth assets			
Listed Equity Passive	30.0%	33.20%	3.20%
Listed Equity Active	12.0%	12.70%	0.70%
Private Equity	5.75%	7.55%	1.80%
Targeted Return	7.50%	7.84%	0.34%
Income assets			
Infrastructure	9.75%	7.26%	-2.49%
Global credit - private debt / CRC	10.50%	5.83%	-4.67%
Property	10.00%	7.84%	-2.16%
Global Credit - liquid MAC	4.00%	3.50%	-0.50%
Emerging market debt	2.50%	2.26%	-0.24%
Protection			
Inflation linked bonds	4.50%	4.48%	-0.02%
Investment grade (IG) credit	2.50%	2.33%	-0.17%
Short dated IG credit	0.50%	0.43%	-0.07%
Active currency hedge collateral	0.50%	1.05%	0.55%
Cash	0.00%	3.72%	3.72%

12. A simple summary of the above is that the Fund is overweight growth assets and underweight income assets. Income assets which the Fund is underweight are generally invested in illiquid investments and take time to be called by the underlying managers once commitments are made.

13. There have a been a number of actions taken in 2021 which are described below to address the underweights within infrastructure, global credit and property.

14. All three areas received approval to invest in 2021 during various meetings, however commitments made to managers will take time to be called. A summary of the 2021 commitments made to these three asset classes are detailed below:

    a. £100m, LGPS Central Private Debt low return – July 2021 ISC
    b. £60m, Partners Private Debt MAC6 – July 2021 ISC
    c. £70m, LGPS Central Infrastructure Core/Core plus – July 2021 ISC
    d. £60m, LGPS Central Private Debt high return – Oct 2021 ISC
    e. £52m, CRC's bank risk sharing fund, CRF5 – Oct 2021 ISC
    f. £35m, top up to existing LaSalle indirect property mandate

15. The combined commitments above total £377m. As at 31st March 2022 the amount to be drawn by the managers is £263m.

16. The small underweight position of 0.5% within global credit liquid MAC was addressed in March 2021 with a top up of c£30m to the LGPS Central Multi Asset Credit (MAC) fund. At the same time a £60m investment was made to the Aegon short dated corporate bond fund. Both investments were made from cash and in line with the 2022 SAA.

17. The £60m investment into short dated corporate bonds was deemed an appropriate place to park cash whilst there was not a need from commitments made. This £60m will be redeemed as and when cash is needed to fund commitments made to investments.

<u>Plans for 2022</u>

18. The table below shows the expected decisions the Fund is considering at this point in time in order to align to the SAA. Bear in mind that market value changes of asset classes throughout the year will affect the actual weightings considerably and these forecasts will change as the year progresses.

Growth	31/12/21 £m	2022 SAA	31/12/21 Actual weight %	Difference, actual to 2022 SAA	£m to target weight	Commitments approved	2022: other cashflow	Future ISC commitments	Diff to target weight post changes £m	% diff to SAA
Listed Equity - Active and Passive	2,663	42.00%	45.9%	3.9%	227			-200	27	0.5%
Targeted Return Funds	455	7.50%	7.8%	0.3%	20				20	0.3%
Private Equity	438	5.75%	7.6%	1.8%	104	65	-50		119	2.1%

Income	31/12/21 £m	2022 SAA	31/12/21 Actual weight %	Difference, actual to 2022 SAA	£m to target weight	Commitments approved	2022: other cashflow	Future ISC commitments	Diff to target weight post changes £m	% diff to SAA
Infrastructure	421	9.75%	7.3%	-2.5%	-145	67	-20	125	27	0.5%
Global credit - private debt / CRC	338	10.50%	5.8%	-4.7%	-271	178	-100	150	-43	-0.7%
Property	455	10.00%	7.8%	-2.2%	-125			125	0	0.0%
Global Credit - liquid MAC	203	4.00%	3.5%	-0.5%	-29	29			0	0.0%
Emerging market debt	131	2.50%	2.3%	-0.2%	-14				-14	-0.2%

Protection	31/12/21 £m	2022 SAA	31/12/21 Actual weight %	Difference, actual to 2022 SAA	£m to target weight	Commitments approved	2022: other cashflow	Future ISC commitments	Diff to target weight post changes £m	% diff to SAA
Inflation linked bonds	260	4.50%	4.5%	0.0%	-1				-1	0.0%
Investment grade (IG) credit	135	2.50%	2.3%	-0.2%	-10				-10	-0.2%
Short dated IG credit	25	0.50%	0.4%	-0.1%	-4	60			56	1.0%
Active currency hedge collateral	61	0.50%	1.1%	0.6%	32				32	0.6%
Cash	216	0.00%	3.7%	3.7%	216	-89			127	

19. Changes to be considered:

    a. Reduction in listed equity – a c£200m reduction in this asset class would align to the SAA target. There is a listed equity review planned with Hymans towards the end of 2022. The details regarding how best to reduce this allocation will be part of the review alongside the wider scope.

    b. Private equity – there are recent outstanding commitments to LGPS Central and Adam Street Partners. The timing of calls is more difficult to gauge as it is dependant on market conditions and the underlying managers ability to source deals. We do however expect regular returns of capital from Adam Street and expect c£50m to be returned to March 2023. At present there is no requirement to make a new commitment to this asset class.

    c. Infrastructure – commitments outstanding amount to c£70m. The Fund expects c£20m to be returned from existing investments that are closed ended. Officers estimate a further £125m commitment is needed to align to SAA. This underweight will be picked up by the infrastructure review that Hymans will be bringing a proposal to the July 2022 ISC.

    d. Global Credit – commitments outstanding amount to £178m. Officers expect c£100m to be returned to the Fund to March 2023 from existing private credit investment with Partners, CRC and M&G. This asset class will therefore require further commitments of c£150m in order to not fall behind to the SAA target. Officers have been in touch with LGPS Central regarding their plans for the next vintages of Private debt products and will update the committee when more is known. It is currently planned to bring an investment proposal to the October ISC which could be a Central product offering, an offering from an existing manager or if neither are suitable a new manager product offering may be considered.

e. Property – there are minimal commitments outstanding to this asset class. There is a property strategy review on the agenda today that Hymans will present that will, amongst other things propose how to address this underweight position which would require a significant investment to close the gap to the SAA target.

LGPS Central UK Direct Fund – DTZ

20. Attached is the presentation that will be delivered by DTZ international (DTZ), who are the appointed property managers for the new LGPS Central Direct UK property fund. The Fund's officers have been involved with the development of this fund in conjunction with other partner funds and Central.

21. LGPS Central ran a procurement for a UK direct property mandate for which DTZ have been appointed. The mandate characteristics are shown in the table below.

Characteristics	
Benchmark	MSCI UK Quarterly Property Index – Total Return
Investment Objective	To invest directly in a diversified portfolio of commercial real estate assets in the UK
Performance Target	To outperform the benchmark by 0.5% p.a. over rolling 3 year periods
Anticipated Launch	June/July 2022
Fund Structure	Open-ended Authorised Contractual Scheme
Minimum Subscription	£10 million
Fund Currency	Sterling
Subscriptions	Monthly, with a 3 year lock-in period from the fund's launch
Redemptions	Semi-annual, on 30 June and 31 December each year subject to 3 months' notice
Gating Mechanisms	Gating will be implemented if the redemption queue exceeds 15% of AUM or market conditions are abnormal
Distributions	Quarterly income distributions (there is no automatic reinvestment per Partner Fund preferences)
Expected number of holdings	Will vary with fund size. Expectations are: • • £200 million fund size – minimum of 10 holdings • • £500 million fund size – minimum of 20 holdings • • £750 million fund size – minimum of 25 holdings
Investment Restrictions	• All investments are to be made into UK direct property • Sector exposures must be within 20% of the benchmark weightings • Cash may not exceed 10% of the fund (excluding redemption proceeds)* • No single investment shall exceed 10% of the portfolio's value • No ground up development shall exceed over 10% of the portfolio's value* • No single tenant can comprise more than 5% of the rent roll at the point of acquisition* • The void rate should not exceed 10% * denotes that the restriction does not apply within the first 3 years of the fund)

22. The presentation will be delivered by three personnel from DTZ including the UK CEO. The presentation will cover
    a. DTZ – who they are
    b. Responsible investment (RI) including net zero plans and their RI achievements
    c. Review of the mandate they have been appointed to manage
    d. Investment performance
    e. Market outlook

Effect on cash to March 2023

23. Including the effect of commitments already made and any that may be called during the course of 2022/23 means that the Fund will expect to have a similar cash position to the current position at the 1st April 2022 per the table below.

24. A new commitment forecast to be called from the underweight positions as described above is that for property given that the proposals are due to be presented at the April ISC and therefore have nearly 12 months to be invested. No commitments that may be proposed at the July ISC for infrastructure have been assumed to be called prior to March 2023.

25. Officers have assumed £50m of a new private debt commitment will be called prior to March 2023 from a proposal that will be bought to ISC in November. If the underlying managers in the proposed Fund do not call commitments as quick as expected then cash will be higher than forecast.

26. Although cash could be reduced by overcommitting to certain asset classes, officers are mindful of becoming over concentrated in any particular fund or vintage year which could increase investment risk. With a largely unchanged cash position at March 2023 the Fund would be holding c2% cash (assuming similar sized total value of Fund) as a percentage of total Fund assets.

27. The cash position does not include collateral held at Aegon for the active currency hedge which is £50m. Adding this to the closing position gives a cash position of £176m or 3% of total Fund assets based on a £5.8bn portfolio value.

28. The table below illustrates the major changes through the year to March 2023.

Opening cash position	**116**	As at 1st April 2022, excludes cash held as collateral for currency hedge.
Management expenses	-5	These are investment management expenses paid directly by the Fund. Majority of fees are paid from the investments held with the managers.
Investment income	30	Primarily from property and infrastructure investments

Currency Hedge	0	No cashflow forecast estimated given the inherent difficulty in doing so. The Fund currently has c£50m in collateral. This deemed adequate and would provide enough collateral for a 10% adverse movement in the Fund's 3 major foreign currency exposures, US Dollar, Euro and Yen. No forecast cashflow effect given no strong view on whether the Pound will strengthen or weaken over 22/23.
Non investment cashflow	60	Employer and employee contributions exceed the benefit payments made. Only moves gradually compared to the previous year, unless a step change following the tri-annual valuation.
Commitments drawn	-240	Represents existing commitments made forecast to be drawn in the next 12 months.
Expected capital distribution	165	Forecast distribution expected from holdings in private equity, private debt infrastructure in the main
Forecast closing cash position 31st March 2023	**126**	Aim is to keep cash as low as possible and keep fully invested in line with the SAA approved at the start of each year.

Recommendation

29. It is recommended that the Investment Subcommittee notes the report.

Supplementary Information

30. An exempt paper which is of a sensitive nature is included elsewhere on the agenda and contains supplementary information on the Property Portfolio Review and Proposed Investments.

Equality and Human Rights Implications

31. None.

Appendix

Appendix 1: DTZ international presentation

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

Tel: 0116 305 1449 Email: Bhulesh.Kachra@leics.gov.uk

DTZ INVESTORS

LEICESTERSHIRE CC
DISCUSSION DOCUMENT

CONFIDENTIAL AND PROPRIETARY
APRIL 2022

INTRODUCTIONS

Samuel Brice

Fund Manager

Joined DTZI in 2003

Jennifer Linacre

Head of Responsible Investment

Joined DTZI in 2000

Christopher Cooper

Chief Executive Officer

Joined DTZI in 1992

DTZ INVESTORS UK AT A GLANCE

A large UK real estate investment manager with specific expertise advising LGPS clients.

	ESTABLISHED **1968**		**230** ASSETS	LGPS CODE	**4bn** PUBLIC-SECTOR AUM (£)		**15** MSCI AWARDS
57 UK STAFF		**6bn** UK AUM (£)		**2018** LGPS TRANSPARENCY CODE		**170** BPS ANNUAL OUT-PERFORMANCE OVER 20 YEARS	
	ALL STAFF **9** YEARS TENURE		**2000** TENANTS		**12** YEAR AVERAGE LGPS CLIENT TENURE		**2040** NET ZERO TARGET

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01

SUB-FUND OVERVIEW

OUR RESPONSIBLE INVESTMENT PHILOSOPHY IS CENTRED ON THREE THEMES

We will focus capital in sustainable locations, diversify income risk and deliver outperformance through active management.

SUSTAINABLE LOCATIONS

We will not take location risk. Instead, we will concentrate capital on vibrant, urban locations where there is deep occupational demand and plan to hold for the long-term.

Sustainable locations are dynamic. They offer a 24/7 experience for people to live, work, shop and take their leisure. Our preferred locations are characterised by:

- Strong demographics;
- Good infrastructure;
- Skilled workforce;
- Supply constraints;
- A diverse tenant base;
- High alternative use value.

DIVERSIFIED INCOME

We will mitigate credit risk where possible by taking a high level of tenant diversification at both property and portfolio level.

At property level, this means we will principally follow a multi-let and mixed-use strategy. We will choose buildings that meet occupiers' needs now and can be adapted as they evolve in the future. Our Asset Improvement Plans ("**AIPs**") will be designed at the point of action and reviewed annually throughout the hold period..

At portfolio level, we seek low tenant concentration and low industry sector correlation. A diversified lease expiry profile mitigates income expiry concentration risk.

ASSET MANAGEMENT UPSIDE

We will prioritise tenant satisfaction, with metrics being defined by high tenant retention rates and low voids.

Maintaining strong tenant relationships and ensuring buildings remain fit for purpose will increase the odds that the tenants renew leases. We prioritise regular tenant interaction, rapid response to tenant concerns and we use information to adapt strategy.

Our staff are incentivised to deliver on the AIPs, that combine investment and environmental performance targets. We exploit untapped potential to enhance value and deliver ESG gains through active management.

LGPS CENTRAL SUB FUND – PORTFOLIO OBJECTIVES AND RESTRICTIONS

The investment objectives and restrictions favour a balanced portfolio with relatively low investment risk.

BENCHMARK: MSCI Quarterly UK Property Total Return Index.

PERFORMANCE OBJECTIVE: Benchmark +0.5%p.a. net of costs over a three-year rolling period.

SECTOR CONTROL RANGE:

- The Portfolio will be invested in the sectors defined in the Benchmark Index (Retail, Office, Industrial and Other, including hotels, leisure and care homes).
- The weighting of the portfolio to the Benchmark sectors shall be within +/- 20% of the Benchmark weighting.

INVESTMENT RESTRICTIONS:

- No single investment shall exceed 10% of the value of the portfolio*.
- Ground up development shall not exceed 10% of the value of the portfolio*.
- No more than 10% of the Portfolio value can be retained as cash for liquidity purposes.
- The Sub-fund is permitted to borrow up to 20% of the value of the portfolio for short term purposes such as liquidity, funding acquisitions; for the payment of other property related costs.

* This restriction does not apply in the Lock-in Period.

DTZI'S PROPOSED KEY PORTFOLIO METRICS AS AT Q2-2022

The stabilised portfolio will be orientated to assets with predominately core income, market growth and active income profiles.

KEY PORTFOLIO METRICS	Capital Allocation	**£500m**
	# of properties	**20-25**
	Average lot size	**c.£20-25m**
PORTFOLIO CONCENTRATIONS	Capital value weighting to largest asset	**10% (£50m)**
	Rental value weighting to largest tenant	**7-10%**
	Inflation linked income exposure	**15-20%**

TARGET LOCATION (% of AUM)	London	**40-55%**
	South East	**10-20%**
	Big Six Regional Cities	**10-20%**
SECTOR ALLOCATION (% of AUM)	Office	**up to 20%**
	Industrial	**up to 30%**
	Retail Warehouse	**up to 30%**
	Town Centre Retail	**up to 20%**
	Alternatives	**up to 20%**

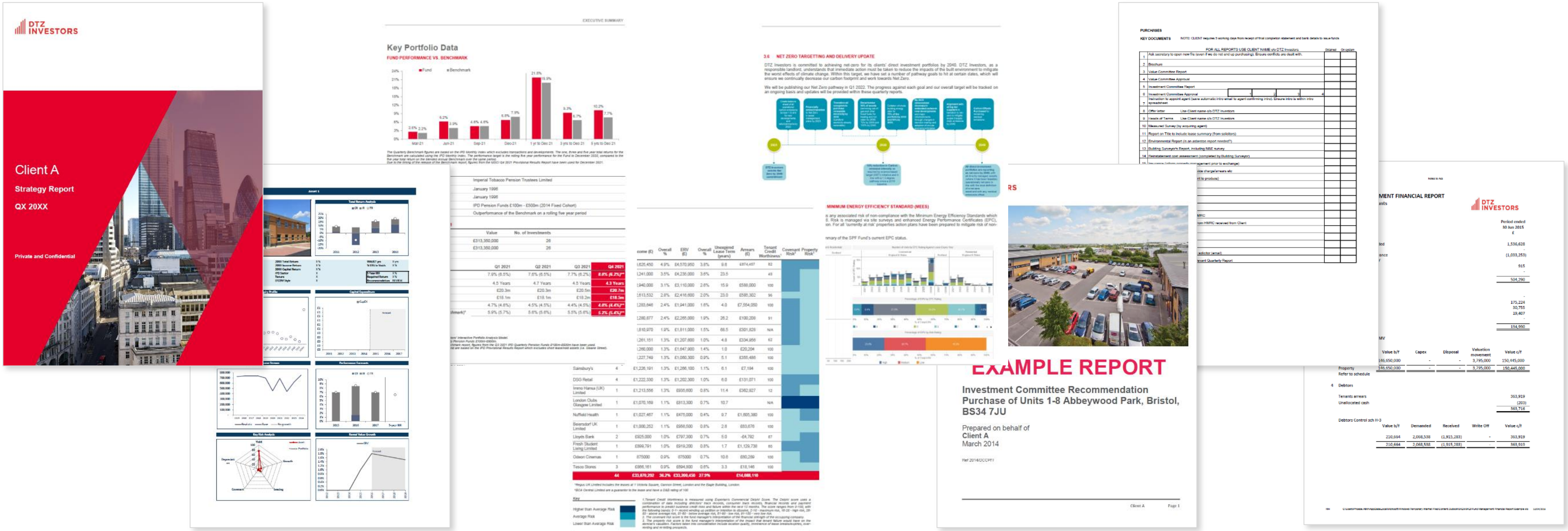
RESPONSIBLE INVESTMENT	Portfolio GRESB Score.	**3 star**
	% of total rental value with an EPC rating of A-E.	**95%**
	NZC target date	**2040**
	Landlord (Tenant) carbon emission reductions by 2030	**50% (25%)**
	Landlord (Tenant) energy collection targets by 2030	**100% (75%)**
	Multi-let assets with Asset Improvement Plans (AIPs)	**100%**
	Assets with climate resilience modelling completed within 12 months of purchase	**100%**

PORTFOLIO INCOME	Portfolio Yield	**4.5% - 5.0%**
	Total Rent Roll	**£23-25m**
	# of tenancies	**100-125**
LEASING RISK	WAULT	**6-10 years**
	Vacancy Rate	**5-8%**
CREDIT	% of multi-let assets by capital value.	**85%**
	% of total rent roll to tenants with an S&P credit score of B- or better.	**80%**

PORTFOLIO REPORTS FOCUS ON INVESTMENT, ESG & FINANCIAL PERFORMANCE

We will provide standardised reporting on Pool investments complemented by customised reporting on any Legacy Portfolio(s) managed.

ANNUAL STRATEGY REPORT | INVESTMENT REPORT | ESG NOTIFICATIONS | DUE DILIGENCE CHECKLIST



ANNUAL ASSET PLAN | ASSET REPORTING | TRANSACTIONS REPORT | FINANCIAL REPORTING

02

RESPONSIBLE INVESTMENT

REAL ESTATE IS A TRANSPARENT ASSET CLASS FROM AN ESG PERSPECTIVE

Owners and managers can establish targets and have a direct influence on performance across a broad spectrum of initiatives.

ENVIRONMENTAL

- Achieve Net Zero Carbon status for portfolio and assets (where possible) by 2040.
- Complete long-term scenario modelling for portfolios under management by end of 2022.
- Asset Improvement Plans (AIP) held on every multi-let asset.
- Target BREEAM certification for all new construction and major refurbishments including undertaking life cycle analysis (LCA) assessments to inform more sustainable design options.
- Zero landlord-related breaches in environmental legislation.
- Zero Waste to Landfill & recycling rate of 75% by 2025.
- Reduction in water usage by 10% from a 2019 baseline by 2025.

SOCIAL IMPACT

- Embed social value commitments and targets across all portfolios and landlord procurement activities by 2023 through DTZ Investors and third party appointed Property Managers.
- Embed DTZ Investors' RI Development & Refurbishment Framework in all projects with external project managers.
- Engage all occupiers on environmental impact through data sharing and distribution of occupier guidance & tenant fit-out guidelines.
- All assets where public realm and placemaking is a strategic objective in the asset plan ensure there is a dedicated tenant and community engagement plan.

GOVERNANCE

- Integrate RI principles throughout our culture, business activities and processes and assign lines of responsibility.
- Collaborate with government, our peers and our clients to encourage adoption of RI best practices across the industry.
- Regularly disclose our RI targets and progress through our quarterly client reporting, annual corporate reporting and industry benchmarking.
- Retain accountability and ultimate responsibility for embedding and driving RI at Board level.
- Engage with our supply chain in vetting, in contract set up and during the contract to ensure RI embedded.
- Look to surpass minimum compliance standards with all relevant UK statutory requirements, EU directives and with local planning authorities.

WE RUN A FULLY INTEGRATED RESPONSIBLE INVESTMENT PROCESS

Environmental, Social and Governance factors are fully embedded in our investment approach.

OUR RESPONSIBLE INVESTMENT PROCESS

2021 RESPONSIBLE INVESTMENT ACHIEVEMENTS

- Supporting the United Nations Sustainable Development Goals and prioritised five
- Head of Responsible Investment (RI) appointed.
- Achieved BREEAM Excellent accreditation for the refurbishment of our London offices
- Wellbeing Committee established to support team health and wellbeing.
- **REACH** programme launched; our commitment to invest time, money and expertise to generate social value.
- Mental Health Awareness programmes and support platforms developed.
- Member of IIGCC
- **'A' 'A' rating** for Strategy & Governance and Property
- **Public Supporter** of TCFD
- **8 funds** participated in GRESB

WE WILL WORK WITH YOU TO DELIVER AN EFFECTIVE RI PROGRAMME

Targets are spread across Environmental, Social and Governance factors.

- Develop an energy, utility and emissions baseline
- Identify key assets and areas of improvement
- Carry out detailed site audits to inform long term asset plans
- Provide clear guidelines for onsite works to align with best practice
- Implement asset level ESG implementation plans
- Develop strong relationships with all tenants and communicate our RI approach
- Ensure compliance with all legislation
- Embed climate resilience and costing into business planning
- Improve the social benefits of the asset
- Implement regular tenant data collection and feedback process
- Minimise risk and maximise returns
- Provide clear and regular updates on performance
- Achieve high benchmarking performance

Ongoing Outputs

Refurbishment, fit out, redevelopment and new construction guidelines

Tenant engagement

Tenant fit out guidelines

Green lease guidance

Acquisition due diligence

Net Zero planning and support

Quarterly Outputs

Utility data reporting and reviews, including tenant data

Quarterly investor committee reporting

EPC reporting and updates

Asset improvement plans

Quarterly fund meetings

Annual Outputs

Annual portfolio reporting

PRI submission

GRESB submission

Net-zero review and business planning

Tenant satisfaction surveys

DTZ Investors has been a member and participant to the Global Real Estate Sustainability Benchmark (GRESB) since 2015. The GRESB reporting framework has helped to develop DTZ Investors' approach to RI through peer benchmarking and analysis of performance annually.

DTZ Investors became a signatory to the United Nations Principles for Responsible Investment (PRI) in 2013. PRI is a voluntary framework for incorporating ESG into investment decision making and ownership practices.

DTZ Investors is committed to integrating the recommendations of the Financial Stability Board's Task Force on Climate Related Financial Disclosures (TCFD) into our responsible property investment approach and as such publicly supports it.

CASE STUDY – PRINTWORKS, MANCHESTER

Placemaking of a major UK city-centre mixed-use scheme

PROJECT OVERVIEW

Printworks was acquired by DTZ Investors on behalf of an LGPS client in 2017 as a large multi-let operational-style asset with the ambition to refurbish the physical environment, evolve the tenant-mix and be a responsible and engaged stakeholder within Manchester.

ASSET IMPROVEMENT PLAN

- **Environmental Impact:** Ongoing implementation of Sustainability Plan that is focused on decarbonisation, energy efficiency and travel management.
- **Tenant Engagement:** Tenant waste management has been centralised to drive efficiency at the scheme. Tenants are required to adhere to Printworks Occupier Handbook and Sustainability Fit-Out Guide.
- **Wellbeing Improvements:** Printworks maintains a biodiverse rooftop garden including bee-keeping (as the symbol of Manchester) which is accessible for educational purposes.
- **Community Engagement:** Printworks has forged links across the community through fund raising in support of local charities and with Salford University who offer educational tours of the rooftop garden.
- **Refurbishment Improvement:** Printworks is subject to a major refurbishment in 2022 which has been designed in accordance with the DTZ Investors Sustainability Guidelines.

ACTION AND OUTCOME

- Upgrade to LED lighting to all service areas has resulted in a 29% year-on-year reduction in energy usage.
- Centralised waste management has resulted in recycling of 65% of total waste with zero waste to landfill.
- Printworks has raised £153,000 for local charities in the last 5 years.
- Printworks has received recognition for its efforts including an international Green Apple Award for businesses who demonstrate environmental best practice.

AT A GLANCE

USE	Mixed-use
SIZE	370,000 sq ft
ASSET STYLE	Core Plus
LOT SIZE RANGE	£100m+

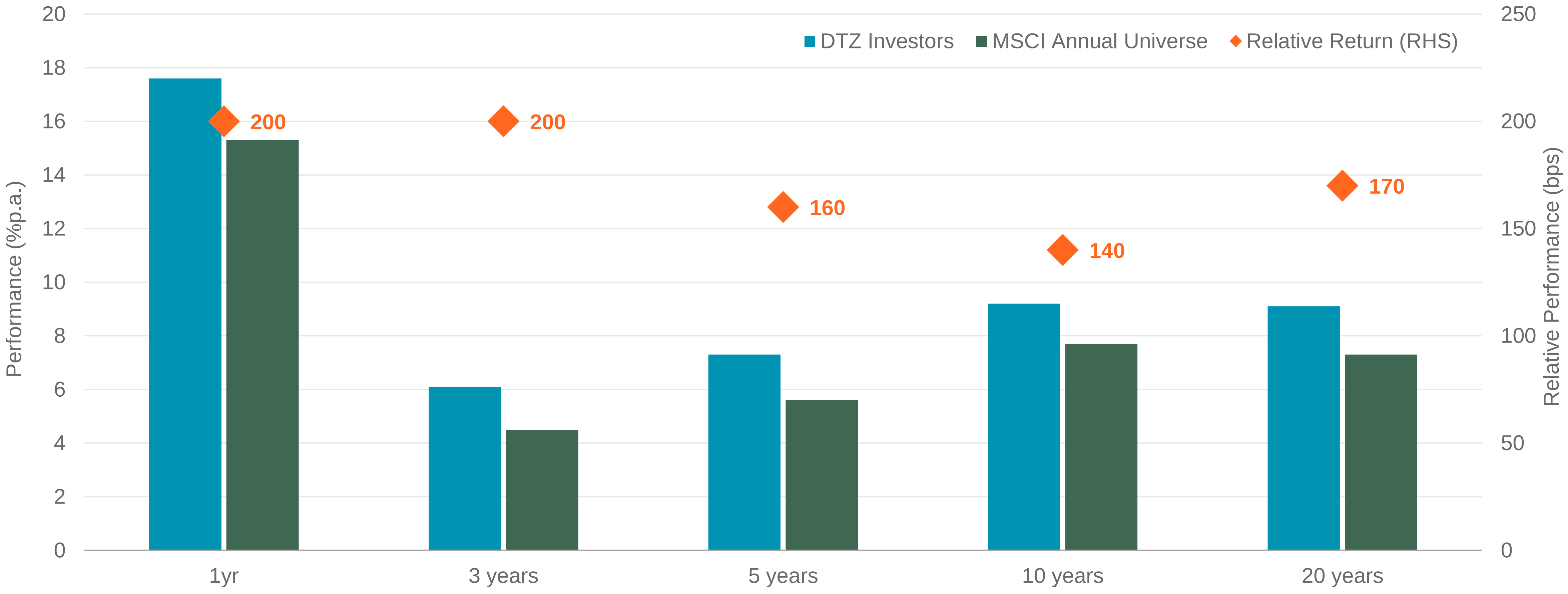
03

INVESTMENT PERFORMANCE

OUR PHILOSOPHY, PEOPLE AND PROCESS DELIVER LONG-TERM OUTPERFORMANCE

Outperformance is well established for all mandates at 140-200 bps annually, across the long-term.

DTZI HOUSE INVESTMENT PERFORMANCE TO DEC-21 (SOURCE: MSCI, DTZI)



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ATTRIBUTION ANALYSIS HIGHLIGHTS THE STRENGTH OF OUR INVESTMENT APPROACH

Stock selection, asset management and a good sell discipline have been key to delivering outperformance over the very long-term.

DTZI ESTIMATED HOUSE PERFORMANCE DISAGGREGATION (SOURCE: MSCI)

Attribution of DTZ Investors House performance (20yrs to Dec-20)
(Direct Investment Property Only)

20yr House Performance

DTZ Investors	8.8%
MSCI Annual Universe	6.9%
Relative	*1.8%*

Components of Return

Capital Growth 1

DTZ Investors	2.7%
MSCI Annual Universe	1.6%
Relative	*1.2%*

Income Return

DTZ Investors	5.9%
MSCI Annual Universe	5.3%
Relative	*0.6%*

Attribution of Relative Return

Property 2

All Assets	1.6%
Held Assets	1.7%

Structure

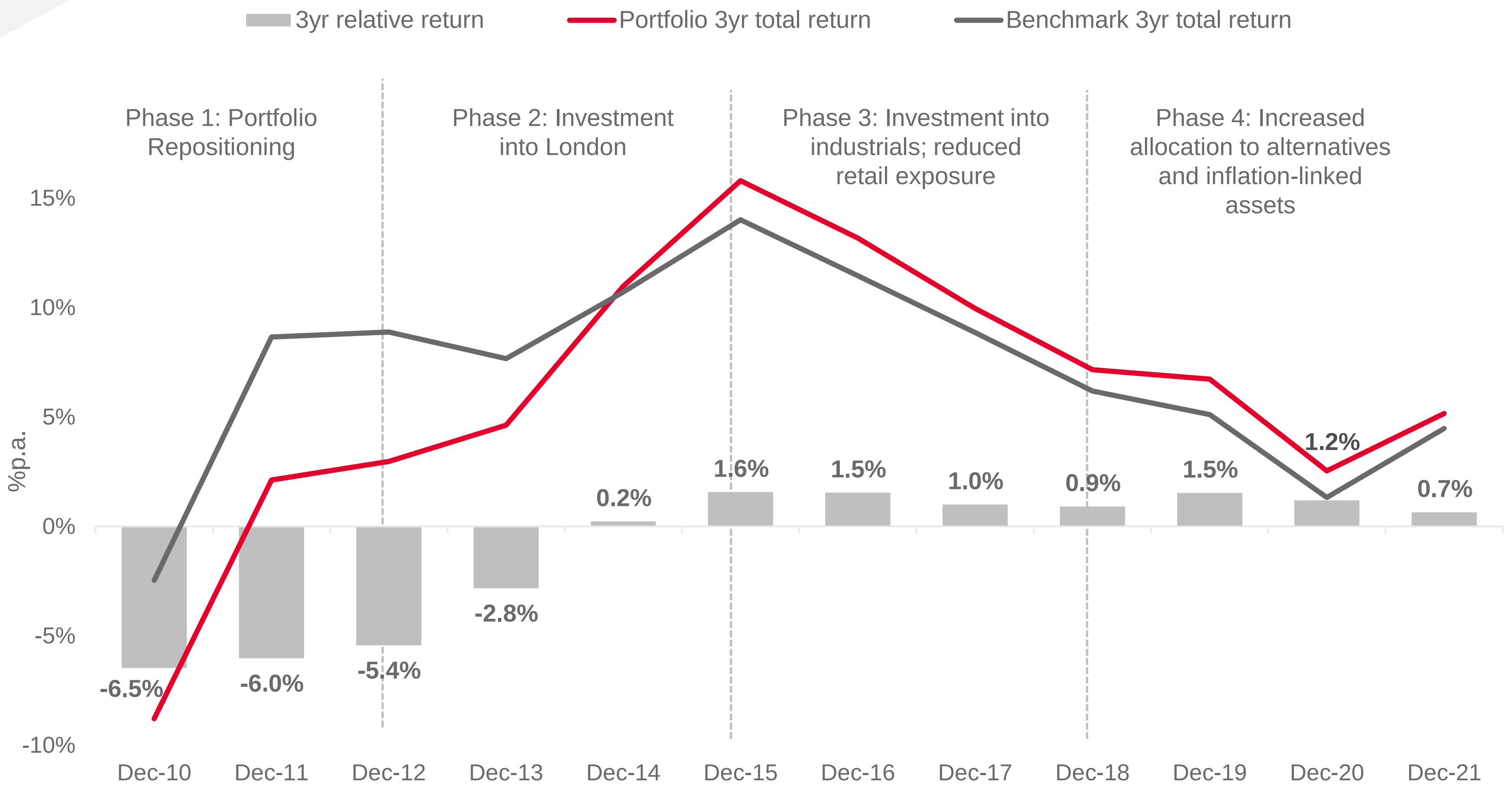
All Assets	0.2%
Held Assets	0.2%

Weighted Contribution to Relative Return

Held	Part Transactions	Purchases	Developments	Sold 3	Other
1.8%	-	-0.4%	0.0%	0.4%	-

PERFORMANCE OF A SIMILAR SINGLE LGPS MANDATE

The Fund has exceeded its investment performance objective over the past decade, whilst growing its allocation by >£1.5bn at the same time.



KEY COMMENTARY

- Grown to over **£2bn** through **£0.7bn of sales** and **£1.7bn of reinvestment**;
- Embedded an OJEU-compliant **supplier-vetting** system and public works tendering process whereby the manager acts as agent to the client;
- Developed an **RI framework** for the client that has led to submission to **GRESB** and the creation of a plan to **NZC**;
- **Managed key risks** – (positive impact on income yield, void rate, WAULT, location concentration, income diversification, EPC ratings etc).

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04

MARKET OUTLOOK

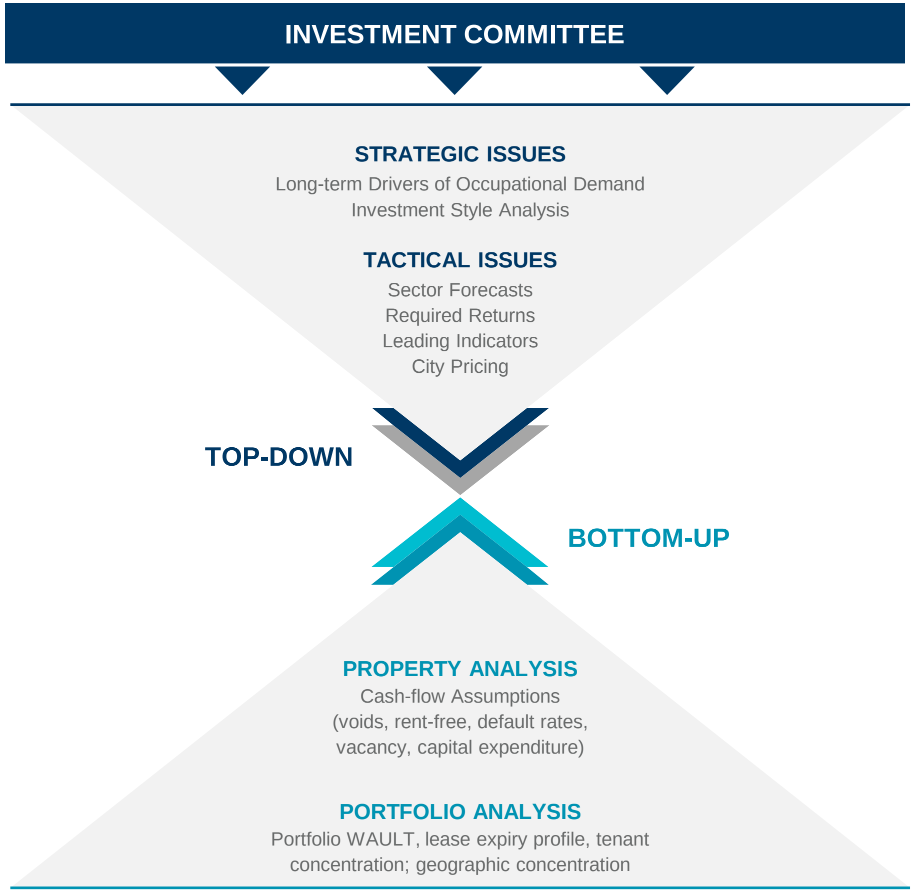
WE USE A MOSAIC OF RESEARCH TO DEVELOP OUR INVESTMENT STRATEGIES

We use extensive research resources and apply a mosaic approach to develop strategic ideas and investment strategy.

We use extensive resources and apply a mosaic approach to develop strategy.

MARKET RESEARCH (ECONOMY & PROPERTY MARKET)	OCCUPIER TRENDS	CAPITAL MARKETS	INVESTMENT DEALS
CAPITAL ECONOMICS	PMA	CW RESEARCH	CW AGENCY TEAMS
BLOOMBERG	MSCI	EXTERNAL RESEARCH HOUSES	RCA
EXTERNAL RESEARCH HOUSES	IPF	BROKER & ADVISOR RESEARCH	EXTERNAL AGENTS

We have an integrated strategy process.



FOUR MACRO FACTORS WILL HAVE THE GREATEST IMPACT ON FUTURE RETURNS

We focus on themes that will influence people and capital flows, urban planning and occupier demand.

1. DEMOGRAPHICS

- Population Growth
- Urbanisation
- Ageing population
- Student population
- Household structure

2. TECHNOLOGY

- Increased online shopping
- Increased online entertainment: social media & gaming
- Desire for convenience
- More flexible working practises, increased remote working

3. EXTERNALITIES

- Geo-political events
- Inflation / Stagflation
- Health Pandemics
- Levelling up

4. SOCIAL & ENVIRONMENTAL IMPACT

- Greater social conscience and accountability
- Increased importance of ESG & health and wellbeing
- Loneliness creating a desire for community
- Value experience over possessions

IMPLICATIONS FOR STRATEGY

LOCATIONS

- London & South East
- Big Six cities
- Oxford – Cambridge knowledge arc
- Regional logistics

SECTORS

- Convenience retail
- Junior/Senior living strategies
- Data centres
- Operational real estate

FACTORS

- BREEAM excellence
- Social inclusion
- Inflation protection
- Affordability

CASE STUDY – LINKWAY RETAIL PARK, CANNOCK

Comprehensive refurbishment of a retail warehouse park to aid re-letting of void units.

OVERVIEW AND BUSINESS PLAN

- A 100,000 sq ft retail warehouse scheme in an LGPS Client's legacy portfolio.
- The park suffered from very low visitor numbers and a significant void of 37,000 sq ft.
- The buildings were outdated, with no capital investment programme for 20 years.

ACTION AND OUTCOME

- A £4m phased refurbishment and extension project to reposition the asset was completed.
- The units were reconfigured to meet modern occupational requirements.
- Energy efficiency of retail units was enhanced and the installation of EV charging points is under review.
- Leasing strategy resulted in an improved tenant line-up, extended the unexpired lease term and improved income diversity.
- Opportunity to further enhance the income profile through a letting to a supermarket operator.

INVESTMENT CASE

- The asset is located in a sustainable urban setting with strong occupational demand supported by the local demographic.
- Low passing rents provide the opportunity to grow income returns.
- The flexible nature of the asset has meant we are able to make improvements and alterations to meet modern occupational and environmental standards.
- The low site cover provides the opportunity to add value through further development.

AT A GLANCE

Park before refurbishment

Park post refurbishment

USE	RETAIL WAREHOUSE
SIZE	9,290 SQ M (100,000 SQ FT)
ASSET STYLE	OPEN A1 RETAIL WAREHOUSING
LOT SIZE RANGE	£10-20m

CASE STUDY – BRITISH CAR AUCTIONS, CORBY, UK

Off-market acquisition of industrial landbank opportunity underpinned by inflation-linked cashflows in the interim.

OVERVIEW AND BUSINESS PLAN

- A 121 acre site located in the Golden Triangle and used as a national car storage facility for BCA's growing online operation.
- The site is surfaced, lit and secure with 64,000 sq ft of ancillary accommodation, facilitating distribution, refurbishment, inspection and onward distribution throughout the UK.
- The site is let to BCA until June 2045 on a lease subject to index-linked reviews.

ACTION AND OUTCOME

- The investment opportunity was sourced and acquired off-market.
- Whilst the long dated index linked income was the primary rationale for investment we undertook extensive assessment of future alternative uses as part of our acquisition due diligence.

INVESTMENT CASE

- The asset provides exposure to the UK's Golden Triangle through a major landbank acquisition secured by long-dated index-linked income.
- The asset is located in a prime logistics market, in a sector subject to a supply demand imbalance resulting in significant rental and capital value growth.
- The income return secured against the asset represents an attractive premium to index-linked credit which is expected to perform well in a higher inflationary environment.
- The low land value paid per acre underpins future redevelopment in whole or in part.

AT A GLANCE

USE	STORAGE & LOGISTICS
SIZE	49 HA (121 ACRES)
ASSET STYLE	SINGLE-LET STORAGE & LOGISTICS FACILITY
LOT SIZE RANGE	£80-£90 MILLION

CASE STUDY – FORMER DEBENHAMS, MAGDALEN STREET, OXFORD

The repositioning of a former Debenhams department store in Oxford City Centre.

OVERVIEW AND BUSINESS PLAN

- A multi-let asset located in Oxford city centre incorporating a terrace of retail units and 120,000 sq. ft. unit formerly let to Debenhams.
- The Debenhams administration provides the opportunity to reposition the asset with a range of alternative uses available for the property's re-use.

ACTION AND OUTCOME

- In 2011 DTZI purchased the ground floor terrace of retail units. The upper parts, let to Debenhams were acquired at a later date, completing the ownership of the block.
- Opportunities to redevelop the upper parts are under review; there is strong demand from users across the hotel, office and life sciences sectors.

INVESTMENT CASE

- Oxford is a highly sustainable urban location where supply is constrained and demand from a wide range of competing uses is high.
- Located in the "Knowledge Arc" where occupational demand is driven by high tech and life science business that have spun out of the universities.
- Competing tenant demand provides a wide range of options for the redevelopment of the upper parts at a significant premium to the rent paid by Debenhams.
- The future development will be planned to meet high standards of environmental performance.

AT A GLANCE

USE	CITY-CENTRE MIXED-USE
SIZE	11,500 SQ M (120,000 SQ FT)
ASSET STYLE	RETAIL SHOPS IN DOMINANT LOCATIONS
LOT SIZE RANGE	£55-65 MILLION

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CONTACT INFORMATION

Sam Brice
Tel: +44 (0)20 3349 0245
sam.brice@dtzinvestors.com

Jennifer Linacre
Tel: +44 (0)20 3349 0234
Jennifer.linacre@dtzinvestors.com

Chris Cooper
Tel: +44 (0)20 3349 0300
christopher.cooper@dtzinvestors.com

DTZ Investors
125 Old Broad Street
London
EC2N 1AR

www.dtzinvestors.com

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