

**Minutes of a meeting of the Investment Subcommittee held at County Hall,
Glenfield on Wednesday, 11 October 2023.**

PRESENT:

Leicestershire County Council

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

Leicester City Council

Cllr. A. Clarke

District Council Representative

Cllr. R. Denney

University Representative

Mr. Z. Limbada

Staff Representatives

Mr. N. Booth

Independent Advisers and Managers

LGPS Central

Ms. Cara Forrest
Ms. Ann-Marie Patterson

Hymans Robertson

Mr. Russell Oades
Mr. Philip Pearson

12. Minutes.

The minutes of the meeting held on 26 July 2023 were taken as read, confirmed and signed.

13. Question Time.

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

14. 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).

15. 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.

16. 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.

Councillor Denney declared an Other Registrable Interest in all agenda items as he has invested in various passive funds invested with Legal and General.

17. LGPS Central - Multi Asset Credit (MAC) and Investment Grade Credit (IGC) Update.

The Sub-Committee considered a report of the Director of Corporate Resources, which provided information on the Leicestershire Pension Fund (Fund) MAC and IGC investments held with the LGPS Central (Central) and the performance of the two mandates held with them. A copy of the report marked 'Agenda Item 6' is filed with these minutes.

The Chairman welcomed Ms. Cara Forrest and Ms. Ann-Marie Patterson from LGPS Central who were in attendance at the meeting for this item and supplemented the report with a presentation, which is also filed with these minutes.

Arising from the discussion the following points arose:

- i. In response to a Member's question, LGPS confirmed in terms of the Fund performance update, figures outlined included capital and income, and that looking ahead the yield was expected to improve. It was explained that when the Fund had been launched, yields had been around 3.5% on bonds, but this had now doubled due to the recent market environment.
- ii. A Member queried how the Fund had performed against its peers in the market. LGPS explained that because it was a bespoke portfolio with a high weight of sterling assets, it was difficult to match like for like in the market. However, LGPSC had measured the managers with global products against the global market and found that they had matched and performed in line with other managers in the market.
- iii. LGPSC explained that because the UK and Europe had under-performed against the United States, it had been expected that Fidelity would underperform as it had a UK and Europe focus, unlike Neuberger Berman which had a US focus. LGPS stated underperformance would be recovered over the next 12 months as the markets themselves recovered.
- iv. In response to a Member's query, it was explained that the investment grade corporate bond fund had been invested in developed markets investment grade and the emerging markets part of the market and was small, whereas the MAC Fund was a go anywhere product. It was explained that cash limits had been increased to 15%

of total allocation with the MAC fund to provide flexibility for managers in volatile markets.

- v. It was noted that the strategy held a long-term view. However, bonds were not held to term but continually evolved as the portfolio was dependent on market environment and market allocation, and managers would exit a bond to change strategic allocation or trade for better alternatives.
- vi. A Member asked how the yields could double from 3.5% if the interest rates were expected to remain higher for longer. LGPS explained that the market had priced in the higher interest rates, and the market was more stable and so volatility should subside.

RESOLVED:

That the LGPS Central, Multi-Asset Credit (MAC) and Investment Grade Credit (IGC) report and presentation be noted.

(Ms. Cara Forrest and Ms. Ann-Marie Patterson left the meeting at this point)

18. Listed Equity Transition Update.

The Sub-Committee considered a report of the Director of Corporate Resources which provided an update on progress with respect to the listed equity changes as approved at the 19 April 2023 meeting of the Sub-Committee. A copy of the report marked 'Agenda Item 7' is filed with these minutes.

RESOLVED:

That the Listed Equity Transition Update report be noted.

19. Cash Forecast to Year End 23/24 and Cash Management Strategy.

The Sub-Committee considered a report of the Director of Corporate Resources which provided an update on the cash holding of the Leicestershire County Council Pension Fund (Fund) and the plan for its deployment against the Strategic Asset Allocation (SAA), and sought the Sub-Committee's approval of the cash management strategy (CMS) for the Fund. A copy of the report marked 'Agenda Item 8' is filed with these minutes.

Arising from discussion the following points arose:

- i. It was noted that the column headings in the table at point 11 in the report should be amended to read 2022 SAA and 2023 SAA respectively.
- ii. Members were informed that the target listed equities weight at 37.5% was likely to higher over the next six months to a year as listed equity was reorganised and the amount of cash holdings would hopefully be reduced to around £190million by March 2024.
- iii. A Member queried if investments were made in banks, would they be at risk of helping support them if they got into trouble. The Director responded that there were many considerations made when investing with banks, including minimising the amount held in any single bank, and in accordance with treasury advisor Link's list of approved banks, which was prudent.

RESOLVED:

- a) That the cash holding of the Leicestershire County Council Pension Fund (Fund) and the plans for its deployment against the Strategic Asset Allocation (SAA) update report be noted.
- b) That the Cash Management Strategy (CMS) for the Fund as set out at paragraph 38 of the report be approved.

20. Recommended Investment to Private Equity Products.

The Sub-Committee considered a report of the Director of Corporate Resources which sought Sub-Committee approval of private equity (PE) commitments covering 2023/24 and 2024/25. A copy of the report marked 'Agenda Item 9' is filed with these minutes.

The Chairman welcomed Mr. Philip Pearson and Mr. Russell Oades from Hymans Robertson (Hymans) who were in attendance at the meeting for this item and supplemented the report with a presentation which is also filed with these minutes.

Arising from the discussion the following points arose:

- i. In response to Members questions it was noted that private equity had done well over the last few years, but it was thought to be unlikely that it would do as well over the next five to 10 years. However, this would not be an issue provided that private equity continued to pay a decent premium and there was less risk in listed markets. Statistics suggested private equity would outperform listed markets by an average of 4% which was considered a reasonable premium over the long term and would compensate for liquidity risk.
- ii. When looking at fees, LGPS Central would charge 5bps, whereas Adams Street would charge on average across existing holdings 55bps. It was noted that neither LGPS Central nor Adams Street would charge any performance fees on the global fund. There were fees from underlying managers, the transparency of information on which was difficult to find out. However, good multi managers like Adam Street or LGPS Central would try hard to negotiate decent discounts on the management fees.
- iii. Members were reassured that the way performance fees were structured was to ensure that underlying managers were only paid out on out performance, so underlying funds would have to return above a particular target which would vary between different underlying fund managers and would often only earn the fee when the investments had been realised. Members were further informed that where performance fees were calculated on unrealised gains which were susceptible to market volatility, there was usually some claw back mechanism in the event that performance suffered after the performance fee was paid out.
- iv. With regards to geographic targets Hymans suggested it would be important for underlying managers to have the flexibility to invest where there were opportunities in global programmes. It was noted that it was not surprising that there was significant exposure in the US as a leader in terms of new ventures such as IT and life sciences. The geographic ranges that LGPS Central and Adam Street operated in were consistent with the target allocation ranges.

- v. In response to a question, Hymans confirmed the Pacific rim was a strong area, and PE managers were increasingly targeting developed economies around the Western end of the Pacific. The reason for proposing a smaller allocation to Asia was simply due to the fact that the PE markets were smaller than they were in North America and Europe. Asia was growing and managers were increasingly targeting the area and emerging markets without taking on too much risk. India, China, Indonesia, Turkey and Brazil were also part of the emerging market allocation.
- vi. A Member queried primary investment characteristics that seemed to be softened from PE in 2018 to 2023 and questioned if this was because they had matured. Hymans confirmed that LGPS Central had been challenged on the point, and it had reasoned that the softening of both the number of primary funds they wanted the manager to run and minimum size of a primary fund, had been to enable the allocation of them to experienced managers, who were launching for the first time specialist strategies focussing on a particular area of the PE market, for example, life sciences, or logistics technology.

RESOLVED:

- a) That the report and presentation from Hymans on the Recommended Investment to Private Equity (PE) Products be noted.
- b) That the general cash balances fund detailed below, and which would be called over 2023/24 and 2024/25, be approved:
 - i. £40million (GBP) be committed to the LGPS Central PE 2023 vintage.
 - ii. \$50million (USD) be committed to the ASP Global Funds 2024 vintage.
 - iii. A combined £80million be committed to PE in 2024/25 with the split by PE Fund to be decided based on the geography, lifestyle origination channel framework as described in the report and with consultation with the Fund's investment advisor Hymans Robertson.

21. Date of Next Meeting

It was noted that the next meeting would be held on 13 December 2023.

Wednesday 11 October 2023
1.30pm to 3.01pm

CHAIRMAN