

**Minutes of a meeting of the Investment Subcommittee held at County Hall,
Glenfield on Wednesday, 27 July 2022.**

PRESENT:

Leicestershire County Council

Mr. T. Barkley CC(Chairman)
Mr. D. Grimley CC
Mr. D. Bill CC MBE

District Council Representative

Cllr. M. Graham MBE

Staff Representative

Mr. N. Booth

Independent Advisers and Managers

Hymans Robertson
Phillip Pearson

Quinbrook - Minute 46 Refers

Rory Quinlan
Mark Burrows
Rosalind Smith-Maxwell

Stafford Capital - Minute 46 Refers

Marek Guizot
Stephen Addicott

38. Minutes.

The minutes of the meeting held on 27 April 2022 were taken as read, confirmed and signed.

39. Question Time.

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

40. Questions asked by members.

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

41. Urgent Items.

There were no urgent items for consideration.

42. Declarations of interest.

The Chairman invited members who wished to do so to declare any interest in respect of items on the agenda for the meeting.

No declarations were made.

43. Date of Next Meeting - 12 October 2022.

It was noted that the next meeting would be held on 12 October 2022 at 10.00am

44. Strategic Asset Allocation Update and Cash Deployment Plans.

The Subcommittee considered a report by the Director of Corporate Resources which provided an update on the strategic asset allocation and cash deployment plans. A copy of the report marked 'Agenda Item 7' is filed with these minutes.

RESOLVED:

That the report be noted.

45. Exclusion of 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.

46. Infrastructure Portfolio Review and Proposed Investments.

The Subcommittee considered a report by the Director of Corporate Resources which provided members with information in respect of the infrastructure portfolio review and proposed investments. A copy of the report 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The note was not for publication by virtue of Paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972

Representatives from Hymans Robertson set out their review of the Fund's infrastructure portfolio, and recommendations that had arisen.

[At this point representatives from Quinbrook Investment Managers joined the meeting]

Representatives from Quinbrook presented to the Subcommittee on the Net Zero Power fund, a fund that focused on renewables

Arising from the discussion the following points were noted:-

- i) Quinbrook demonstrated their strong track record with Environmental, Social and Governance (ESG) factors. Having achieved a A+ United Nations Principles for Responsible Investment (UNPRI) ESG rating and awarded 2021 ESG investment fund of the year, alongside alignment with Article 9 of the Sustainable Finance Disclosure Regulations.
- ii) Quinbrook could provide quarterly updates on carbon metrics, including Scope 1, 2 and 3. The Investment Manager was working with KPMG to identify gaps in its reporting to be confident of end impact. Members were assured that a third party audited any carbon metric reporting.
- iii) Quinbrook did not see wind power as value-add for the Net Zero Power fund, due to constraints on ageing, transition, and distribution. Quinbrook cited that it was generally windiest between 9pm and 9am in the morning, where there was lower energy demand. The portfolio preferred solar farms given they could be located closer to where there was demand.
- iv) Quinbrook had teams in each location it invested in and continued to evaluate different types of technology, including the lifecycle of technology which was factored in.
- v) It was noted Quinbrook also offered a co-investment sleeve with attractive investment costs which the Fund could utilise.

[At this point representatives from Quinbrook left the meeting]

Hymans Robertson introduced the next investment proposal in Stafford Capital's Carbon Offset Opportunity fund (COOF). The Subcommittee noted the fund presented attractive risk-adjusted returns and net zero benefits.

[At this point representatives from Stafford Capital joined the meeting]

Arising from the discussion the following points were noted:

- i) The fund would be made up of 65% afforestation 15% natural forest reforestation 20% improved forest. Due to the increased demand for carbon credits, it was now profitable to set aside the 15% for natural forests to create wildlife corridors with native species. Investment returns would be achieved through a mixture of carbon credits from stored carbon, and timber harvesting.
- ii) The Committee noted that a carbon credit was a certificate which represents the reduction of emissions by the equivalent of one ton of CO₂e. For assets

within the COOF to qualify as a verified emissions reduction and be claimed as an offset, stringent rules had to be met. Rules included how the forest would be managed and what the timber was eventually used for to ensure carbon credits claimed were genuine and additional. For example, the timber could not be burnt as biofuel, instead must be used for lumber or furniture.

- iii) In response to a query regarding the risk from fire, wind and disease, Stafford assured the Committee that specialists were appointed to manage key risks to the asset class. Properly managed forests included fire breaks and regular clearance of what accumulated on the forest floor which lowered risk. As a result, tree loss along commercial plantation was very low, in comparison to natural forests.
- iv) In the event of forest fire or disease, that resulted in reversal, or loss of carbon, it was covered by a 'buffer pool'. Stafford, alongside other carbon projects contributed a certain percentage to the buffer reserves of non-tradeable carbon offsets to cover unforeseen losses in carbon stocks.
- v) The jurisdictional risk was further queried given illegal logging and instability within certain areas that may affect ownership rights if certain countries looked to nationalise their forests. Stafford assured the Committee that it undertook due diligence on its local partners to reduce the risk, and that the issues raised were more of a risk to unmanaged forests.
- vi) Due to the dearth of new tree planting in the last 30 years, while timber demand continued to increase, even without recognition of the benefits from the role in producing carbon credits, timber revenue and asset appreciation was attractive. If demand for the carbon market was not as high as predicted, there was still the option to focus on the afforestation within the fund that still held high value for sale to traditional investors or industry.
- vii) The COOF considered the whole lifecycle of a tree. Stafford monitored its forests and ensured it had reliable inventory data, which was independently audited for verification.

[At this point representatives from Stafford Capital left the meeting]

The Committee supported the review of the Fund's infrastructure portfolio, and recommendations that had arisen.

RESOLVED:

- a. That an additional £30m commitment to the LGPS Central Core / core plus infrastructure fund, bringing the total commitment to £100m be approved.
- b. That a £30m commitment to the JP Morgan IIF fund be approved.
- c. That a commitment of £55m to the Quinbrook net zero infrastructure power fund be approved.
- d. That the Director of Corporate Resources, following consultation with the

Chairman of the Local Pension Committee, be authorised to:

- i. approve the commitment to the Stafford fund as detailed in paragraph 78. d. i. of the report, subject to satisfactory due diligence being undertaken by Hymans Robertson.
 - ii. instruct Stafford to sell the carbon credits generated, as detailed in paragraph 71 of the report, subject to recommendation i. above,
 - iii. continually review the position to sell the carbon credits as set out in paragraph 72, and that any proposed change to the approach is subject to a further report to the Local Pension Committee or Subcommittee.
- e. That the Director of Corporate Resources, following consultation with the Chairman of the Local Pension Committee, be authorised to reinvest income received from the Fund's open ended infrastructure investment in JP Morgan IIF, back into the same fund as long as the Fund remains below its infrastructure target allocation.
- f. That the commitments as set out above be funded from existing cash resources, and the Director of Corporate Resources, following consultation with the Chairman of the Local Pension Committee, be authorised to divest overweight positions to the Strategic Asset Allocation target to fund any remaining commitments as set out in paragraphs 77 and 78.

Wednesday, 27 July 2022
10.00-12.15

CHAIRMAN