Minutes of a meeting of the Investment Subcommittee held at County Hall, Glenfield on Wednesday, 12 October 2022.

PRESENT:

Leicestershire County Council

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

Leicester City Council/District Council Representative

Cllr. Malise Graham
Cllr. A. Clarke

University Representative

Zubair Limbada

47. Minutes of the previous meeting.

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

48. Question Time.

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

49. Questions asked by members.

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

50. Urgent items.

There were no urgent items for consideration.

51. 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.

52. Strategic Asset Allocation Update and Cash Deployment Plans.

The Subcommittee considered a report of the Director of Corporate Resources which provided an update on the strategic asset allocation, cash deployment plans and bond holdings. A copy of the report marked 'Agenda Item 6' is filed with these minutes.

The Director said that the Local Pension Committee and Investment Subcommittee had agreed investments in 2021 and 2022 which would address the Fund's current overweight position in growth and underweight in income as they were called. Recommendations for several investments in private debt products which would be considered later on in the meeting, would also help the fund move closer towards its target weighting.

In reference to the currency hedge, the Director said that the fund did operate a hedge via investment manager Aegon. The fund had allocated £65m in recent months to support the hedge, as sterling weakened, however these losses would be more than offset by increases in the value of overseas holdings.

Representatives from Hymans Robertson, the Fund's independent investment advisors provided the Subcommittee with an update concerning the current markets and the implications for the Fund. It was noted that further expected rises in interest rates would increase Government bond yields which would have a negative impact on asset classes, particularly fixed income bonds. The acceleration of bond yields as a result of the Government's recent mini budget announcements had compounded the position and led to further market volatility. Whilst higher yields were good for reducing pension fund liabilities and on a net to net basis funds should have been better off on the basis that liabilities had fallen more than the asset values, a significant number of corporate defined benefit pension schemes had hedged their liabilities with government bonds and derivative programmes which meant the rise in yields had forced them to sell these assets at much lower prices. The Bank of England had agreed to buy guilds which some pension funds needed to sell in order for funds to maintain their liability driven investment programmes.

In terms of local government pension schemes and specifically the Leicestershire Fund, it did not have a liability driven investment programme and therefore it had not been directly affected by recent falls in guild yield prices. Whilst the Fund's assets had decreased, so had its liabilities.

The Fund now had an opportunity to buy a relatively small amount of guilts and other protection assets if it wished at a much lower rate than was available previously, which would allow the Fund to reduce some of its investment risk and protect its future funding levels. Work was being undertaken to explore the opportunity and should it be considered prudent and action was required before the meeting of the Pension Committee in November, action would be taken by the Director of Corporate Resources, following consultation with the Chairman, using his delegated powers.

In response to questions from members, it was noted that the recent market volatility did not require the Fund to review its overall strategic asset allocation.

Previous evaluations of the Fund had expected Government Bond yields to normalise over time, if not so quickly, and levels of inflation experienced so far was well within the range forecasted within the asset evaluation modelling. The consideration of increasing the Fund's protection assets would be a tactical change to take advantage of the current market conditions rather than a change to the overall strategic direction of the Fund.

RESOLVED:

That the report be noted.

53. Date of Next Meeting - 14 December 2022 at 10.00am.

It was noted that the next meeting would be held on 14 December 2022 at 10am.

54. Recommended Investment into LGPS Central and Partners Private Debt Products.

The Subcommittee considered a report by the Director of Corporate Resources which provided members with information in respect of the private debt portfolio review and proposed investments. A copy of the report is filed with these minutes marked '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

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

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

Representatives from LGPS Central presented to the Subcommittee on the proposed investment in their Low Return and Real Assets sleeves.

Arising from the discussion the following points were noted:-

- The LGPS Central real assets product targeted a net return of between 3.5% to 5.0% over the term of the product. Since the target was set interest rates had significantly risen and there was therefore scope to increase the target net return, whilst noting that a long term view would always be taken. The key objective of securing return without excessive risk would remain.

- The real assets product focused on real estate (property) and infrastructure debts and a diverse investment would be secured by investing in a variety of managers with a track record of delivering returns.

- LGPS Central would prioritise the securing of senior debt over less secure forms of debt such as mezzanine debt.

- As part of LGPS Central's responsible investment approach, a sustainability linked loan would grant the borrower a small reduction in interest margin if it met certain Environmental, Social and Governance KPIs (ESG). In some instances, the interest margin may increase if the borrower fails to meet ESG KPIs. The KPIs would vary depending on the company but could include a reduction of carbon emissions and increasing the diversity of the company's board or employee base. A separate team within LGPS Central reviewed each investment in relation to responsible investment and made recommendations to the Central's Investment Committee ahead of any investment being made.

[At this point representatives from LGPS Central left the meeting]

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

RESOLVED:

a) That a commitment of £140m to the LGPS Central Low Return Sleeve be approved;

b) That a commitment of £80m to the LGPS Central Real Assets Sleeve be approved subject to officer discussion regarding the target return and investment strategy changes for the fund reflecting current market conditions;

c) That a commitment of up to £60m to Partners MAC 7 Vintage be approved, subject to the Leicestershire Fund being no more than 20% of total MAC 7 commitments, with any unused commitments up to the maximum £60m to be taken into account for the 2024 private debt;

d) That the following commitments be made in 2023/2024:

    i. Subject to a minimum fund raise by Central of £900m an additional £180m to be committed to the new LGPS Central Low Return Sleeve. If the current Sleeve's end date is extended, then this minimum fund raise of £900m will not apply given the size of the existing commitments;

    ii. Up to a total of £100m commitment to the LGPS Central Real Assets sleeve subject to the Leicestershire Fund being a maximum of 20% of the total sleeve. Any unused commitment up to the maximum £100m to be taken into account for the 2024 private debt proposal.

e) That the commitments set out above be funded from existing cash resources where possible and that the Director of Corporate Resources, following consultation with the Chairman of the Local Pension Committee, be authorised to divest overweight positions back to the Strategic Asset Allocation target to fund any remaining commitments.

Wednesday, 12 October 2022
10.00 am - 12.08 pm CHAIRMAN