Meeting: **Investment Subcommittee**

Date/Time: **Wednesday, 24 July 2024 at 10.00 am**

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

Contact: **Mrs A. Smith (Tel. 0116 305 2583)**

Email: **angie.smith@leics.gov.uk**

Membership

Mr. T. Barkley CC (Chairman)

Mr. D. C. Bill MBE CC
Mr. N. Booth
Cllr. A. Clarke
Mr. D. J. Grimley CC
Mr. J. Henry

AGENDA

Item		Report by	
1.	Minutes of the meeting held on 1 May 2024.		(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.	Cash Position 31 March 2024, Deployment Against the Strategic Asset Allocation, Proposed Private Equity Commitments	Director of Corporate Resources	(Pages 9 - 16)
7.	Review of the Leicestershire LGPS Infrastructure Assets.	Director of Corporate Resources	(Pages 17 - 22)

8. Dates of Future Meetings.

Future meetings of the Investment Sub-Committee are scheduled to take place on the following dates:

2 October 2024
11 December 2024
16 April 2025
16 July 2025
1 October 2025
10 December 2025

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

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

10.	Review of the Leicestershire LGPS Infrastructure Asset Portfolio.	Director of Corporate Resources	(Pages 23 - 156)

Leicestershire County Council

Minutes of a meeting of the Investment Subcommittee held at County Hall, Glenfield on Wednesday, 1 May 2024.

PRESENT:

Leicestershire County Council

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

Leicester City Council

Cllr. A. Clarke

District Council Representative

Cllr. R. Denney

University Representative

Mr. Z. Limbada

Independent Advisers and Managers

Mr. Philip Pearson – Hymans Robertson

22. Chairman's Announcement

The Chairman took the opportunity to announce that it was Mr. Zubair Limbada's final attendance at both the Investment Sub-Committee and Local Pension Committee Meetings, and that the Committee would be welcoming a new University Representative during the summer.

The Chairman thanked Mr. Limbada for his presence over the past six years and had greatly valued his contribution at meetings. He invited the Members to join him in wishing him well.

23. Minutes.

The minutes of the meeting held on 11 October 2023 were taken as read, confirmed and signed.

24. Question Time.

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

25. 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).

26. Urgent Items.

There were no urgent items for consideration.

27. 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.

28. Cash Position 31 March 2023 and Forecast to Year Ending 2024/25.

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 plans for its deployment against the Strategic Asset Allocation (SAA). A copy of the report marked 'Agenda Item 6' is filed with these minutes.

The Chairman welcomed Mr. Philip Pearson from Hymans Robertson (Hymans) who was in attendance at the meeting.

Arising from discussion the following points arose:

i. In response to a query regarding how weightings were arrived at the Director reported that it was an annual process and they were set on the advice of investment consultants Hymans Robertson in advance of each January meeting of the Local Pension Committee.

ii. Members noted that an approved banks list was utilised from the Fund's treasury advisor, on which there were overseas banks. However, the Fund tended to lend in Sterling, so any body lent to on the approved list usually had branches in the UK.

iii. In response to a Member's question, the Director report the Fund had a total of £250million term deposits, which was the counterparty limit for term deposits. It was questioned whether information could be provided on individual deposits. However, Members were informed that the limit for each deposit was £50million, with some deposits being substantially less.

iv. It was reported the Fund was at a point where it was holding higher rates of cash and so taking advantage of the high interest rates. It was noted that as money market funds are liquid and rates changed daily, but also some money was fixed for the duration of the term.

v. A Member questioned if there was a formal benchmarking process or metrics looked at across other funds. The Director reported the Fund tracked its own performance against benchmarks of the individual investments it made, for example, if it were to invest in a global equity product, it would be benchmarked against a global equity benchmark.

vi. A Member queried the allocation and overweight of growth assets, and asked if it was fine to leave it at overweight whilst markets were doing so well. The Director said that ideally the Fund would go straight to target allocation as approved by Committee, but presently it was difficult to allocate money into areas which were underweight. Hymans Robertson continued it was generally recognised that it was good to regularly rebalance allocations to those targets to ensure there were no huge under or overweight's, which would earn more return than if asset allocations were left to drift. Hymans continued that it was comfortable with maintaining a modest overweight.

vii. Equity targeted return funds and private equity had been listed as growth assets. Listed equity would have equities within which were more growth stocks and paid lower income. The mix of equities was derived through a number of mandates, such as Legal and General passives which was one of the Funds bigger holdings. There were also three mandates with LGPS Central, the makeup of which was agreed via a listed equity review completed in 2023 which defined what percentage of the 37.5% of fund assets should be split across the mandates.

RESOLVED:

That the report on Cash Position 31 March 2024 and Deployment Against the Strategic Asset Allocation be noted.

29. Review of the Leicestershire LGPS Protection Asset Portfolio.

The Sub-Committee considered a report of the Director of Corporate Resources the purpose of which was to provide an update in respect of a planned review of the Fund's protection assets as agreed at the January 2024 meeting of the Local Pension Committee. A copy of the report marked 'Agenda Item 7' is filed with these minutes.

Mr Philip Pearson from Hymans Robertson (Hymans) was attendance at the meeting for the item and supplemented the report with a presentation, which is also filed with these minutes.

Arising from the discussion, the following points arose:

i. A Member queried if the unrest between China and Taiwan might be a problem in the near future for pension fund investments. Hymans responded that the issue hadn't been included as part of its asset liability modelling (ALM) simulations, but in calibrating the 5,000 scenarios it had considered historic events, which were characteristic of the sort of things that might happen, such as, what could happen in Taiwan if China were to invade. It was not thought that the reason China was buying gold because of any unrest with Taiwan, but more because they wanted to diversity their sovereign reserves away from treasuries.

ii. Regarding protection assets and how these were defined, when a lot of equities were protective in their nature, Hymans Robertson advised that most of the other assets in the portfolio protected against certain risks, not just protection assets, and the way they were defined as protection assets was based more on the function and characteristics of the assets themselves. Consideration was given to low the risk of fundamental loss of not getting money back, and where it was expected that an asset's value would fluctuate in line with the market.

iii. A Member queried if the Fund had always had 8% allocation towards protection assets. The Director of Corporate Resources said it had been at 8% for the past four years but would check on when it was last amended. Hymans added that it would not usually be higher because generally LGPS funds were much more heavily invested in equities and had been selling their equities rather than selling their protection assets.

iv. A Member commented that from a governance perspective it would be useful to understand more around the ALM which was relied on heavily to inform significant decisions. The Member queried as to what sort of quality assurance or other took place within the funds to ensure the integrity of the modelling. Hymans reassured Members there were checks and balances on every new assumption made within the modelling, and that it did have some material that could be supplied to Members around model governance.

v. A Member questioned Hymans as to what degree climate risk as a threat multiplier (and recognised by the United Nations) formed part of the vocabulary or the discourse amongst its peers, when there were more likely to be global, significant events, such as drought, that would have an impact on markets. Hymans reported climate risk was considered when setting assumptions and thinking about scenarios to best describe the range of things that could happen due to climate change and were conscious of inter-dependencies and multiplier effects. Hymans continued that, due to the way models were calibrated against historical experience, it could not explicitly model all of those inter-dependencies and how they played out.

RESOLVED:

a) That the report on the Review of the Leicestershire LGPS Protection Asset Portfolio be noted.

b) That Hymans Robertson be requested to supply information to Members of the Local Pension Committee around model governance.

30. Date of Next Meeting.

It was noted that the next meeting would be held on 24 July 2024.

Wednesday, 1 May 2024
10.00am to 11.27am

CHAIRMAN

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Leicestershire County Council

INVESTMENT SUB-COMMITTEE – 24 JULY 2024

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

CASH POSITION 31 MARCH 2024, DEPLOYMENT AGAINST THE STRATEGIC ASSET ALLOCATION, PROPOSED PRIVATE EQUITY COMMITMENTS

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 against the Strategic Asset Allocation (SAA).

2. The report also provides information regarding a proposed commitment to private equity in order to maintain alignment to the SAA.

Background

3. Hymans Robertson, the Fund's investment advisor, completed the 2024 Strategic Asset Allocation (SAA) as part of the Fund's annual investment review. The Strategy was reviewed by officers and was approved by the Local Pension Committee at its meeting on 26 January 2024.

4. Cash balances are reported to the Local Pension Committee alongside Fund investment values by investment managers each quarter. At the last update presented to the Local Pension Committee (19 June 2024), the cash balances as at 31 March 2024 totalled £386m with an additional £51m with the Fund's currency hedging manager, Aegon asset management (Aegon) which acts as collateral for the Fund's currency hedge.

5. The Fund does not have a specific cash allocation as part of the SAA other than to set a limit of 0.75% of total Fund assets to reflect the cash held at Aegon to act as collateral for the currency hedge.

6. As a result of making changes to lower listed equity holdings towards the 37.5% of total Fund assets, as approved at the January 2023 Local Pension Committee meeting, the Fund has held higher levels of cash and as such a Cash Management Strategy (CMS) for the fund was approved at the meeting of the ISC on 11 October 2023.

7. Private equity is an illiquid asset class, with investors required to commit capital for ten years or more. The commitments made to a fund of funds (FoF) PE manager are called by the underlying managers that the Adams Street Partners (ASP) team commit to. ASP's global funds programme is an annual vintage which the Leicestershire Fund has committed to ten times with a total commitment of $591m.

8. The Fund last invested into an ASP global fund in 2023 totalling $49million. One other recent investment was made in 2022 to the ASP global secondary fund 7 for $38million, which invests in a smaller niche area of PE called secondary investments.

9. The LGPS Central PE vintages are similar in nature investing with PE managers, with each new vintage currently planned to launch every 18-24 months. The Fund has previously committed to the 2018, 2021 and 2023 programmes. The total amount committed to the three Central vintages totals £80million.

10. The majority of the Fund's PE exposure comes from ASP £377million. The £80million committed to Central is still in the process of being invested and as such currently totals £12m. The Fund also has a smaller exposure to PE from a legacy manager totalling £24million at the latest valuation date. This will reduce over time as capital is returned to the Fund.

11. At the 11 October 2023 meeting of the ISC it was recommended that the Fund commit £80m into private equity products with Adams Street Partners and LGPS Central with the exact split to be confirmed closer to the time in accordance with the private equity allocation framework agreed.

Cash holdings as at 31 March 2024

12. The Fund, as of 31 March 2024 held a total of £386m in cash. In addition, the Fund held £51m as collateral with Aegon for the active currency hedge mandate. Cash is forecast to reduce over the course of the calendar year and assuming ISC approvals through the calendar year are approved, officers forecast cash to reduce to c£225m at the end of December 2024.

13. 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 Fund's cash balance grows without regular reinvestment to realign to the SAA.

14. With interest rates elevated in comparison to the period from 2009 to 2022 the Fund has been receiving interest payments on average in excess of 5% during the 2023/24 and so far into the 2024/25 financial year. At the time of writing (2 July 2024) the weighted average interest rate on fixed term deposits is 5.24% on a weighted average maturity of around 3 months. Rates on the four money market funds range between 5.1% and 5.2%.

15. The Fund has held a higher amount of cash during the past two years 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 within the illiquid investments, property, infrastructure and private credit where managers call on cash as they make investments. This paper recommends adding to existing commitments in order to facilitate closing the underweight positions in a controlled manner.

SAA 2024

16. A recap of the current SAA is included below. The Local Pension Committee at its meeting in January agreed that the SAA approved in January 2023 remained fit for purpose in 2024 and this was approved at the meeting of the Local Pension Committee on 26 January 2024. The 2024 SAA is shown below with changes from

the 2022 SAA shown in the final column of the table below. It was noted that there were a number of changes in progress from the 2022 to 2023 SAA and it would take the remainder of 2024 to complete these changes.

Asset Group	Asset Class	2022 SAA	2023 & 2024 SAA	Change from 2022 SAA
Growth	Listed equities	42.00% (40% - 44%)	37.50%	- 4.5%
Growth	Private equity	5.75%	7.50%	+ 1.75%
Growth	Targeted return	7.50%	5.00%	- 2.5%
Income	Infrastructure (incl. timber)	9.75%	12.50%	+ 2.75%
Income	Property	10.00%	10.00%	
Income	Emerging market debt	2.50%	0.00%	- 2.5%
Income	Global credit – liquid sub investment grade markets	4.00%	9.00%	+ 5%
Income	Global credit - private debt (inc M&G/CRC)	10.50%	10.50%	
Protection	Inflation-linked bonds	4.50%	4.50%	
Protection	Investment grade credit	3.00%	2.75%	-0.25%
Protection	Currency hedge	0.50%	0.75%	+0.25%
Protection	Cash / cash equivalent	0.00%	0.00%	

Current allocation (31 March 2024) versus 2024 SAA

17. The main changes as approved by the Local Pension Committee in January 2023 and carried forward to 2024 were:

    a. a reduction to listed equity,
    b. and an increase to liquid global credit.

    Both changes at the time of writing are in their final stages of being completed.

Listed equity update

18. On 11 October 2023 the ISC received an update on the listed equity transition which it approved in April 2023.This summarised:

    a. The decision taken to re organise the listed equity holdings and reduce the total Fund weight to 37.5%;
    b. The appointment of a transition advisor; and
    c. Described a four-phase plan to reorganise and reduce the listed equity weight to 37.5% of total Fund assets.

19. Phase one of this plan was completed in September 2023 and £220million was received by the Fund when the LGPS Central climate multi-factor fund holding was reduced to the target weight of 12% of total Fund assets.

20. Phase two, which was the reorganisation of the LGIM passive holdings, was completed in mid-November 2023 which collapsed the LGIM geographic holdings

and single stock holdings into just three funds, a UK passive index fund, an all world passive fund and a low carbon transition (LCT) fund.

21. Phase three will have been concluded by the end of July 2024 as the Fund will have added £120m to the LGPS Central global equity fund (target weight of 12% of total Fund assets) and divested in full (around £185m) from the LGPS Central global emerging markets fund.

22. The final phase is a controlled reduction over time from the LGIM all world equity fund which would then bring the Fund's listed equity weighting to 37.5% of total assets. It is planned that this final phase will be completed gradually over 2024/25.

Liquid global credit update

23. The increase to this asset class refers to the decision to add to an existing LGPS Central product, multi asset credit and take the Fund to the target weight of 9% of total Fund assets.

24. At the time of writing, three more investments will be made to this product in roughly equal value with three already having taken place in 2024 when the Fund invested a total of £175m.

Overall allocations versus target

25. The table below illustrates a similar story to the previous updates. The Fund is currently overweight growth assets and cash and underweight income assets. Considerable commitments have been made to address this which will take many quarters to be called. In the meantime the Fund will be underweight income assets and overweight cash and growth assets. The proposed commitments to infrastructure that are to be presented later on today's agenda are not included on the tables below.

	31/3/24 £m	2024 SAA	31/3/24 Actual weight %	Difference, actual to 2024 SAA	£m to SAA weight	Commitments / investments approved	2024/25: other cashflow / divests	Diff to target weight post changes £m	% diff to SAA
Growth	3,410	50.0%	53.7%	3.7%	232	173	-388	18	-0.3%
Income	2,054	42.0%	32.3%	-9.7%	-616	619	-172	-169	2.7%
Protection *	506	8.0%	8.0%	0.0%	-2	0	-1	-3	0.1%
Cash	386	0.0%	6.1%	6.1%	386				
	6,355	**100.0%**	**100.0%**						

Growth	31/3/24 £m	2024 SAA	31/3/24 Actual weight %	Difference, actual to 2024 SAA	£m to target weight	Commitments / investments approved	2024/25: other cashflow / divests	Diff to target weight post changes £m	% diff to SAA
Listed Equity - Active and Passive	2,697	37.50%	42.4%	4.9%	314		-328	-14	-0.2%
Targeted Return Funds	299	5.00%	4.7%	-0.3%	-18			-18	-0.3%
Private Equity	414	7.50%	6.5%	-1.0%	-63	173	-60	51	0.8%

Income	31/3/24 £m	2024 SAA	31/3/24 Actual weight %	Difference, actual to 2024 SAA	£m to target weight	Commitments / investments approved	2024/25: other cashflow / divests	Diff to target weight post changes £m	% diff to SAA
Infrastructure	666	12.50%	10.5%	-2.0%	-129	140	-20	-9	-0.1%
Global credit - private debt / CRC	525	10.50%	8.3%	-2.2%	-142	200	-85	-27	-0.4%
Property	452	10.00%	7.1%	-2.9%	-184	99	-4	-89	-1.4%
Global Credit - liquid MAC	348	9.00%	5.5%	-3.5%	-224	180		-44	-0.7%
Emerging market debt	63	0.00%	1.0%	1.0%	63		-63	0	0.0%

Protection	31/3/24 £m	2024 SAA	31/3/24 Actual weight %	Difference, actual to 2024 SAA	£m to target weight	Commitments / investments approved	2024/25: other cashflow / divests	Diff to target weight post changes £m	% diff to SAA
Inflation linked bonds	235	3.50%	3.70%	0.2%	13		-16	-3	-0.1%
Investment grade (IG) credit	159	3.50%	2.50%	-1.0%	-63		60	-3	-0.1%
Short dated IG credit	60	0.25%	0.95%	0.7%	44		-45	-1	0.0%
Active currency hedge collateral	51	0.75%	0.81%	0.1%	4			4	0.1%

Cash	386	0.00%	6.1%	6.1%	386				

26. Infrastructure: the Fund is underweight by around £130m but has at 31 March 2024 c£140m in uncalled commitments but with additional commitments proposed as part of the recommendations contained within today's agenda on a separate exempt paper. Any commitment made can take a significant amount of time to be called depending on the manager and strategy employed by the underlying fund and as such assessing future cashflows in from existing investments is important when making commitments.

27. Global credit private debt: the Fund is underweight by c£140m but like infrastructure has around £200m in uncalled commitments. In addition, the Fund has approval to commit a further £280m over two separate LGPS Central products once the relevant products are launched. These two products were delayed whilst a key post was filled by LGPS Central. The £280m is not included as yet on the table above given no formal commitment has been made by the Fund.

28. Property: the Fund is underweight by around £180m. This is due to the poorer performance of the property market in general when compared to other assets classes and the existing underweight the Fund had whilst awaiting the LGPS direct property fund to be setup. It would seem conceivable that if interest rates were to fall then property may exhibit a larger rebound than other asset classes. The Fund has c£100m of uncalled commitments. Whilst this still leaves the class underweight any increases in value of property assets ahead of other asset classes would close this gap. At present the Fund is mindful of making additional commitments to the two open products (LGPS Central's Direct property fund and LaSalle's property fund) which could close the gap.

Proposed top up investments to private equity

29. As previously mentioned within this paper an £80m recommendation was approved at the ISC meeting on the 11 October 2023 with a split between Adams Street global funds programme and LGPS Central PE vintage 2023 to be decided based

on the geography, lifestyle origination channel framework as agreed at the meeting and described below.

30. The framework, current and target allocations are shown below. Given the short amount of time between October 2023 and new valuations from the Fund's largest private equity manager being available as at 31 December 2023, an update versus target allocations would show minimal changes and as such an identical split to last year is proposed in order to meet the framework allocation shown below alongside target allocation ranges for the two proposed funds. A further review will be commissioned as part of the work for 2025 when future years commitments will need to be planned for 2025 and 2026.

	Segment	**Target allocation %**	**Allocation reported in October 2023 %**	**LGPS Central PE 2023 target allocation %**	**ASP 2024 vintage target allocation % ***
Geography	North America	30-60	71	30-50	30-60
	Europe	20-40	18	30-50	20-40
	Asia Pacific	10-30	10	10-39	10-30
	Emerging Markets	0-10	1	n/a	0-10
Lifestage	Venture	10-30	37	0	10-30
	Growth	10-30	4	30-50	10-30
	Buy out	40-70	58	40-80	40-70
	Special Situations	0-10	1	0	0-10
Origination	Primary Funds	40-60	68	100	50-70
	Secondaries	10-30	16	0	10-30
	Co invs	15-25	17	0	15-25

*the global funds programme can invest up to 10% each into private credit and direct growth equity. To date, the Funds ASP allocation to both these areas is a combined 8% as at 31 December 2023.

31. The proposed allocation of £80m, split 50% to LGPS Central's 2023 vintage and 50% to ASP global funds vintage together with distributions from older PE vintages (estimated at £95m pa for the next 3 years) together with newer commitments made to the ASP programmes and LGPS Central vintages should help realign the minor imbalances to the framework above.

32. The Fund will need to make further commitments to PE in 2025 and 2026 given the nature of the PE exposure the Fund has currently where distributions are currently forecast to be higher than calls. Over time the Fund would target a position where distributions and calls would be of a similar size and, therefore, would help attain a target weight to PE. In practice achieving the aim of similar sized commitments each year is made harder by a number of factors, including performance of the PE market versus the general market (which will affect the weighting of PE within the Fund), the receptiveness of the market to bring private companies to the public markets and the ability of underlying PE fund managers to find opportunities to invest into.

33. The Fund does have the option to invest into either the Adams Street Partners Global Funds 2024 vintage which will hold its final close in September or invest into

the same managers 2025 vintage which opens soon after with the first close planned for December 2024. Both vintages follow the same strategy.

34. The Fund has consulted with the investment advisor and given the current underweight to the target SAA of 7.5% it would seem appropriate to invest the additional proposed amount to the current 2024 vintage.

Recommendation

35. It is recommended that the Investment Subcommittee approves:

a. An additional £40m GBP commitment to the LGPS Central Private Equity 2023 vintage;

b. A $50m (£40m at a 1.25£/$ exchange rate) USD commitment to the Adams Street Partners global funds 2024.

Supplementary Information

36. None

Equality Implications

37. There are no direct equalities implications arising from the recommendations in this report. The Fund incorporates financially material Environmental, Social and Governance ("ESG") factors into investment processes. This has relevance both before and after the investment decision and is a core part of the Fund's fiduciary duty. The Fund will not appoint any manager unless they can show evidence that responsible investment considerations are an integral part of their decision-making processes. This is further supported by the Fund's approach to stewardship and voting through voting, and its approach to engagement in support of a fair and just transition to net zero. There are no changes to this approach as a result of this paper.

Human Rights Implications

38. There are no human rights implications arising from this report.

Background Papers

Local Pension Committee 26 January 2024, Overview of the Current Asset Strategy and Proposed 2024 Asset Strategy (Agenda item 6)
https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=740&MId=7538&Ver=4

Officers to Contact

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INVESTMENT SUB-COMMITTEE – 24 JULY 2024

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

REVIEW OF THE LEICESTERSHIRE LGPS INFRASTRUCTURE ASSETS

Purpose of report

1. The purpose of this report is to update the Investment Sub-Committee (ISC) in respect of a review of the Fund's infrastructure assets, including timberland investments.

Policy Framework and Previous Decisions

2. The annual strategic asset allocation (SAA) review is presented for approval each year and recommends high level asset allocation changes for the Fund. The latest SAA was approved by Local Pension Committee in January 2024, where a recommendation to review the Fund's protection asset holdings was also agreed.

3. The SAA for infrastructure assets (timberland investments are classed are held within this asset class) was held at 12.5% of total Fund assets with timberland representing up to 20% of total infrastructure or 2.5% of total Fund assets.

4. At the 27 July 2022 meeting of the ISC, a framework was agreed which is followed in order to control risk from a development of asset and geographical perspective. A summary of the target ranges is included in the table below.

	Allocation range
By risk	70-90% core / core plus infrastructure 10-30% value add and opportunistic infrastructure
By geography	10-30% UK 60-80% developed overseas 0-10% advanced emerging markets

5. At the same meeting of the ISC in July 2022 two new investments were approved by the Committee, alongside top ups to two existing managers products. A summary of which is included below:

    a. An £30m commitment to the LGPS Central Core / core plus infrastructure fund bringing the total commitment to £100m.

b. A £30m commitment to the JP Morgan IIF fund.

c. A £55m commitment to the Quinbrook net zero infrastructure power fund.

d. That the Director of Corporate Resources, following consultation with the Chairman of the Local Pension Committee, be authorised to approve a £55m commitment to the Stafford Carbon offset opportunities fund if satisfactory due diligence is completed by Hymans Robertson.

Background

6. The Fund's infrastructure assets are comprised of seven investments. The managers and investment valuation as at 31 March 2024 are shown in the table below. Two funds have had their valuations amended from the 31.12.23 valuations which were reported at the last Local Pension Committee meeting in June 2024. It is common for there to be a time lag between funds reporting valuations and the external valuations and performance provider needing to provide the Fund valuations for each committee.

Manager and fund	Open / closed ended	Geographic	Risk	31 March 2024 £m	% total of infra	Outstanding commitments 31st March £m
JP Morgan Infra investment fund	Open	Developed Markets	Core / core plus	164	25%	Nil
IFM Global infra fund	Open	Global	Core plus / value add	160	24%	Nil
LGPS Central core/core plus	Open	Mainly developed markets	Core / Core plus	85	13%	53
Stafford Timberland 6,7,8	Closed	Global	Core / core plus	124	19%	Nil
Stafford Carbon offset opportunity fund (COOF)	Closed	Global	Value add	0	0%	53
KKR	Closed	Mainly developed markets	Core plus/ value add	49	7%	8
Infracapital	Closed	Developed markets	Value add	32	5%	Nil
Quinbrook net zero power fund	Closed	Developed markets	Opportunistic	52	8%	47

Scope of the review

7. The review which is included on the exempt section of today's agenda includes information covering the following:

a. A performance review of the existing investments.

b. Allocation vs the framework agreed in July 2022, risk and geographic mix.
c. Include update and high-level opinion on LGPS Central open core/core+ and value add funds.
d. Confirmation of our current rating for each manager (where rated) and reasons for changes in rating where applicable since the last review.
e. Assessment of whether the managers are executing their target strategy.
f. Pooling, ESG and net zero considerations.

Timberland investments

8. The Fund's timberland investments are managed by Stafford Capital partners. The Fund has invested in three vintages of the Stafford timberland series of funds, six, seven and eight. In addition, the Fund has more recently committed to invest into the Stafford Carbon offset opportunities fund (COOF). A summary of holdings by vintage is shown below. It is worth noting that the pool, LGPS Central, does not at present offer a timberland strategy.

Fund	Commitment	Current NAV £m	Uncalled	End of term
Stafford timberland 6 (SIT6)	53m euros	36m	NIL	30 June 2024
Stafford timberland 7 (SIT7)	30m USD	22m	NIL	11 March 2027
Stafford timberland 8 (SIT8)	80m USD	66m	NIL	30 April 2030
COOF	67m USD	0m	67m USD[1]	

[1] at the time of writing the first call to the COOF has been made, c$9m in June 2024.

9. The three Stafford Funds, SIT6,7 and 8 are closed ended, and will eventually return capital as it sells assets to realise capital to return to investors. The end of term for the SIT6 was 30 June 2024,

10. Stafford are currently considering launching a continuation vehicle to invest in assets within SIT6, 7 and 8. They have been talking to their investors to gauge interest in the continuation vehicle, with the main benefit for investors requiring a timberland exposure being not having to redeploy capital as it is returned from the existing SIT 6, 7 and 8 vintages. A continuation fund would help investors, therefore, maintain exposure to assets the fund manager deemed suitable.

11. With the 30 June 2024 deadline for SIT6, officers requested Hymans conduct a review of the continuation fund with a view to potentially investing into the continuation fund. Hymans concluded the review and officers voted in line with the advice to extend the initial fixed term for SIT 6 vintage by 6 years conditional upon closing of the continuation fund.

12. More information on the continuation fund is included in the exempt report on the agenda. In summary the continuation fund will retain many of the holdings from the three vintages whilst retaining the option to divest those holdings where they do not form part of the long-term strategy. The underlying holdings which cover multiple countries and over 50 underlying assets (forests) is highly diversified.

Consultation

13. None

Resource Implications

14. The Director of Corporate Resources has been consulted. There are no additional resource implications.

Recommendations

15. That the request for review of the Leicestershire LGPS infrastructure assets be noted.

Background papers

16. 27 July 2022 Investment Sub-Committee, Strategic Asset Allocation Update and Cash Deployment Plans - https://cexmodgov01/ieListDocuments.aspx?CId=919&MId=6953&Ver=4

17. 26 January 2024 Local Pension Committee, Overview of the current asset strategy and proposed 2024 asset strategy – https://democracy.leics.gov.uk/documents/s180890/SAA%20Jan%202024%20public%20copy.pdf

Circulation under the Local Issues Alert Procedure

18. None.

Equality Implications/Other Impact Assessments

19. The recommendation is a high-level strategic document and there are no direct Equality and Human Rights implications. The Fund takes into account issues around Equality and Human Rights as part of responsible investment which incorporates environmental, social and governance factors in all investment decisions. The Fund will not appoint any manager unless they can show evidence that responsible investment considerations are an integral part of their decision-making processes. This is further supported by the Fund's approach to stewardship and voting through voting, and its approach to engagement in support of a fair and just transition to net zero.

Environmental Implications

20. Climate risk implications have been taken into account as part of the review of the protection portfolio. The proposed approach aligns with the Net Zero Climate Strategy and the Fund's commitment to supporting a fair and just transition to net-zero.

Human Rights Implications

21. This paper outlines the approach the Fund is taking with protection assets. This will align with the Fund's Responsible Investment approach as set out in the Principles for Responsible Investment.

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By virtue of paragraph(s) 3, 10 of Part 1 of Schedule 12A
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