Meeting:	**Investment Subcommittee**
Date/Time:	**Wednesday, 27 July 2022 at 10.00 am**
Location:	**County Hall, Glenfield**
Contact:	**Miss. C. Tuohy (Tel. 0116 305 5483)**
Email:	**cat.tuohy@leics.gov.uk**

Membership

Mr. T. Barkley CC (Chairman)

Mr. D. C. Bill MBE CC	Cllr. Malise Graham
Cllr. A. Clarke	Mr. D. J. Grimley CC
Mr. N. Booth	Mr. Z. Limbada

AGENDA

Item		Report by	
1.	Minutes of the meeting held on 27 April 2022.		(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 - 12 October 2022.		
7.	Strategic Asset Allocation Update and Cash Deployment Plans.	Director of Corporate Resources	(Pages 9 - 16)

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

9. Exclusion of Press and Public.

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

10.	Infrastructure Portfolio Review and Proposed Investments.	Director of Corporate Resources	(Pages 17 - 200)

Representatives from Investment Managers Quinbrook Infrastructure Investors and Stafford Capital Partners will provide presentations as part of this item. Copies of the slides are attached.

Agenda Item 1

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

PRESENT:

Leicestershire County Council
Mr. T. Barkley CC (Chairman) Mr. D. Grimley CC

District Council
Cllr. Malise Graham

Staff Representative
Mr. G. Lawrence

Independent Advisers and Managers

Hymans Robertson
Phillip Pearson

DTZ Investors (Minutes 35 and 38 refer)
Christopher Cooper
Samuel Brice
Jennifer Linacre

LGPS Central (Minutes 35 and 38 refer)
Mike Hardwick

29. Minutes.

The minutes of the meeting held on 13 October 2021 were taken as read, confirmed and signed.

30. Question Time.

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

31. 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).

32. 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.

33. 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.

34. Strategic Asset Allocation Update and Cash Deployment Plans.

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

The Subcommittee noted that as at 31 March 2022 the Fund held £116million in cash, 2.0% of the Fund’s total assets as a result of the Fund’s positive cashflow nature and previous investment returns. The Fund aimed to keep its cash holding as low as possible, and keep the Fund fully invested in line with the Strategic Asset Allocation, to that end the Fund would continue to deploy its funds to underweight areas.

Arising from queries raised the following points were noted:-

i. The lag of committed funds being invested varied between asset classes; for example, Private Equity commitments could take up to four years to be fully invested. Members were assured that where a manager did not deploy capital in the specified investment period, capital would be returned to the Fund. Where the Fund felt uncomfortable within the investment period there was little scope to act, unless the Manager breached its mandate restrictions and/or contractual terms. Members noted it was for that reason it was key to undertake due diligence on potential managers, especially in relation to closed-ended funds.

ii. The mandate characteristics for LGPS Central’s UK direct property mandate, for which DTZ was appointed, included a restriction that the void rate should not exceed 10%. Given DTZ could not prevent tenants from not renewing their lease, the restriction signalled that the manager needed to act as quickly as possible to reduce the void rate, where it occurred.

[At this point representatives from DTZ Investors and LGPS Central joined the meeting]

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

iii. DTZ Investors had set a Net Zero Carbon date for its portfolio of 2040, and integrated responsible investment (RI) principals throughout its culture and asset improvement plans. It would continue to work with funds on delivering an effective RI programme.

iv. In response to a question on how tenants engaged DTZ shared positive examples such as the Printworks in Manchester which following its asset improvement plan won an international Green Apple Award for businesses that demonstrated environmental best practice. In other cases, it was recognised tenants could be slower engage, however once tenants understood the value that could be gained, they welcomed and collaborated with DTZ as a responsible landlord.

v. DTZ set out their different approaches to asset improvement plans. For warehouse and industrial sites, DTZ would request energy, water and waste data and then identify changes or improvements that could be made, such as on-site renewables, transport plans and increasing energy efficiency ratings. Other improvements aimed at positive social change could involve the addition of green space and benches into an industrial estate.

vi. DTZ explained the four base risks it considered before acquisition of an asset namely, location, lease, credit, and asset obsolescence. Members understood it was vital to understand assets prior to acquisition and be mindful of what risk compounded another.

vii. DTZ focused on sustainable locations with a view to hold property for the long term, where there was deep occupational demand and/or high alternative use value, among other key characteristics. Despite such properties being in high demand DTZ took a measured approach to acquisition and would not pay excessively.

viii. A member queried DTZ in relation to the UK Government's Levelling Up ambitions, and other public investment programmes, and how that might affect future investment. DTZ informed the Subcommittee that it focused on drivers of long-term sustainable demand and aligned itself to such programmes where its values and risk profile was satisfied.

ix. DTZ looked to avoid bespoke specialist warehouse deals, as they felt it had the risk of becoming an obsolescent asset if an operator chose not to renew its lease. In such cases it was difficult to gain new tenants for extremely large, multi-story warehouses, that were often in a peripheral location.

x. DTZ's view on warehouse longevity was that for bespoke buildings it should last at least as long as the lease. Members noted DTZ held warehouse assets that were over 50 years old as through its improvement plans, new roofs and double glazing could keep assets going indefinitely. It was recognised with new legislation old buildings needed significant capital expenditure to meet new regulations. Depending on the value differential between age and specification a warehouse originally built to, decided whether improvements could be made, or more comprehensive redevelopment was needed.

RESOLVED:

That the report and presentation provided by DTZ Investors be noted.

[At this point representatives from DTZ Investors and LGPS Central left the room]

35. Date of Next Meeting - 27 July 2022.

It was noted that the next meeting would be held on 27 July 2022.

36. 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.

37. Property 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 property portfolio review and proposed investments and the paper and presentation 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.

Representatives from Hymans Robertson set out their review of the Fund's Property structure, and recommendations that had arisen. It was noted that Hymans recommended a further review, on the Fund's indirect global allocation, be undertaken in 2023.

Members welcomed the proposal to increase residential property weighting in the Fund's property allocation.

[At this point representatives from DTZ Investors and LGPS Central joined the meeting]

The Subcommittee questioned DTZ on its risk appetite and noted that they were least comfortable taking a locational risk. Members were assured by their understanding on risk profile and their ability to see opportunity, not just threat, such as introduction of a multi-let strategy in order to not be reliant on one or minimal retailers.

DTZ were active responsible owners that looked through the property life cycle with its approach to carbon efficiency, energy ratings as well as flood and other risks. It considered all factors in conjunction with the cost to reach net zero.

DTZ targeted Building Research Establishment Environmental Assessment Method (BREEAM) certification, however noted there would be nuances dependant on the asset.

In response to a question on the valuation of the Fund's Property assets, Members noted that LGPS Central had undertaken a procurement exercise for a framework for partner funds to utilise in order to seek an independent valuation.

[At this point representatives from DTZ Investors and LGPS Central left the room]

RESOLVED:
The Subcommittee agree:

a. That a £120m commitment to the LGPS Central Direct UK property fund, be approved, to be split over two years, £60m per financial year.

b. That transfer of the management of the existing Colliers UK direct legacy (£113m at 31st December 2021) assets to DTZ be approved.

c. That movement of the Colliers UK indirect funds (£18m) to the LaSalle mandate be approved.

d. That the Director of Corporate Resources, following consultation with the Chairman of the Investment Subcommittee, be authorised to agree new benchmarks and target objectives for the UK and global mandate with LaSalle, as detailed in paragraphs 50, 51 and 52 of the report.

e. That subject to d. the Director of Corporate Resources, following consultation with LaSalle, be authorised to determine the appropriate time to switch reporting to new benchmarks and a transition plan that balances the time taken to transition, and fees incurred, noting the transition will need to be carefully managed over a number of years.

Wednesday, 27 April 2022
CHAIRMAN

Leicestershire County Council

INVESTMENT SUB-COMMITTEE – 27 JULY 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.

Background

2. 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.

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. 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.

5. At the April 27th 2022 ISC the Sub Committee approved an investment to LGPS Central's Direct property fund which will be managed by DTZ International.

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.

Cash holdings at 31st March 2022

7. The Fund, as of 31st March 2022 held £116m in cash, or 2.0% of total Fund assets (based on the £5.76bn valuation as at 31st March 2022). In addition, the Fund held £52m 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 and 2022 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 March Fund valuations is shown below.

	Benchmark SAA 2022	Actual Mar-22	Difference to SAA
Growth assets			
Listed Equity Passive	30.0%	32.42%	2.42%
Listed Equity Active	12.0%	12.22%	0.22%
Private Equity	5.75%	7.63%	1.88%
Targeted Return	7.50%	8.47%	0.97%
Income assets			
Infrastructure	9.75%	7.76%	-1.99%
Global credit - private debt / CRC	10.50%	6.23%	-4.27%
Property	10.00%	8.47%	-1.53%
Global Credit - liquid MAC	4.00%	3.85%	-0.15%
Emerging market debt	2.50%	2.08%	-0.42%
Protection			
Inflation linked bonds	4.50%	4.27%	-0.23%
Investment grade (IG) credit	2.50%	2.19%	-0.31%
Short dated IG credit	0.50%	1.48%	0.98%
Active currency hedge collateral	0.50%	0.90%	0.40%
Cash	0.00%	2.01%	2.01%

	31/3/22 £m	2022 SAA	31/3/22 Actual weight %	Difference, actual to 2022 SAA
Growth	3,500	55.25%	60.7%	5.5%
Income	1,636	36.75%	28.4%	-8.3%
Protection	509	8.00%	8.8%	0.8%
Cash	116	0.00%	2.0%	2.0%
	5,761	100.00%	100.0%	

12. The Fund is overweight growth assets (+5.5%) and underweight income assets (-8.3%). 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 which are described below to address the underweights within infrastructure, global credit and property.

14. All three areas received approval to invest in 2021 and 2022 during various meetings, however commitments made to managers will take time to be called. A summary of 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
g. Two £60m investments to the LGPS Central direct property fund – April 2022 ISC

15. The combined commitments above total £497m. As at 31st March 2022 the amount yet to be called by the managers is £263m. Since the 31st March portfolio valuation date a number of commitments have been called and as such net in roads have been made to reduce the underweight income asset class position which stood at c10% based on the 31st December 2021 portfolio valuation and is 8.3% at 31st March 2022.

16. If all remaining commitments and expected distributions were made by 31st March 2023 the underweight to the income asset class fund would reduce from 8.3% to 4.2%. There is a proposal on today's agenda to commit to the infrastructure asset class and it is planned to bring a proposal to the October ISC for private debt, both of which will further reduce the underweight as they are called.

17. In particular net cash calls at the following managers have occurred:

a. CRC CRF5 - £32m
b. Partners MAC6 – net £8m
c. LGPS Infrastructure core/core plus - £6m
d. LPGS Private debt low return - £5m
e. LPGS Private debt high return - £3m

18. In addition, a further £20m has been sent to Aegon to maintain collateral on the currency hedges they maintain for the Fund. The Fund has a benchmark hedge position of 30% of unhedged foreign currency assets and Aegon exercise their judgement on which currency pairs to hedge, partially, fully or leave unhedged.

Plans for 2022

19. 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	31/3/22 £m	2022 SAA	31/3/22 Actual weight %	Difference, actual to 2022 SAA	£m to target weight	Commitments approved	2022/23: other cashflow	Future ISC changes	Diff to target weight post changes £m	% diff to SAA
Listed Equity - Active and Passive	2,572	42.00%	44.6%	2.6%	152			-150	2	0.0%
Targeted Return Funds	488	7.50%	8.5%	1.0%	56			-50	6	0.1%
Private Equity	440	5.75%	7.6%	1.9%	109	59	-43		125	2.2%

Income	31/3/22 £m	2022 SAA	31/3/22 Actual weight %	Difference, actual to 2022 SAA	£m to target weight	Commitments approved	2022/23: other cashflow	Future ISC changes	Diff to target weight post changes £m	% diff to SAA
Infrastructure	447	9.75%	7.8%	-2.0%	-115	61	-20	170	96	1.7%
Global credit - private debt / CRC	359	10.50%	6.2%	-4.3%	-246	155	-75	150	-16	-0.3%
Property	488	10.00%	8.5%	-1.5%	-88	120			32	0.6%
Global Credit - liquid MAC	222	4.00%	3.9%	-0.1%	-8				-8	-0.1%
Emerging market debt	120	2.50%	2.1%	-0.4%	-24				-24	-0.4%

Protection	31/3/22 £m	2022 SAA	31/3/22 Actual weight %	Difference, actual to 2022 SAA	£m to target weight	Commitments approved	2022/23: other cashflow	Future ISC changes	Diff to target weight post changes £m	% diff to SAA
Inflation linked bonds	246	4.50%	4.3%	-0.2%	-13				-13	-0.2%
Investment grade (IG) credit	126	2.50%	2.2%	-0.3%	-18				-18	-0.3%
Short dated IG credit	85	0.50%	1.5%	1.0%	56				56	1.0%
Active currency hedge collateral	52	0.50%	0.9%	0.4%	23				23	0.4%

Cash	116	0.00%	2.0%	2.0%	116					

20. Changes to be considered:

   a. Reduction in listed equity – a c£150m 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. It is not expected that sales of assets will be needed to raise cash for existing commitments, but if needed, listed equity alongside the slight overweight to targeted return would be the natural place to raise cash from by selling underlying listed equity and targeted return holdings in an as equal manner as possible.

   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 dependent 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£45m to be returned to March 2023. At present there is no requirement to make a new commitment to this asset class. Given valuations of underlying private equity holdings they are likely to reduce over the coming quarters in line with the falls for most listed equity indices.

   c. Infrastructure – commitments outstanding amount to c£60m. The Fund expects c£20m to be returned from existing investments that are closed ended. Officers, alongside the Fund's investment advisor Hymans estimate a further £170m commitment is needed to align to SAA target of 9.75% over a number of years. There is a paper on today's agenda that will address this underweight position together with an implementation plan to manage a transition to a potential higher infrastructure allocation which was mentioned within the January 2022 SAA paper delivered by Hymans.

   d. Global Credit – commitments outstanding amount to c£155m. Officers expect c£75m to be returned to the Fund to March 2023 from existing private credit investments with Partners, CRC and M&G. This asset class will therefore require further commitments of c£150m in order to not fall further behind the SAA target. Officers have been in contact with LGPS Central regarding their plans for the next releases 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 – £120m of commitment remains to this asset class which was approved at the June 2022 ISC. This commitment is to the LGPS Central direct property fund and will be drawn once the product is available for partner fund investments. It is estimated that LGPS Central will receive all regulatory approvals in the coming months.

Effect on cash to March 2023

21. 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 opening position at the 1st April 2022 which was £116m. The cash position at the time of writing is £68m.

22. A £25m commitment has been assumed will be called for infrastructure investments proposed at this meeting. At the time of writing, it is unclear exactly how much will be called by managers, and as such a prudent estimate has been included.

23. Officers have assumed £30m of a new private debt commitment will be called prior to March 2023 from a proposal that will be bought to ISC in October. If the underlying managers in the proposed Fund do not call commitments as quick as expected, then cash at year end will be higher than forecast.

24. 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.

25. The cash position does not include collateral held at Aegon for the active currency hedge which is £30m at the time of writing (28th June 2022). Adding this to the closing position gives a cash position of £112m or 1.9% of total Fund assets based on a £5.8bn portfolio value.

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

28th June 2022 cash position	**68**	As at 28 June 2022, excludes cash held as collateral for currency hedge.
Management expenses	**-4**	These are investment management expenses paid directly by the Fund. Majority of fees are paid from the investments held with the managers.
Investment income	**23**	Income distribution paid to the Fund, 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£30m 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	**45**	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	**-173**	Represents existing commitments made forecast to be drawn to next March year end
Expected capital distribution	**123**	Forecast distribution expected from holdings in private equity, private debt infrastructure in the main
Forecast closing cash position 31st March 2023	**82**	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

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

Supplementary Information

28. An exempt paper which is of a sensitive nature is included elsewhere on the agenda and contains supplementary information on the Infrastructure review and proposed investments.

Equality and Human Rights Implications

29. 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
Tel: 0116 305 1449 Email: Bhulesh.Kachra@leics.gov.uk

This page is intentionally left blank

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

Document is Restricted