



Meeting: **Investment Subcommittee**

Date/Time: **Wednesday, 1 October 2025 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. P. King (Chairman)

Mr. N. Booth Cllr. G. Whittle
Cllr. R. Denney Mr. D. J. Grimley CC
Mr. J. Henry Mr. B. Piper CC

Please note: this meeting will be filmed for live or subsequent broadcast via You Tube
https://www.youtube.com/playlist?list=PLrIN4_PKzPXi6fvI_Qpw9Ry4G8DxaRESN

AGENDA

<u>Item</u>	<u>Report by</u>	
1. Minutes of the meeting held on 2 October 2024.		(Pages 3 - 6)
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. Private Credit, Private Debt and Property Recommended Investments.	Director of Corporate Resources	(Pages 7 - 58)



7. Dates of Future Meetings.

Meetings of the Investment Sub-Committee are scheduled to take place on the following dates, all at 10.00am unless otherwise stated:

10 December 2025
22 April 2026
8 July 2026
30 September 2026
9 December 2026

8. 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):

9.	Supplementary Information on Private Credit, Private Debt and Property Recommended Investments.	Director of Corporate Resources	(Pages 59 - 202)
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Minutes of a meeting of the Investment Subcommittee held at County Hall, Glenfield on Wednesday, 2 October 2024.

PRESENT:

Leicestershire County Council

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

Leicester City Council

Cllr. G. Whittle

Staff Representative

Mr C. Pitt

Independent Advisers and Managers

Mr Philip Pearson Hyman's Robertson

11. Minutes.

The minutes of the meeting held on 24 July 2024 were taken as read, confirmed and signed.

12. Question Time.

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

13. 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).

14. Urgent Items.

There were no urgent items for consideration.

15. 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.

16. Cash Position 30 June 2024, Deployment Against the Strategic Asset Allocation, Bank Risk Share Investment.

The Sub-Committee considered a report of the Director of Corporate Resources, the purpose of which was to provide an update on the cash holding of Leicestershire County Council Pension Fund and plans for its deployment against the Strategic Asset Allocation (SAA). The report also provided background information regarding a proposed commitment to bank risk share investments in order to maintain alignment to the SAA and a proposed sale of a non-core asset. A copy of the report marked 'Agenda Item 6' is filed with these minutes.

Arising from discussion, the following points were made:

- (i) An investment of approximately £20m - £25m might be made to a Timberland Asset class during the next month, subject to further details being confirmed by the Fund's manager. An update would be provided to the Local Pension Committee at its meeting in November.
- (ii) Limits set in the Cash Management Strategy regarding how much could be held in fixed term deposits and in a single money market fund helped to manage the balance needed between liquidity, return and security. When interest rates were higher, money market funds were more attractive. However, the Director reported that as much as possible would be tied up in fixed term deposits at slightly higher rates and currently the difference in return was marginal.
- (iii) The Funds listed equity target had been reduced by 4.5%. This was not regarded as substantial as this would be managed gradually over time. The target had been reduced because the Fund was seeking to move away from growth to income producing assets. This reflected the risk profile for the Fund, taking a long term view, not due to any concerns arising from specific assets.
- (iv) The property historically owned by the Fund located at Cotham was of immaterial value to the Fund. There was currently no potential development opportunity for the land, this was not being included in the current or future district local plan. The Director assured members that independent agents would be instructed to review all opportunities for the site prior to any proposed sale and that subject to their advice, overage provisions would be included in any sale contract if considered appropriate to protect the Council's interests should the site be developed at any point in the future.

In addition to noting the report, the Chairman moved that, following consultation with him as Chairman of the Investment Subcommittee, the Director of Corporate Resources be given delegated authority to proceed with the sale of the land at Cotham as outlined on the plan appended to the report after receiving appropriate advice from an independent agent to be

appointed.

The motion was seconded and carried unanimously.

RESOLVED:

- (a) That the report be noted;
- (b) That the Director of Corporate Resources be given delegated authority, following consultation with the Chairman of the Investment Subcommittee, to proceed with the sale of the land at Cotham as outlined in red on the plan appended to the report subject to appropriate advice having been received from an independent agent to be appointed.

17. Date of Next Meeting.

It was noted that the next meeting would be held on 11th December 2024.

18. 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 involved the likely disclosure of exempt information as defined in Part 1 of Schedule 12(A) of the Act.

19. Recommended Investment to Bank Risk Share Investments

The Sub-Committee considered a report of the Director of Corporate Resources the purpose of which was to seek approval for a bank risk share investment. A copy of the report marked 'Agenda Item 10' is filed with these minutes.

Mr Philip Pearson from Hymans Robertson, the Fund's investment advisors, provided a presentation as part of this item detailing the outcome of its review of risk sharing strategies and its recommendations regarding the proposed investment.

The Chairman welcomed representatives from Christofferson Robb and Company (CRC) to the meeting who provided a presentation on its investments.

The Committee asked a number of questions of CRC regarding regulatory controls, risk, competition in the market, leverage, and the companies ESG credentials.

After their presentation, the representatives from CRC left the meeting for Members to consider the recommendation in private.

RESOLVED:

That general cash balances fund a £40million (GBP) commitment to the CRC Capital Relief Fund 6 pending satisfactory legal due diligence.

Wednesday, 2 October 2024
10.00 am - 11.52 am

CHAIRMAN



INVESTMENT SUB-COMMITTEE – 1 OCTOBER 2025
REPORT OF THE DIRECTOR OF CORPORATE RESOURCES
REVIEW OF PROPERTY, PRIVATE DEBT
AND PRIVATE EQUITY ASSETS

Purpose of report

1. The purpose of this report is to update the Investment Subcommittee (ISC) in respect of a review of the Fund's property, private debt, private equity (PE) investments. A presentation from Hymans Robertson (Hymans), the Fund's investment advisor, will be delivered as part of this item.

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 at the 26 January 2025 Local Pension Committee where it recommended that there be:
 - A reduction to the property allocation to 7.5% of total Funds assets is proposed from the current 10% target, alongside a review on how to shape the existing property portfolio.
 - A small reduction to the private global debt allocation from a 10.5% allocation to 9.5%, alongside a review of the asset framework.
 - Retain the existing allocation to private equity (PE) targeting 7.5% and consider the next round of commitments to PE.

Background

3. The Fund has longstanding investments across property, private debt, and private equity, these allocations are currently summarised below at the latest valuation point 30 June 2025. Some of the analysis undertaken by Hymans

will have used valuations from the earlier quarter. It is not expected to change the recommendations as explained during the exempt portion of the agenda.

	30/06/25 £m	2025 SAA	30/06/25 Actual weight %	Difference, actual to 2025 SAA	£m to target weight
Growth					
Listed Equity	2,878	41.00%	42.0%	1.0%	69
Targeted Return Funds	341	5.00%	5.0%	0.0%	-1
Private Equity	397	7.50%	5.8%	-1.7%	-117

	30/06/25 £m	2025 SAA	30/06/25 Actual weight %	Difference, actual to 2025 SAA	£m to target weight
Income					
Infrastructure	725	12.50%	10.6%	-1.9%	-132
Global private credit	468	9.50%	6.8%	-2.7%	-183
Property	484	7.50%	7.1%	-0.4%	-30
Global Credit - liquid MAC	438	9.00%	6.4%	-2.6%	-179

	30/06/25 £m	2025 SAA	30/06/25 Actual weight %	Difference, actual to 2025 SAA	£m to target weight
Protection					
Inflation linked bonds	217	3.50%	3.17%	-0.3%	-23
Investment grade credit	197	3.25%	2.87%	-0.4%	-26
Short dated IG credit	65	0.50%	0.95%	0.5%	31
Active currency hedge	72	0.75%	1.05%	0.3%	21

Cash	569	0.00%	8.3%	8.3%	569
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4. Frameworks to manage the risk associated with all three asset classes were setup and approved. Frameworks dictate the level of investment into sub areas of the asset class and can include geographic limits.
5. The frameworks for both the property and private debt asset classes were last reviewed in 2022 with private equity having been last reviewed in 2023. As a result, both property and private debt frameworks are reviewed as part of this review given the time passed since the last framework. Any changes and the rationale will be covered by information contained in the exempt part of the meeting agenda and the presentation delivered by Hymans.
6. The current frameworks for property, private debt and private equity are shown below:

Property:

Market segment	% of total property
UK direct property	40%
UK indirect (funds) property	20%
Global indirect (funds) property	40%

Private debt (market segment):

Market segment	% of total private debt	Range %
Senior corporate debt	65%	40-90%
Real asset linked debt	20%	10-30%
Special situations debt	10%	0-20%
Distressed debt	5%	0-10%

Private debt (geography):

Geography	% of total private debt	Range %
Europe	45%	30-60%
North America	45%	30-60%
Developed Asia & rest of world	10%	0-20%

Private equity:

		% of total PE	Range %
Geography			
	North America	45%	30-60%
	Europe	30%	20-40%
	Asia Pacific	20%	10-30%
	Emerging markets	10%	0-10%
Lifestage			
	Buyout	55%	40-70%
	Growth	20%	10-30%
	Venture	20%	10-30%
	Special Sits	5%	0-10%
Origination			
	Primary	60%	50-70%
	Secondaries	20%	10-30%
	Co invs	20%	15-25%

7. Definitions for PE lifestages and origination channels is shown below:

Lifestage >>	Venture Capital	Growth Equity	Buyout	Special Situations
Stage of Company	Early-stage, pre-profit	Established , scaling	Mature, stable cash flows	Distressed or complex situations
Risk Profile	Very High	Moderate	Lower (operational risk remains)	High (turnaround or restructuring risk)
Capital Use	Product development , market entry	Expansion, new markets	Acquisition, operational improvements	Debt restructuring, recapitalization
Ownership Stake	Minority	Minority or significant minority	Majority (control)	Varies (often control or influence)
Return Drivers	Innovation success, market adoption	Revenue growth, margin expansion	Leverage, operational efficiency	Asset recovery, restructuring gains
Time Horizon	7–10 years	5–7 years	3–5 years	2–5 years

Origination >>	Primary Investments	Secondaries	Co-Investments
Definition	Direct commitments to new funds	Buying existing LP interests in funds	Direct investment alongside a GP

Origination >>	Primary Investments	Secondaries	Co-Investments
Capital Deployment	Gradual (as GP calls capital)	Immediate (buy into existing portfolio)	Immediate (deal-specific)
Liquidity Profile	Longest (10+ years)	Shorter (depends on fund maturity when acquiring)	Similar to underlying deal (3–7 years)
Visibility on Assets	Low (blind pool risk)	High (existing portfolio known)	Very High (specific deal diligence)
Pricing	At par (commitment amount)	Discount or premium to NAV	No fee or reduced fee (deal-by-deal pricing)
Diversification	High (across fund portfolio)	Moderate (depends on purchased fund)	Low (single or few deals)
Governance	Indirect (via GP)	Indirect (via GP)	Limited rights, GP-led

Scope of the review

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

Property:

- Introduction – background to the 7.5% target
- Summary of recommendations – including some rationale to support the recommendations and how to implement any changes
- Background – why pension funds should invest in property, where it fits in a diversified portfolio, what happened during the 2022 property

review and subsequent three years. A review of the current portfolio by manager versus the framework.

- General property market update – how the general market has performed and why and what the outlook is they feel
- Reviews of the Fund's property managers – DTZ, LaSalle and the two ex-Aegon active value funds now managed by DTZ.
- Recommendations and appendices – any further detail as required to support any changes.

Private debt

- What does the current private debt portfolio look like, and what is the expected run-off profile.
- What are Hymans current views on the Fund's private debt managers and implications for the existing portfolio.
- When do further commitments need to be made to reach the target allocation.
- What are the options available to meet the target allocation. Can this be done effectively with the Fund's existing managers.

Private Equity

- Background to the review including current position of the Fund.
- What does the current private equity portfolio look like.
- What is the current overview of the Fund's private equity managers, and how do they support the Fund's objectives.
- Can the Fund's strategy be delivered through LGPS Central alone, or is there still a role for third-party managers.
- What level of further commitments are required to maintain target exposure and vintage year diversification.

Background papers

Local Pension Committee 31 January 2025, Overview of the Current Asset Strategy and Proposed 2025 Asset strategy – item 130:

<https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=740&MId=7986&Ver=4>

Circulation under the Local Issues Alert Procedure

38. None.

Equality and Human Rights Implications

39. 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. CRC are aligned with the UN Global Compact in compliance with the above.

Climate Change and Net Zero Implications

40. In March 2023 the Local Pension Committee agreed a Net Zero Climate Strategy and applicable targets including targeting 90% of the Fund assets measured by 2030.
41. It is recognised that the CRC investments are particularly niche and therefore may be a proportion of the assets unable to be measured in the short-term, however it is not envisaged that this will be a limiting factor for the Fund's target above given the relatively small size of the investment (c1% of AUM).
42. Key challenges for the asset class relate to issues with reporting due to the nature of the investments given transactions referencing thousands of loans, most often to SME borrowers. Further, they are often limited due to bank secrecy laws, meaning CRC generally cannot know the identity of the borrowers. Despite this it is recognised that the majority of investments are through European banks which have highly regulated and well established processes.
43. As part of the review of the Net Zero Climate Strategy officers and the Committee will need to consider how the assets outside of the listed equity portfolio are considered in the wider scheme of the Strategy. This will take place during 2025. In the meantime, officers will engage with CRC and support improvements as suggested by Hymans Robertson and monitor any progress with CRC's Climate Partner.

Appendices

Appendix A – Hymans Robertson review of Property
 Appendix B – Hymans Robertson review of Private debt
 Appendix C – Hymans Robertson review of Private Equity

Officer(s) to Contact

Mr Declan Keegan, Director of Corporate Resources
 Tel: 0116 305 7668 Email: Declan.Keegan@leics.gov.uk

Simone Hines, Assistant Director Finance, Strategic Property and Commissioning
Tel: 0116 305 7066 Email: Simone.Hines@leics.gov.uk

Mr Bhulesh Kachra, Senior Finance Analyst - Investments
Tel: 0116 305 1449 Email: Bhulesh.Kachra@leics.gov.uk

Leicestershire County Council Pension Fund

Property review

David Walker, Partner

Samuel Hampton, Senior Investment Consultant

October 2025

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Introduction

- This paper is addressed to the Investment Sub-Committee (“ISC”) of Leicestershire County Council Pension Fund (“the Fund”).
- The strategic allocation to property was formalised at 7.5% following the 2025 Strategic Asset Allocation (SAA) review. Building on this, this paper takes a deeper look at the Fund’s property allocation, assessing the suitability of sub-allocations and current managers, considering the divergent performance across different property sectors, ongoing pooling requirements, and available solutions via the Pool.
- This paper should not be used for any other purpose. It should not be released or otherwise disclosed to any third party except as required by law or with our prior written consent, in which case it should be released in its entirety. We accept no liability to any other party unless we have accepted such liability in writing. We provide comment from an investment but not a legal or tax perspective.

Executive Summary

As at 31 December 2024, the Fund held £483.9m in property, representing 7.3% of total assets and broadly in line with its revised 7.5% strategic target set during the 2025 Strategic Asset Allocation review. The portfolio spans five mandates across both direct and indirect holdings. Investment performance has been satisfactory overall, reflecting the transitional nature of the portfolio and recent stabilisation in market conditions.

What's Changed Since the 2022 Review?

The last review of the property portfolio took place ahead of the UK property market peak in 2022 and in very different broader market conditions. At that time, progress in building out the UK direct property portfolio had been slower than expected. LGPS Central had selected a UK property investment manager (DTZ) but the Pool's portfolio had not yet launched. The UK property funds market had not yet come under pressure with redemptions. Since then, several developments have occurred:

- The Central fund is now live and building momentum — offering a scalable and more cost-effective route to grow the Fund's direct property exposure.
- DTZ now manage all of the Fund's direct mandates: the LGPS Central UK Direct Property Fund, the Fund's segregated UK portfolio (formerly with Colliers), and two legacy Aegon Active Value funds that are in wind-down. c.£210m is currently invested, with a further c.£50m committed for deployment in 2025.
- Many UK pooled funds have been suffering from ongoing redemption pressure; some funds have entered into wind down and the long term viability of others is being questioned. It's clear that the UK property funds index is shrinking; we expect there to be fewer funds to choose from going forward and many of the surviving funds will be smaller than they were previously.
- LaSalle were asked to pivot the portfolio to increase the Fund's exposure to overseas property, but progress has been slow due to liquidity constraints across the market impacting underlying holdings. The mandate is currently around £275m, with only £52m invested overseas.
- LaSalle has lost some UK multi-manager clients as a result of LGPS pooling and has not replaced these mandates. The indirect team has also experienced senior turnover as a result.
- The UK property market is correcting more quickly than overseas markets, now making it more attractive than other regions on a forward-looking basis.
- In early 2025, it was agreed that the Fund's target allocation to property would be reduced from 10% to 7.5% of total assets; the new target broadly being in line with the current allocation. However we don't believe the reduction in target allocations should be spread equally across each of the Fund's different real estate mandates/strategies.

We have confidence in both DTZ and LaSalle — DTZ for managing the Fund's direct property exposure, and LaSalle for its indirect mandate — but these developments point to the need to refocus how the Fund invests in property going forward.

Executive Summary

Recommendations

We continue to view the target allocation of 7.5% to property as appropriate, and **no further commitments are needed at this stage**. However, we recommend that the Fund refines the structure of the sub-allocation targets within the property portfolio in the following ways:

1. **Increase the UK allocation, from 60% to 70%.** Investing globally comes with additional risks (for example typically more leverage risk) that are only worth taking if expecting to be adequately compensated for doing so; these additional risks haven't led to materially better performance historically, and forecasts suggest the overseas is unlikely to outperform over the next 3-10 years.
2. **Increase the amount managed by DTZ, from 40% to 60%.** Whilst we still believe LaSalle are a suitable manager, there has been some staff turnover and loss of clients in recent years. On the other hand, DTZ are performing well and have the added advantage of being directly appointed by Central, hence aiding with the pooling direction.
3. **Increase the amount which is directly managed, from 40% to 60%.** Investing directly is the most cost-effective implementation route, and we believe a portfolio of greater scale would be beneficial. A 60% allocation equates to c£300m based on current asset values; this would increase over time as the Fund's asset base grows. On the other hand, the indirect market (particularly in the UK) has struggled post-2022 and we are seeing an ongoing shrinkage of the universe of UK funds.
4. **Remove the specific target allocation to indirect UK property.** Instead, LaSalle should be asked to run a Global mandate i.e. with discretion to bias towards or away from the UK depending on their perception of the relative opportunities. LaSalle should also be asked to bias towards parts of the market not easily accessed through direct investment e.g. Residential / Value Add.
5. **Increase the Core / decrease the Residential and Value Add target ranges modestly.** This is to allow for the changes above i.e. a higher core and lower value-add/residential allocation is expected once DTZ manage c.60% of property assets.

We estimate that moving to the proposed structure could save the Fund c.£0.6m p.a. in fees, compared to the 2022 structure.

From an RI perspective, this shift is expected to improve the Fund's ESG profile. DTZ are more advanced in integrating ESG considerations, have a well-established net zero framework, and offer greater control over implementation as a direct manager.

Executive Summary

Implementation Considerations

LaSalle would be asked to assess the current portfolio and set out a plan to reduce the mandate accordingly.

We note that LaSalle is still some way off reaching the interim target set back in 2022 as a result of difficult market conditions. This means an update to the target allocations should not impact or undo any new investments made since 2022.

As a first step, we recommend instructing LaSalle to pause making any further new commitments to underlying funds until a revised plan is agreed, while honouring any commitments already made.

We note that LaSalle is already in the process of selling down more indirect UK holdings (£53m). Rather than committing this to new overseas investments, we would suggest that this capital is re-directed to DTZ as the pool's direct property fund manager.

DTZ will also require time to identify, underwrite, and transact on suitable opportunities. We recognise that the recommendation is still a significant change that will take a number of years to fully transition. We would not wish to rush this process and believe minimising transaction costs should be a key focus rather than speed.

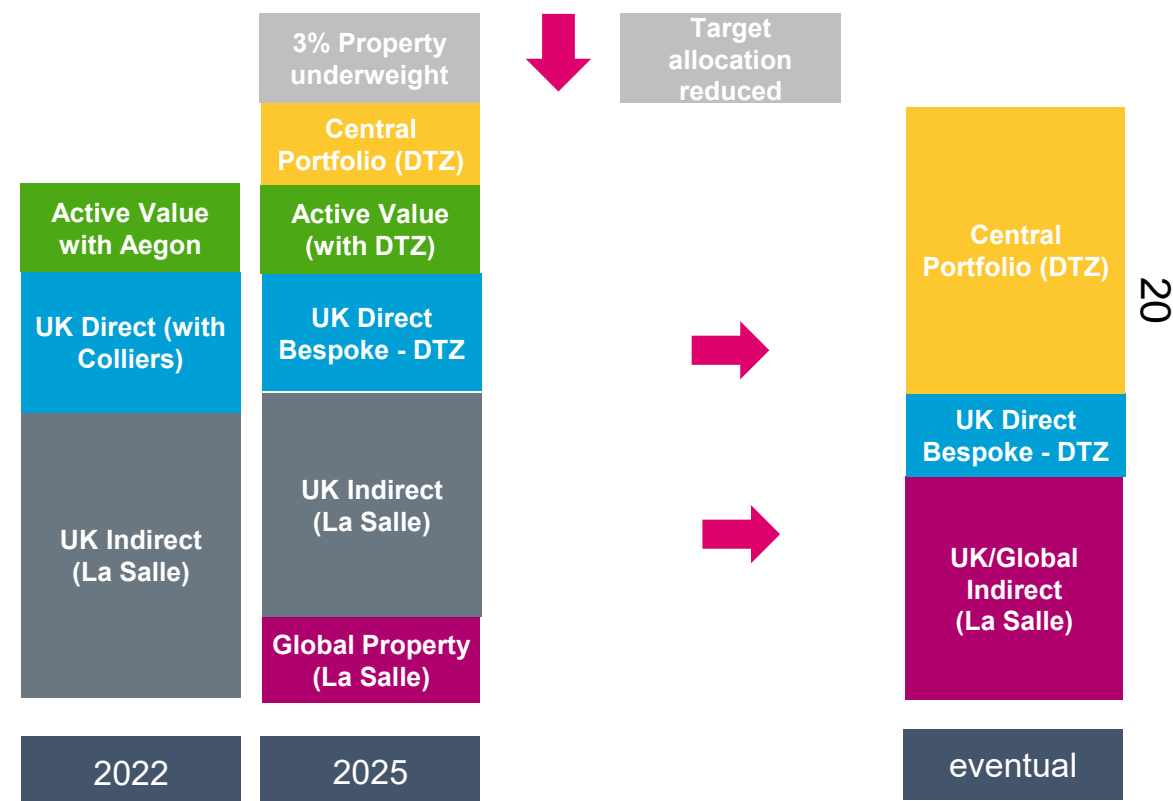
Agreeing a plan with LaSalle and DTZ accordingly will be important to achieve the intended objectives.

Executive Summary

Proposed revised target

		Current Allocation	2022 structure	Proposed revised target
Regional split	UK	88%	60%	70%*
	Global	12%	40%	30%
Manager split	DTZ	44%	40%	60%
	LaSalle	56%	60%	40%
Investment Channel	Direct	44%	40%	60%
	Indirect	56%	60%	40%
Risk	Core Commercial	59%	65 – 80%	70 – 90%
	Residential	13%	10 – 15%	Up to 15%
	Value-add Commercial	28%	10 – 20%	Up to 20%

Expected evolution of property portfolio



* Note that the revised LaSalle mandate would be Global (i.e. UK and Overseas) with full discretion given to the manager. For the purpose of this illustration we have assumed an eventual split of 10% UK and 30% overseas.

Why invest in real estate

The rationale for the inclusion of property within a pension scheme's investment strategy is primarily a combination of the following:



Diversification from other asset classes



Relatively stable income, with some inflation protection



Capital growth, linked to broader market but can also be driven by manager skill



Advanced understanding of environment, social and governance considerations which can drive value-add

Where does real estate fit in a portfolio?

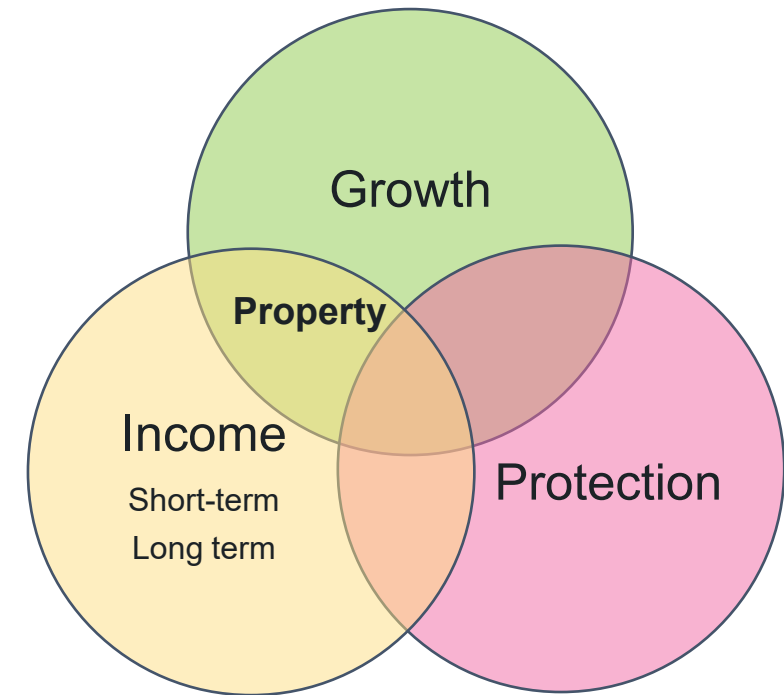
- Investors receive rental income in exchange for giving a third-party use of their building
- Cross between bonds (regular income stream) and equities (price moves with demand)

Only suitable for clients with:

- ♦ An appetite for risk
- ♦ Desire to diversify:
 - growth assets or
 - Income assets
- ♦ Tolerance for illiquidity
- ♦ Ability to invest over the medium-long term

Real estate can provide:

- ♦ A decent income yield
- ♦ Capital growth
- ♦ Some inflation resilience
- ♦ Low correlation with, and therefore diversification from, other asset classes



Investing responsibly

- RI is an important component of any real estate allocation
- Managers need to make routine, and sometimes substantial, improvements or properties would become obsolete
- It is important to understand the strategy and targets of any specific mandate

Environmental

- Improving the energy efficiency of the buildings can make a difference towards real world change
- Growing awareness of climate risks (e.g. flooding, heat stress) is boosting demand for energy-efficient and resilient buildings, driving higher rents and asset values (green premium)
- EPC ratings, climate targets

Social

- Lots of ad-hoc examples of improving social aspects from commercial property funds
- Working with and supporting local communities, creating jobs, apprenticeships

Governance

- Engagement with tenants
- Engagement with sub-contractors
- Driving best practices

Most UK property fund managers submit ESG data to GRESB annually. GRESB participation is also becoming increasingly expected by institutional investors globally.

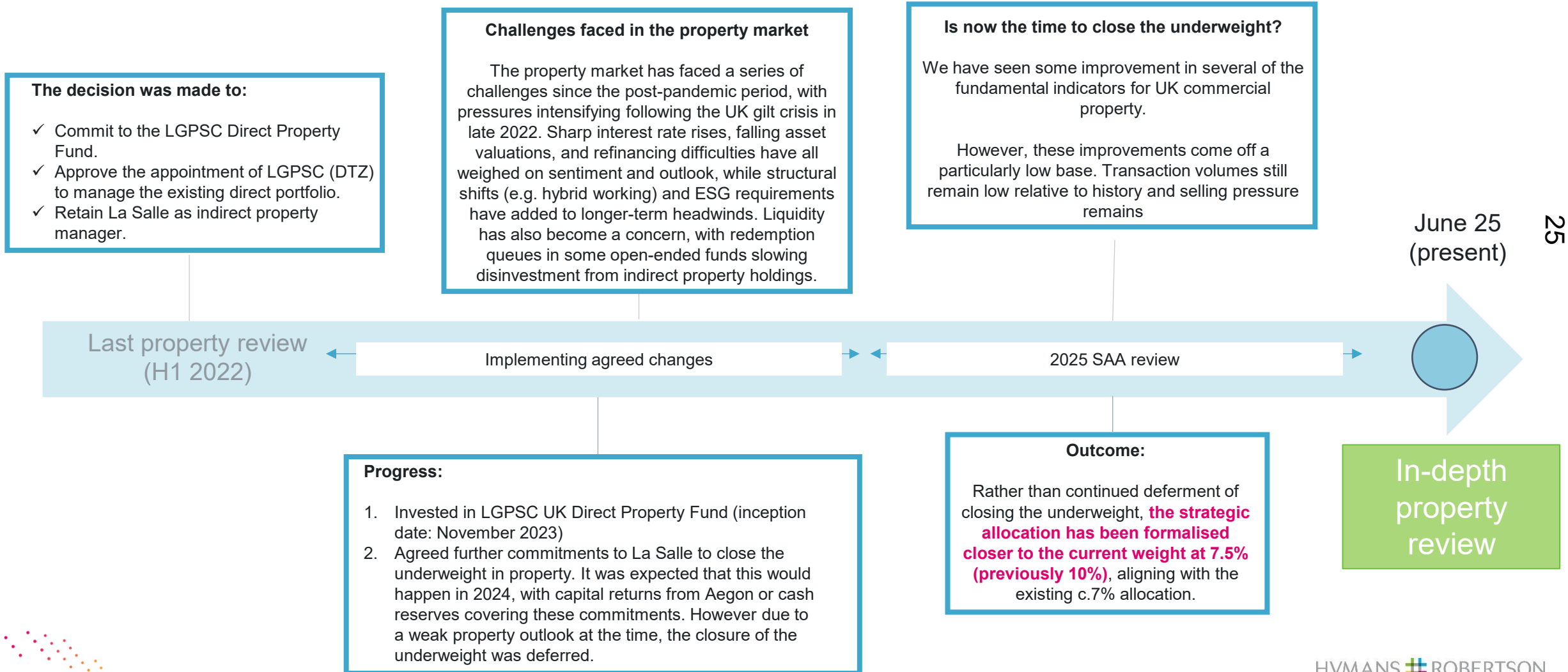
Recap: target structure proposed in 2022 review

Approach	Allocation	Sub-allocation	Pros and cons
Segregated direct	40%	Two directly managed UK commercial sub-portfolios Focussed on core/core-plus assets Mandate allows capital to be deployed flexibly across both core and alternative sectors	More control But big capital commitments needed Likely limitations to types / quality of properties without scale Less diversified
Multi-manager	60%	Target split of 60%: 20% UK Indirect 40% Global Indirect (interim target 25% by 2025-2027)	Exposure to commercial property that the Fund cannot access directly due to scale Increased diversification Potential to capture secondary market opportunities Includes diversifying specialist strategies, such as value-add and residential opportunities More expensive

Objectives:

- Deliver attractive risk-adjusted returns
- Enhance diversification
- Gain exposure to the benefits of direct investment (in UK commercial property at least)

Journey since last property review



What's changed since 2022?

- The last review of the property portfolio took place ahead of the UK property market peak in 2022 and in very different broader market conditions.
- At that point, a new direct property fund manager had recently been selected by the Pool. LGPS Central had selected DTZ to manage UK property investments, but the Pool's portfolio had not yet launched.
- Now that DTZ is in place and managing assets for the Pool and Fund, we would seek to grow this element of the portfolio.
- At the time of the last review the UK property funds market had not yet come under pressure with redemptions. Since then, many UK pooled funds have been suffering from ongoing redemption pressure; some funds have entered into wind down and the long term viability of others is being questioned. It's clear that the UK property funds index is shrinking, we expect there to be fewer funds to choose from going forward and many of the surviving funds will be smaller than they were previously.
- The Fund's indirect manager, La Salle, has lost some UK multi-manager clients as a function of LGPS pooling. The indirect team has also experienced a loss of senior resource.
- The UK property market is correcting more quickly than overseas markets, now making it more attractive than other regions on a forward-looking basis.
- In early 2025, it was agreed that the Fund's target allocation to property would be reduced from 10% to 7.5% of total assets; the new target broadly being in line with the current allocation. However we don't believe the reduction in target allocations should be spread equally across each of the Fund's different real estate mandates/strategies.

Recommendations – UK property

- The Fund has a target allocation of 7.5% to property, this equates to roughly £500m-550m. The current property allocation is c£484m, with a further c.£50m due to be deployed into the LGPSC UK Direct Property Fund. Based on high-level calculations, and taking into account the undrawn commitment to Central, we therefore do not recommend a need to commit new money to property for the time being.
- An allocation of this size allows the Fund to invest directly, which is the most cost-effective implementation route. For a direct mandate to be successful, we believe it needs to be of scale. Combined, the 4 mandates now managed by DTZ total just over £210m, growing towards £260m once further commitments have been drawn. This remains towards the lower end of what is needed to create a well diversified direct portfolio, in our view.
- Our preference would be for the Fund to eventually invest over £300m of its property assets directly in order to build a direct portfolio of more sufficient scale. This would reduce ongoing management costs and allow the Fund greater potential to consider local opportunities as part of the allocation in future, should they wish to do so. It would also result in a greater proportion of assets being managed directly by the Pool.
- DTZ IM is a strong UK property investment management business and we are confident in its ability to transition the Fund's property assets into a better considered portfolio over time. Where feasible, DTZ opts for asset improvement strategies over portfolio rotation, to minimise transaction costs. We would support allocating more capital to DTZ in order for the Fund to create a more robust direct mandate of scale over time.
- We believe that as the Fund's direct allocation grows, its need for indirect funds will reduce. The previous target of 20% to UK indirect now seems high in relation to the direct mandate, and becomes less necessary if the direct mandate gains more scale, particularly given the post-2022 struggles and ongoing shrinkage of the universe of UK funds.
- Going forward, we believe the multi-manager mandate should be used increasingly to access parts of the market the direct mandate can't access, either due to size restrictions, specialist expertise or geography.

Recommendations – global component

- At the last review we recommended a long-term target of 40% of property assets invested globally, with an interim target of 25%. This was based on analysis we carried out of the optimal allocation to maximise portfolio efficiency based on historic returns and volatility data to 2020. Our updated analysis with returns and volatility data updated to end 2024 produces a similar outcome (as does analysis from LaSalle Investment Management).
- The previous target split was set in different market conditions, with a larger expected total allocation to the asset class. This is relevant as the optimisation analysis doesn't take into account the inefficiency of having a sub-scale UK direct property portfolio (since it uses index level data) or market return forecasts.
- We note that a number of real estate research houses (including LaSalle) are expecting higher returns from the UK property market compared to other regions in the coming years. Likely, and at least partially, due to the UK property market correcting more quickly than other regions. Investing globally comes with additional risks (for example typically more leverage risk) that are only worth taking if expecting to be adequately compensated for doing so; as demonstrated earlier these additional risks haven't led to materially better performance historically (and has likely been at least in part driven by the higher leverage), and forecasts suggest the overseas is unlikely to outperform over the next 3-10 years.
- We would therefore recommend that LaSalle is asked to assess the current portfolio with a view to putting a plan in place to reduce the mandate from its current size of £275m to a size of around £210m over the next 3-5 years (around 40% of current property allocation once the additional £50m is drawn by Central).
- LaSalle's split between UK and overseas funds will initially be determined by current exposure and LaSalle's assessment of liquidity options and market expectations. We would suggest that LaSalle's objective and target geographical split would be reviewed again once the mandate approaches the smaller target size, although we suggest LaSalle are given discretion to invest this globally as they see fit i.e. taking into account the relative merits of UK vs Overseas markets.

Recommendations – direct vs indirect

- Investing directly gives the Fund more control over investments, and at a reduced cost.
- We believe building a UK direct portfolio of scale should be a higher priority for the Fund now that DTZ is in place and the UK market looks more attractive than overseas markets on a relative basis.
- We believe a UK direct portfolio of greater scale will bring benefits to the Fund as a larger mandate would allow DTZ to consider a wider opportunity set of UK investments and potentially more dominant, or prime, assets that may offer better risk-adjusted returns. For example, rental growth expectations is currently stronger for better quality space and in some cases, improvement works to make buildings more energy efficient are only worth doing in prime locations that can command top rents.
- This would also bring down fees across the property portfolio, as indirect fees are materially higher on a look through basis. We estimate that moving to the proposed structure could save the Fund c.£0.6m p.a. in fees, compared to the 2022 structure.
- We note that LaSalle is still some way off reaching the interim target set back in 2022 as a result of difficult market conditions. This means an update to the target allocations of the type we are recommending should not impact on or undo any new investments made since 2022.
- We also note that LaSalle is already in the process of selling down more indirect UK holdings, which would support the new strategy.
- That said, we recognise that the recommendation is still a material change in long-term strategy, and achieving that strategy will take a number of years to fully transition. We would not wish to rush this process and believe minimising transaction costs should be a key focus rather than speed.

Recommendations – from an RI perspective

- The recommended changes are supported by RI considerations which strengthen the long-term sustainability of the strategy.
- The recommendations involve investing more through DTZ and less through LaSalle; we rate DTZ more highly than LaSalle on RI matters and we also note DTZ's more ambitious Net Zero target date.
- Furthermore, as a direct property investment manager, DTZ has more control over progress in areas such as RI, relative to LaSalle as an indirect / multi manager (who depend on underlying managers to implement their strategies).
- The UK has better established standards than some other overseas markets. For example, UK managers tend to participate in GRESB more than some overseas regions (though we note GRESB participation is also becoming increasingly expected by institutional investors globally). UK managers also report EPC ratings, as this is a regulatory requirement, whereas no equivalent requirement exists in many other regions.
- We are therefore comfortable that the recommended changes will not only improve the Fund's RI characteristics, but also support long-term financial outcomes — by increasing exposure to assets that are more attractive to occupiers, better positioned to benefit from green premiums, more resilient to future regulatory change, and less exposed to reputational risks linked to poor ESG performance.

Thank you



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Leicestershire County Council Pension Fund

Private Debt review

David Walker, Partner

Samuel Hampton, Senior Investment Consultant

October 2025

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Overview

Purpose

This paper is addressed to the Pension Fund Committee (the “Committee”) of the Leicestershire County Council Pension Fund (the “Fund”). It provides a review of the Fund’s strategic allocation private debt assets. It sets out the expected run-off profile of the Fund’s existing private debt assets based on decisions agreed to date, and our views on the options for maintaining the strategic allocation to these assets over the long term.

Background

The Fund’s Private Debt allocation was previously reviewed in depth in October 2022 and the target allocation was slightly revised down from 10.5% to 9.5%, with agreement to this change at the January 2025 Committee meeting. This change reflected wider strategic considerations as well as Pool offerings; the Pool are revisiting the fund offerings but currently it will not be possible to maintain the existing strategic allocation – nor the current level of target return – for the private debt class using the Pool’s offerings alone. This has prompted a wider strategic review of the Fund’s private debt allocations, the results of which are set out in the remainder of this paper.

Key questions to be addressed in this paper

- What does the current private debt portfolio look like, and what is the expected run-off profile?
- What are our current views on the Fund’s private debt managers and implications for the existing portfolio?
- When do further commitments to private debt need to be made to maintain the target allocation?
- What are the options available to meet the target allocation? Can this be done effectively with the Fund’s existing managers?

General risk warning

Please note the value of investments, and income from them, may fall as well as rise. You should not make any assumptions about the future performance of your investments based on information contained in this document. This includes equities, government or corporate bonds, currency, derivatives, property and other alternative investments, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an investment. As a result, an investor may not get back the full amount originally invested. Past performance is not necessarily a guide to future performance.

Executive Summary

The Fund has a well-developed private debt portfolio that has contributed positively to the Fund's investment strategy through strong returns and diversification. We believe it still has an important role in the investment strategy. The Fund had 7.0% of total assets invested in private debt as at 31 December 2024, a 2.5% underweight of the target allocation as at that date.

We intend to address the underweight allocation to private debt over the next three years through commitments to closed-end vintages that provide diversification and a defined return profile. The investment period is structured this way because there is typically a delay between when the Fund commits capital and when it is drawn down by the manager; capital is only called as suitable investment opportunities become available, so it will take time for the Fund's investment managers to deploy the commitments made today.

When recommending a breakdown of the proposed commitments, we have taken the following factors into consideration:

- The Fund potentially transitioning all assets to LGPS Central.
- The preference to allocate capital to existing managers and, thereby, limit any additional governance burden.
- Our views on the private debt market, the appropriate composition of the Fund's private debt portfolio once fully invested.
- Concentration risks, and expected speed of deployment of any new commitments.

We outlined several approaches the Fund could take to meet the target allocation, given the Fit for Future consultation, we have considered a blended approach to be the most feasible with only £120m to be committed in 2025 and the remainder to be split between IG corporates and cash.

- We recommend the Fund top up an additional £120m to the 2024 LGPSC sleeves (£90m to LGPSC Direct Lending and £30m Real Assets). This allows the private debt exposure to get closer to target, whilst being mindful of concentration risks associated with further allocation to 2024 LGPSC vintage investments.
- Of the remaining £180m, we recommend £90m to be invested in the Aegon Short Dated IG corporate bond investment. These assets are more liquid in nature but will provide investment returns correlated (to a degree) to that of private credit mandates. It's important to note that this is no substitute for genuine private market investments but in our view this 'holding place' is preferable to cash, over a 1-3 year period.
- This will be an initial investment of £90m to the Aegon Short-Dated IG corporate bond product as soon as possible, with this expected to be drawn down over time as Private Credit commitments are called. The remaining £90m will be managed in line with the Fund's cash management strategy to service the Fund's wider private market commitments.
- We recommend engaging with Central in the following areas: new opportunistic fund, expanding the asset classes within future Direct Lending vintages to include Asset Backed Lending and / or Credit Secondaries, private debt opportunities they see in Developed Asia, creation of a hedged share class to eliminate currency risk and following best practice frameworks.

Proposed Structure

- The current portfolio is diversified by manager and vintage, and largely focussed on the lower-risk, senior end of the private debt market along with allocations to more opportunistic areas such as distressed debt and special situations.
- We believe the Fund should continue to diversify the private debt portfolio across different areas of the market. The tables to the right sets out the market segment and regional allocations for the Fund's private debt portfolio. We remain comfortable that the ranges reflect the current market appetite and will provide the Fund an appropriate amount of diversification.
- The attractiveness of special situations and distressed debt continues to vary over the credit cycle. We therefore recommend the Fund retains the flexibility to vary the level of exposure to these market segments.
- The actual allocations for distressed debt will fall to the lower range in 2025, similarly special situations will start to fall post 2027, without further commitments. Given the lack of available opportunities via the pool and the strong funding position, we do not at this stage recommend increasing the allocation to opportunistic areas. Given the volatility associated with opportunistic debt and attractive opportunities elsewhere in the private debt universe means we are comfortable that the private debt portfolio is positioned towards the lower end of the opportunistic debt range
- However, we recommend engaging with Central to understand the appetite of other Partner Funds for an opportunistic fund.
- We recommend that the regional targets and ranges remain unchanged. However, we recommend the Fund continues to reduce its geographic exposure to Europe towards current targets, in favour of North America and Developed Asia. Current exposure is added to the portfolio through funds with a global remit, which we remain supportive of.

Market segment definitions (current)	Market segment definitions (revised)	Current Target (%)	Proposed revised target (%)	Range (%)	
				Current	Proposed
Senior corporate debt	Senior corporate debt	65	70	40-90	40-90
Real asset-linked debt	Real asset-linked debt	20	20	10-30	10-30
Special situations debt	Opportunistic debt	10	10	0-20	0-20
Distressed debt		5		0-10	

Region (no changes recommended)	Target (%)	Range (%)
Europe	45	30-60
North America	45	30-60
Developed Asia & Rest of World	10	0-20

Engagement with Central

Given the limited opportunities currently available via the Pool, we recommend engaging with Central on the following areas. This could be done alongside other Partner Funds, where there is interest – we would be happy to help in that respect.

Areas to Engage with Central	Rationale
Opportunistic funds: appetite from other Partner Funds and opportunities on the horizon,	The Fund's exposure to opportunistic areas falls away in the next few years. There is currently no new vintage offered by Central that replicates the risk return profile currently being targeted within the Fund's opportunistic debt bucket.
Inclusion of asset backed lending and credit secondaries within future vintages, likely Direct Lending	Asset backed lending and credit secondaries are attractive opportunities for the Fund that will diversify the portfolio and complement the current holdings.
Region Exposure to include Developed Asia	We believe that Developed Asia continues to present an attractive opportunity to diversify some of the exposure away from Europe and North America. Engaging with LGPS Central on the private debt opportunities they see in Developed Asia, and whether they expect future vintages to include allocations to this geography or whether global exposure will have a higher weight to developed Asia.
GBP hedged share class	The Fund is exposed to currency risk as Central only offer an unhedged share class. The creation of a hedged share class can eliminate the currency risk the Fund is exposed to in future sleeves. (Noting that if this is not possible, an alternative is to allow for this more approximately by adjusting the allocation to the currency hedge programme with Aegon to offset exposures).
Responsible Investment - climate targets for individual portfolio companies in new vintages	Given the Fund's climate ambitions, and we have seen private debt managers set strategies focusing on aligning the individual portfolio companies to the Fund's climate goals. We recommend Officers engage with Central to follow best practice frameworks.

Current asset allocation

The Fund invests in private debt to provide a high-income yield and to diversify the risks associated with the Fund's allocation to growth assets.

In the January 2025 strategy review, the Committee agreed to reduce the target allocation from 10.5% to 9.5%. The Fund had 7.0% of total assets invested in private debt, a 2.5% underweight to the new target allocation.

The Fund has significant uncalled commitments which will increase exposure as they are drawn, however exposure elsewhere will fall as underlying assets are realised.

- Of the current mandates, c. £180m remains committed but undrawn – the majority of which (c.£133m) is within the LGPS Central 2021 Private Debt mandates. This is forecast to be drawn over the period to the end of 2028.
- The Fund has also committed a further £280m across two 2024 LGSPC sleeves - £180m to the Direct Lending fund and £100m to the Real Assets fund.
- Given the relatively small exposure to the Partner Group MAC IV fund, the Fund has opted to take the discount to NAV and exit from this position.

The Fund currently invests across a combination of Pool and third-party managers. The table to the right provides a summary of the existing investments.

Fund	Vintage	Fund Stage	Commitment	Current NAV (£)	Total Fund Assets
CRC CRF III	2017	Harvest period	£43.9m (\$55m)	£4.4m (\$5.5m)	0.1%
CRC CRF V	2021	Harvest period	£52m	£51.3m	0.8%
CRC CRF VI	2024	Investment period	£40m	0*	0.0%
M&G DOF II	2014	Harvest period	£40m	£0.4m	0.0%
M&G DOF III	2015	Harvest period	£40m	£9.8m	0.1%
M&G DOF IV	2017	Harvest period	£40m	£31.6m	0.5%
Partners Group MAC I	2014	Harvest period	£100m	£5.2m	0.1%
Partners Group MAC III	2016	Harvest period	£70m	£2.1m	0.0%
Partners Group MAC IV	2017	Harvest period	£120m	£14.1m	0.2%
Partners Group MAC V	2019	Harvest period	£100m	£51.6m	0.8%
Partners Group MAC VI	2020	Harvest period	£60m	£42.9m	0.6%
Partners Group MAC VII	2023	Investment period	£19m	£13.9m	0.2%
LGPS Central Credit Partnership I (High return) *	2021	Investment period	£60m	£32.7m	0.5%
LGPS Central Credit Partnership II (Low return) **	2021	Investment period	£240m	£146.8m	2.2%
LGPSC Credit Partnership IV (Real asset return)*	2022	Investment period	£117m	£56.6m	0.9%
TOTAL			£1,141.9m	£463.5m	7.0%

Source: Respective managers and client's capital statements, as of 31 December 2024

* CRC VI made their first capital draw down in March 2025 **LGPSC values as of 30 September 2024

GBP to USD = 1.2524

Cashflow projection

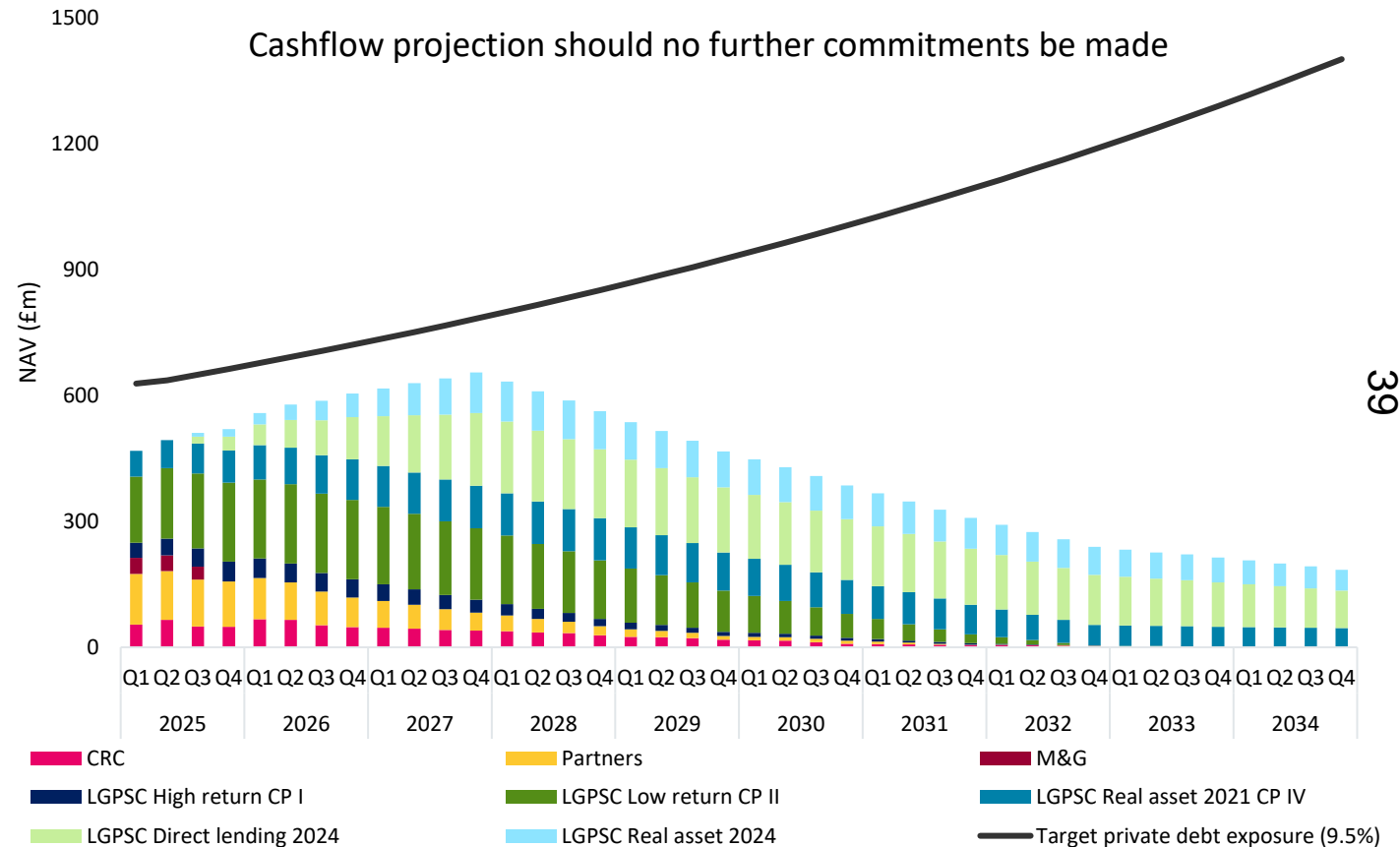
Using data provided from the Fund's managers and our own assumptions where necessary, we have produced an estimate of the private debt run-off profile as set out in the chart to the right. Note market conditions or manager actions may impact these estimates.

Modelling suggests that the allocation, allowing for the LGPSC 2024 vintage commitments, the Fund's exposure to private debt remains below the 9.5% of total Fund target.

While future projections can vary depending on asset repayments and market conditions, we can see that using managers' current estimations and our own assumptions above, **the Fund's overall private debt weighting increases but remains underweight over 2025-2027, and then begins to fall materially underweight post-2027, should no further commitments be made beyond the ones already made to CRC VI and LGPSC 2024 vintages.**

Allowing for all agreed commitments, we estimate that by 2027 c.86% of the private debt asset allocation will be pooled. The market segment exposure is expected to be predominantly senior corporate debt (c.57%) and real asset-linked debt (c.29%). Opportunistic areas such as distressed debt and bank relief will be a significantly lower proportion, due to maturing of funds (and no further commitments assumed beyond CRF VI).

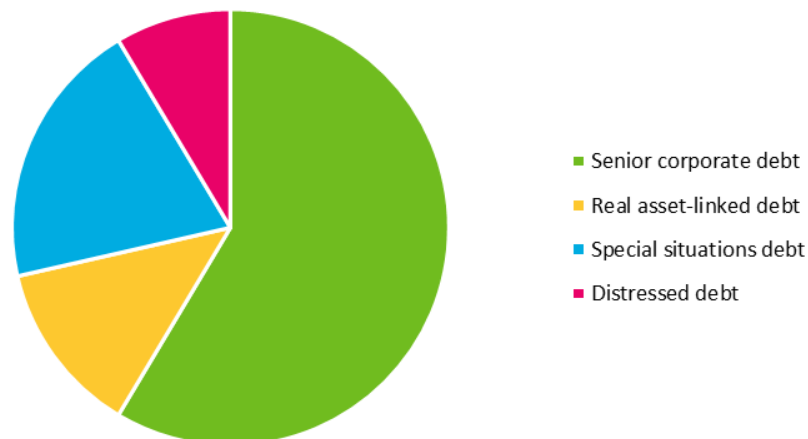
Further capital commitments are therefore needed to achieve the 9.5% target allocation to private debt.



Source: investment managers, Hymans Robertson as of Q4 2024. Summary of assumptions used to carry out cashflow modelling are available upon request.

Market segment exposure

Market Segment Exposure by NAV



Target allocation by market segment

Market segment	Current Target (%)	Range (%)	Current (%)
Senior corporate debt	65	40-90	58.6
Real asset-linked debt	20	10-30	12.9
Special situations debt	10	0-20	20.0
Distressed debt	5	0-10	8.6

The Fund's current target has a bias towards senior corporate loans, with smaller allocations to more opportunistic areas such as distressed debt and bank risk sharing transactions, in a bid to improve returns and diversification of the portfolio.

The current allocation to senior corporate debt is broadly in line with the agreed target level, albeit continued commitments will be necessary to maintain this level of exposure.

As a reminder real asset-linked debt exposure funds the development of real assets, such as infrastructure and real estate projects. This segment provides access to a different set of borrowers and the income streams used to service the debt are derived from different sources, thus providing diversification. The loans typically benefit from security over tangible assets which improves their downside protection.

The Fund has committed capital to special situations debt, through the LGPS Central High Return 2021 sleeve and CRC Capital Relief Fund V. A further commitment was made to CRC Capital Relief Fund VI.

The allocation to distressed debt is within the target allocation range. Exposure to this asset class provides diversification as the risks are largely driven by the individual deals rather than the overall market. It should be noted that distressed debt is a higher risk asset class, at a level akin to private equity; the returns potential however is typically higher to compensate for this.

Region exposure

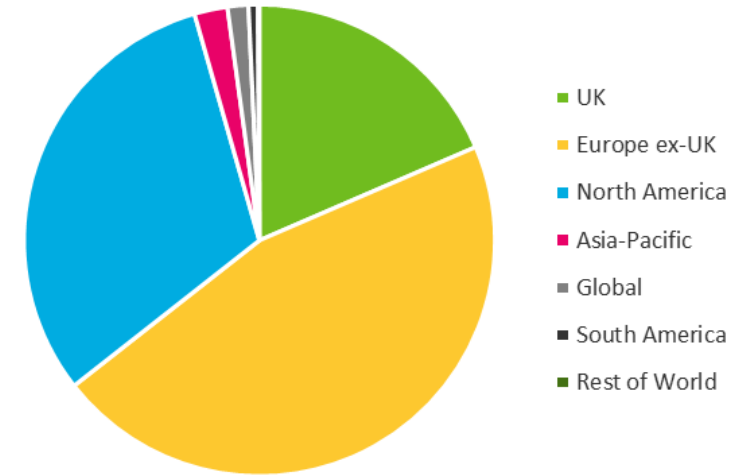
The portfolio's regional allocation is almost entirely focussed on Europe and the US, with Europe by far the largest regional exposure. The opportunity to invest in other regions is a fairly new phenomenon, and some small allocations have been made elsewhere within the global funds, but these will not have large impacts on the portfolio performance.

The table to the right sets out the agreed regional allocations for the Fund's private debt portfolio. Given opportunities are largely focused in Europe and North America we remain comfortable with the ranges in the current framework.

The current allocation remains skewed towards Europe. This is expected to reduce with a proportional increase in the North America exposure by the end of 2025, as a result of capital deployments to North America focussed managers within the LGPS Central and maturing of existing, European focused, strategies. The 2024 direct lending sleeve will have 2 European focused managers and 2 North America focused managers.

We believe that Developed Asia continues to present an attractive opportunity to diversify some of the exposure away from Europe and North America. Current exposure is added to the portfolio through funds with a global remit. We remain comfortable that the Fund is currently towards the lower end of the target range given the current lack of options available via the Pool, but **we recommend engaging with LGPS Central on the private debt opportunities they see in Developed Asia, and whether they expect future vintages to include allocations to this geography.**

Region Exposure by NAV



Target allocation by region

Region	Target (%)	Range (%)	Current (%)
Europe	45	30-60	64
North America	45	30-60	31
Developed Asia & Rest of World	10	0-20	4

Private Debt: Sub-Asset Classes

Direct lending has grown into a dominant strategy within private debt, offering attractive returns and steady income. However, to build more resilient and well-balanced portfolios, investors should consider diversifying beyond core direct lending by incorporating strategies with differentiated risk-return characteristics.

Lower risk / lower return

Higher risk / higher return

Trade Finance

1. Base rate + 2%
2. Cash plus or collateral waterfall
3. Relatively liquid / open ended

Fund Finance

1. 6-8% net IRR
2. Uplift versus IG credit
3. Closed-ended funds

Tangible Assets

Infra Debt

1. 7-10% net IRR
2. Historically better risk profile than equivalent-rated corporate credit
3. Closed-ended funds

Real Estate Debt

1. 5-10% net IRR
2. Diversify property, new allocations on lower valuations.
3. Mostly closed-ended

Core Allocation

Direct Lending

1. 8-10% net IRR (senior)
2. Illiquidity premium over liquid fixed income
3. Evergreen or closed-ended

Bank Risk Share (RegCap)

1. 10-14% net IRR
2. Diversification (SME) or premium over IG (large cap)
3. Closed-ended

Opportunistic

1. 13-20% net IRR
2. Return enhancement
3. Mostly closed-ended

1. Expected returns
2. Typical rationale for investment
3. Implementation

Asset Backed Lending

1. 8-14% net IRR
2. Diversification from corporate risk (like ABS versus corporate FI). Could be lower risk than direct lending due to security & amortising loan profile
3. Typically closed-ended

Venture Debt

1. 12-20% net IRR
2. Return enhancement /potential for productive finance
3. Closed-ended

Private Debt: Market Developments

- The sub-classes below are relevant to the Fund, given the current investment approach.

Direct corporate lending

(Current investment, available via the Pool)

- The sharp rise in base rates, persistent economic uncertainty, and inactive broadly syndicated loan (BSL) market over the last few years have opened the door for direct lenders to gain market share, often collaborating in club deals to fund larger loans traditionally handled by the BSL market.
- However, this trend began to shift in 2024. With inflation easing, major central banks started cutting rates, and BSL activity picked up.
- Recently, margins have tightened toward long-term averages in both Europe and the US, especially in the upper-mid and large-cap segments, as refinancing activity picked up in the BSL market. At the same time, rising effective rates have pressured companies, particularly in consumer-facing sectors, manufacturing, and real estate. This has led to a notable increase in covenant waivers, amendments, and instances of non-accruals across portfolios. While expected returns will come down as rates are cut, they remain compelling on a risk-adjusted basis.
- That said, market turbulence linked to US tariffs has created refinancing challenges for deals in the BSL market, potentially shifting momentum back to direct lenders.

Infrastructure debt

(Current investment, available via the Pool)

- Infrastructure debt continues to benefit from high demand, particularly for cross-over or sub-investment grade rated assets. Assets pertaining to the energy transition remain in high demand.
- The higher interest rate environment has seen the asset class become a more compelling opportunity on a relative value basis, both in comparison to core infrastructure equity and other private debt (where infrastructure debt has traditionally lagged returns). Infrastructure assets have generally demonstrated resilient valuations, unlike property.

Real estate debt

(Current investment, available via the Pool)

- 2023 was a troubled year for transaction and financing volumes in the UK real estate market. Pricing, demand, and rents were polarised to specific sectors as well as those assets with attractive ESG credentials, a trend which has continued into 2024.
- Transactional activity (and valuation) may be positively impacted as interest rates come down and inflation settles. In the UK, whole loans are more attractive in terms of deployment opportunities and overall returns.

Opportunistic credit

(Current investment, not currently available via the Pool)

- Despite continued low corporate default rates relative to history, there are pockets of stress in the market. Challenges (and hence opportunities in this space) relate to cashflows where companies are paying floating rate debt in a higher for longer interest rate environment, and where companies are approaching refinancings.
- Tariffs are creating uncertainty and volatility in the credit markets which is creating opportunities for opportunistic credit investors to deploy selectively.

Regulatory Capital Relief

(Current investment, not currently available via the Pool)

- The RegCap market continues to be active, mostly in Europe but with increased issuance in the US. European banks are exploring more programmatic issuance with different collateral types.
- With the regulatory changes, the RegCap market has seen new entrants, particularly those transacting on a tactical basis and in the US, translating to tighter spreads in the more widely syndicated deals.

Other Opportunities

Asset backed lending

Private loans which provide financing to counterparties secured on a pool of assets. The pool is typically composed of performing assets that generate contractual cash flows. Loans are typically amortising.

Consumer assets

Backed by consumer loans e.g. residential mortgages, auto loans, credit card loans

Real assets

Backed by tangible, real assets e.g. buildings, equipment, aviation

Intangibles

Generally backed by intangible or unconventional assets, e.g. royalties, IP, fund finance

Offers diversification of corporate risk within most private debt portfolios (direct lending and opportunistic)

Credit secondaries

Funds buying secondary stakes of private credit funds. Potential to take advantage of other investors' liquidity needs. Credit secondaries are still a maturing market with a lot more supply than demand, meaning secondary GPs can be selective.

Benefits

- Mitigation of blind pool risk
- Seasoned loans
- Quick deployment
- Diversification

Drawbacks

- Similar multiples vs primary investment
- Limited influence in underlying origination, workouts and ESG
- 2 layers of fees

Buying funds at a discount equates to accretive IRR returns on a similar risk profile (corporate risk of direct lending).

Asset backed lending and credit secondaries are attractive opportunities for the Fund that would diversify the portfolio and compliment the current holdings

Responsible investment considerations

As with all debt, it is more difficult to enact change as the debtholder than it is as the equity owner, but private debt has markedly lagged other private markets asset classes in terms of ESG reporting and data gathering, and managers must rely on engagement to enact change. This becomes more difficult with some forms of structured credit where managers don't have access to the underlying loans or assets. Integration of ESG considerations within the investment process is now the bare minimum threshold when assessing managers; within debt assets, ESG risk factors are ultimately credit factors that can impact the credit worthiness of any issuer. Governance therefore has been integral to credit analysis for many years with environmental and social considerations now gaining more importance.

Direct Lending / special situations

- Sustainability linked loans, commonly referred to as an ESG margin ratchet, have now become more commonplace in direct corporate lending in Europe, a trend which has transferred from the syndicated leveraged loan market. A sustainability linked loan, will grant the borrower a small reduction in interest margin if it can meet certain ESG KPIs. In some instances, the interest margin may increase if the borrower fails to meet ESG KPIs (ie a 2-way ratchet).
- The KPIs can vary depending on the company but can include reduction of carbon emissions and increasing the diversity of the company's board or employee base. However, it is difficult to analyse the ambition of the KPIs without knowing the company details. As the market develops, we see the use of a 2-way ratchet becoming standard although more often in the larger part of the direct lending market.

Real estate debt

- Real estate lenders have also started to link the spread of the lending to ESG improvements although this is not nearly as widespread as in the direct lending market. Given there is strong demand for new buildings to meet high environmental and social impact standards, we expect further adoption on new loans going forwards.
- Within real estate however, we are seeing higher levels of stranded asset risk where sponsors are left with buildings that don't meet these high standards and which cannot be subsequently sold. Transitional strategies focusing on extensive refurbishment for these buildings is potentially an opportunity set for LGPS Central Real Asset fund although committing capital to such products may not improve the Fund's climate risk metrics in the short-term but would certainly contribute to improving them over time and support more impactful and value add real-world emissions reductions.

Distressed debt

- Responsible investment in distressed debt relies very much on the investment manager's ESG practices and integration into the investment process. There is certainly the extra risk of predatory lending in a "loan-to-own" strategy so this must be mitigated.

Thank you



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Leicestershire County Council Pension Fund

Private equity review

David Walker, Partner

Samuel Hampton, Senior Investment Consultant

October 2025

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Overview

Purpose

This paper is addressed to the Pension Fund Committee (the “Committee”) of the Leicestershire County Council Pension Fund (the “Fund”). The purpose of this paper is to make recommendations on private equity commitments for 2025, and to provide an indicative view for 2026, recognising that current pooling guidance may present complexities that require further consideration.

Background

As at Q1 2025, the Fund’s private equity allocation was 1.4% below its target. Whilst there are significant uncalled commitments, primarily to LGPS Central and Adams Street, further commitments will be needed to close the shortfall, keep pace with capital being returned and the Fund’s asset growth, and maintain diversification across vintage years.

Key questions to be addressed in this paper

- What does the current private equity portfolio look like?
- What is the current overview of the Fund’s private equity managers, and how do they support the Fund’s objectives?
- Can the Fund’s strategy be delivered through LGPS Central alone, or is there still a role for third-party managers?
- What level of further commitments are required to maintain target exposure and vintage year diversification?

General risk warning

Please note the value of investments, and income from them, may fall as well as rise. You should not make any assumptions about the future performance of your investments based on information contained in this document. This includes equities, government or corporate bonds, currency, derivatives, property and other alternative investments, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an investment. As a result, an investor may not get back the full amount originally invested. Past performance is not necessarily a guide to future performance.

Executive Summary

LGPS Central and Adams Street now form the core of the Fund's private equity programme, with legacy investments in Catapult and Patria expected to be fully wound down over the coming years.

LGPS Central

LGPS Central's private equity team, led by Jaswant Sidhu, remains appropriately resourced and supported by wider functions across the organisation. **We remain comfortable with the team's capacity, risk oversight, and investment processes, and note that pooling continues to offer a cost-effective way of accessing private equity compared to legacy arrangements.**

Across the 2018, 2021, and 2023 primary sleeves, performance has been broadly in line with expectations given their stage of maturity. The 2018 sleeve has shown resilience, the 2021 vintage is now more progressed with deployment underway, and the 2023 vintage remains in the early stages of deployment. Initial indicators across the more recent vintages are encouraging. **We remain comfortable with the primary sleeve and continue to view it as a strong long-term building block for the Fund's private equity exposure.**

The co-investment sleeve has also made a promising start, with early transactions delivering encouraging returns. While our previous recommendation was to avoid committing due to concerns around team capacity, recent progress and growing experience in executing deals across multiple regions and sectors support a more balanced view. **That said, we continue to advise a cautious approach given the limited opportunity set and the relatively short track record in this area.**

Adams Street

Adams Street continues to provide complementary exposure, particularly in secondaries and venture capital — strategies that have historically not been available through LGPS Central. Existing investments are performing well, and the manager remains a key strategic partner for the Fund. **We remain comfortable with Adams Street's role in supporting areas of the private equity framework that LGPS Central is not yet fully positioned to deliver.**

Future Opportunities

LGPS Central is looking to raise four separate sleeves for the 2025 vintage: the usual Primary and Co-investment sleeves, along with new sleeves for secondaries and venture. They recognise that the right-sized fund is essential for successful deployment and will only proceed with sleeves where there are appropriate levels of committed capital, which—at the time of writing—remain to be confirmed. **We would recommend holding off on any commitment to secondaries and venture sleeves for now, with a view to revisiting the position and undertaking a detailed due diligence review. Any future commitment should be subject to satisfactory findings from that review.**

Adams Street is also bringing forward new offerings: Global Fund 2025 (closing September 2025, with a possible extension to October 2025), Global Secondaries Fund VIII (final close Q1 2026), Co-Investment Fund VI (fully subscribed), Venture Innovation Fund V and Leaders III (launching in 2026)

These options offer flexibility to support the Fund's private equity objectives, diversification, and pacing.

Executive Summary

New commitments required

The Fund is currently c.1.4% below its 7.5% private equity target. Existing undrawn commitments are not sufficient to close the gap, with annual distributions (c.£100m) expected to far exceed drawdowns (c.£25m). **We estimate new commitments of c.£110m p.a. are needed to maintain exposure and gradually close the shortfall by 2031–2032.** Whilst it would be possible to commit more heavily in the short term to close the gap sooner, we would not recommend this. A more aggressive pacing strategy risks overexposing the portfolio to a single vintage year, which could reduce diversification and increase vulnerability to market timing risks. Instead, we believe a steady and consistent level of annual commitments is more appropriate. We are also comfortable that the current underweight position remains within a reasonable range in the near term. We recommend that pacing is reviewed annually as part of the SAA review.

Where and how to allocate future commitments

With pooling now a more prominent requirement, and Central signalling plans to broaden its offering, we recommend reducing reliance on third-party solutions and committing the full £110m for 2025 to support the continued development of Central's programme, as follows:

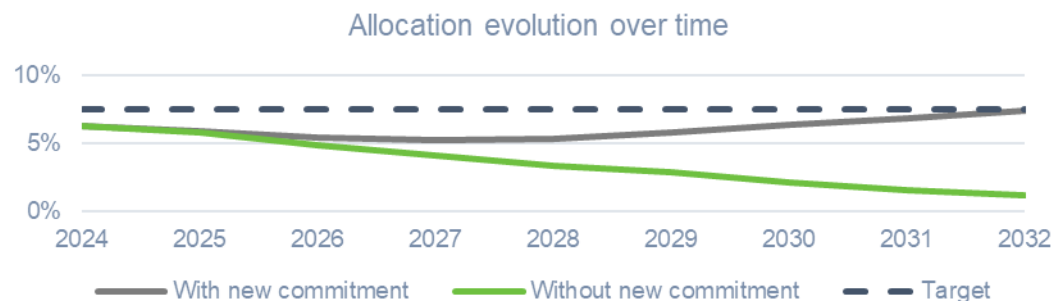
- £80m firm commitment to Central now — £65m to the 2025 primary sleeve and £15m to the 2025 co-investment sleeve (a modest allocation reflecting our cautious approach)
- £30m earmarked for potential allocation — £15m each to secondary and venture sleeves, subject to satisfactory due diligence.

If one or both of the proposed sleeves — secondary and venture — do not proceed due to limited scale or uptake, we'd be comfortable holding off that portion of the allocation for now, with a view to revisiting the position in 12-18 months' time. This should be considered alongside how the Fund's 2026 commitment is best deployed.

Whilst we expect a similar approach may be appropriate for 2026 (in terms of amount and broad areas of allocation) in line with the Fund's current framework, this would need to be discussed with LGPS Central given their increased role in decision-making post-31 March 2026. We recommend engaging with LGPS Central to ensure they are aware of the Fund's annual commitment needs, so these can be taken into account in Central's pacing plans and product pipeline.

New commitments are expected to be funded through a combination of ongoing distributions (projected at c.£100m p.a.) and the use of existing cash reserves to cover the balance.

Projected evolution of private equity portfolio



	Segment	Target Allocation	Current Allocation	End 2028 ¹	End 2032 ¹
Geography	North America	30-60%	59%	49%	45%
	Europe	20-40%	25%	30%	31%
	Asia Pacific	10-30%	10%	17%	20%
	Emerging Markets	0-10%	6%	4%	4%
Lifestage	Venture	10-30%	30%	21%	19%
	Growth	10-30%	3%	16%	21%
	Buy-out	40-70%	63%	60%	56%
	Special Situations	0-10%	3%	3%	4%
Origination channel	Primary funds	50-70%	58%	70%	66%
	Secondaries	10-30%	26%	16%	17%
	Co-investments	15-25%	15%	14%	17%
Economic sector	No specified ranges as opportunity set varies, but aim for diversification				

Why invest in private equity

The rationale for the inclusion of private equity within the Fund's investment strategy is primarily a combination of the following:



Diversification from listed equities and other traditional asset classes



Illiquidity premium provides additional return potential



Capital growth, driven by both market trends and manager value-add



Responsible investment impact through manager engagement on ESG factors

Current portfolio

As at 31 March 2025, the Fund held £410.0m (6.1% of total assets) in private equity across a combination of pool and third-party managers, below its 7.5% target allocation. Whilst there is £231.1m in outstanding commitments, primarily to LGPS Central and Adams Street, further commitments will be required to close the shortfall, keep pace with capital being returned and the Fund's asset growth, and maintain diversification across vintage years.

The Catapult and Patria funds are largely in liquidation and expected to be fully wound down over the next few years. As such, the remainder of this paper and the supporting slides will focus on the Fund's key active private equity relationships — LGPS Central and Adams Street.

Current allocation as at 31 March 2025

Fund	Inception date	Invested £m	Invested % Fund
UK Private Equity Fund - Catapult	Mar-16	0.9	0.0
Private Equity Fund – Adams Street	Mar-16	366.8	5.5
LGPSC Private Equity Fund 2018	May-19	9.2	0.1
LGPSC Private Equity Fund 2021	Oct-22	11.2	0.2
LGPSC Private Equity Fund 2023	Apr-24	6.5	0.1
Patria Capital Partners SOF III Feeder LP	Sep-19	15.3	0.2
Total		410.0	6.1

Current commitments as at 31 March 2025

Fund	Total Commitments £m	Commitments Undrawn ¹ £m
UK Private Equity Fund - Catapult	3.0	-
Oseas Private Equity Fund – Adams Street	634.8	129.7
LGPSC Private Equity Fund 2018	10.0	0.9
LGPSC Private Equity Fund 2021	30.0	19.0
LGPSC Private Equity Fund 2023	80.0	73.7
Patria Capital Partners SOF III Feeder LP	31.9	7.7
Total	789.7	231.1

¹Commitments undrawn = total commitments minus amounts already drawn. These may or may not be called in future
Source: Investment managers and "Leicestershire Total Fund Q1 2025 - Manager Summary" quarterly report.
USD/GBP exchange rate used: 1.25

Target portfolio

We believe the Fund should continue to maintain a private equity portfolio that is well diversified by geography, sector, and life-stage (venture, growth, buyout). Regular commitments should be maintained to ensure the target level of exposure is met and to support adequate vintage year diversification.

The majority of investments should continue to be made through primary funds; however, other origination channels — notably co-investments and secondaries — have become more important in recent years and can make up 20-50% of the portfolio.

The portfolio mix should broadly reflect that of the wider market. While we do not believe the Fund should take a tactical allocation approach itself, we do support managers retaining flexibility to adjust allocations based on where they see the most attractive opportunities.

We believe the current framework (as shown in the table on the right) remains appropriate to guide the ongoing development of the Fund's private equity portfolio.

Current framework

	Segment	Target Allocation	Current Allocation
Geography	North America	30-60%	59%
	Europe	20-40%	25%
	Asia Pacific	10-30%	10%
	Emerging Markets	0-10%	6%
Lifestage	Venture	10-30%	30%
	Growth	10-30%	3%
	Buy-out	40-70%	63%
	Special Situations	0-10%	3%
Origination channel	Primary funds	50-70%	58%
	Secondaries	10-30%	26%
	Co-investments	15-25%	15%
Economic sector	No specified ranges as opportunity set varies, but aim for diversification	-	-

New commitments required

The Fund's current private equity exposure is c. 1.4% below its 7.5% target allocation. The cashflow projection chart on the right shows the expected evolution of the portfolio's NAV relative to this target, incorporating projected drawdowns and distributions provided by the Fund's private equity managers. This includes c.£220m of undrawn commitments across Adams Street and LGPS Central, which are expected to be called over the next few years. However, as the chart illustrates, these existing commitments alone are not sufficient to close the allocation gap.

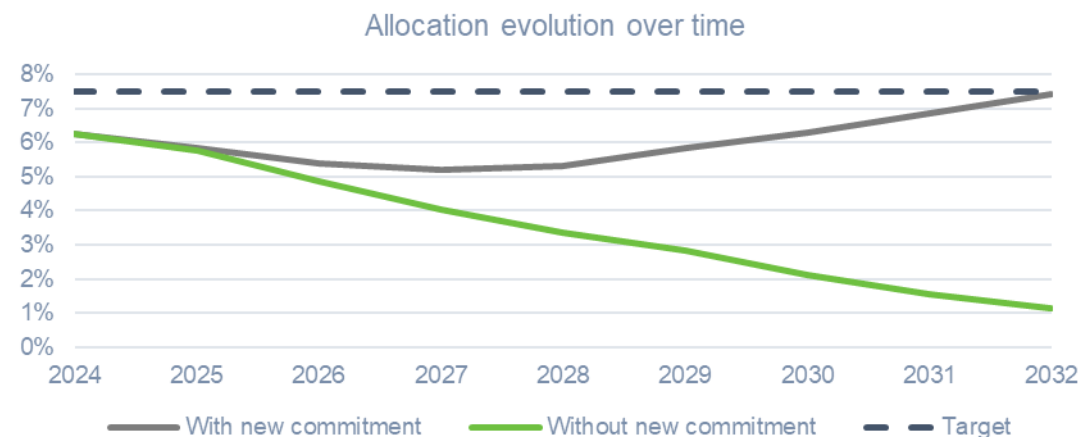
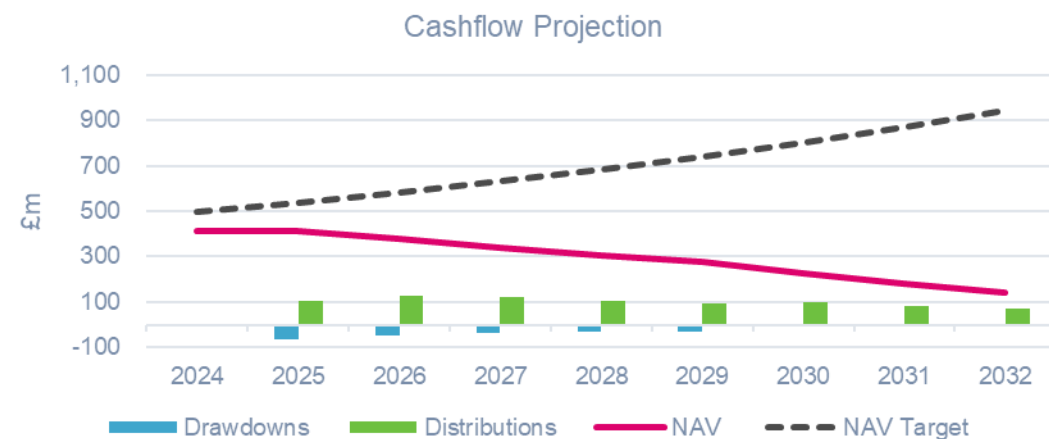
Distributions are projected to average c.£100m per year, while drawdowns are expected to be only c.£25m per year. Without further commitments, the portfolio will continue to decline in relative size due to these net outflows and growth in the wider Fund.

Taking these factors into account, **we estimate that the Fund would need to make new commitments of c.£110m per year.** As shown in the allocation evolution chart, this level of pacing should allow the Fund to steadily rebuild its private equity exposure and bring the Fund's allocation close to target by 2031–2032.

Whilst it would be possible to commit more heavily in the short term to close the gap sooner, we would not recommend this. A more aggressive pacing strategy risks overexposing the portfolio to a single vintage year, which could reduce diversification and increase vulnerability to market timing risks. Instead, we believe a steady and consistent level of annual commitments is more appropriate.

We are also comfortable that the current underweight position remains within a reasonable range in the near term. The shortfall is modest relative to the size of the overall Fund and is offset by meaningful exposure to other growth assets, such as listed equities. As highlighted in the last SAA review, listed equities can act as a 'liquid holding place' with broadly similar high-level risk and return characteristics to private equity, providing flexibility awhile PE exposure is built up gradually and without the risk of overcommitting. The upcoming tail-risk review will consider whether to allocate additional capital to listed equities or other 'liquid holding places' while waiting for private equity and other illiquid allocations to be deployed.

As with any long-term projection, actual cashflows are likely to fluctuate; some years may see slower distributions or drawdowns due to delays in realisations or deployment, while others may be more active. We recommend that pacing is reviewed annually as part of the SAA review.



Cashflow projections have been provided by investment managers as at 31 December 2024. Where NAV projections were not provided, and for projections relative to Fund size, additional assumptions have been applied. Further details on assumptions used to carry out cashflow modelling is available upon request

Where and how to allocate future commitments?

We believe the Fund's private equity framework remains appropriate to guide the continued development of the portfolio, and that maintaining exposure to both secondaries and venture capital should remain a core part of this approach.

Historically, LGPS Central's private equity sleeves did not provide access to these areas, leading to the continued use of Adams Street's global fund programme as a third-party solution in the last review. However, with pooling now a more prominent requirement, and Central signalling an ambition to broaden its offering, further allocations to external managers risk limiting the pool's ability to develop scalable, demand-led solutions — and could reduce the Fund's flexibility to respond to new opportunities within the pooled structure as they emerge. Given this direction of travel, we believe the Fund should now look to reduce its reliance on third-party solutions such as Adams Street.

Instead, we suggest the Fund's £110m commitment for 2025 is split in a way that supports the continued development of Central's programme:

- £80m firm commitment now — £65m to the 2025 primary sleeve and £15m to the 2025 co-investment sleeve (a modest allocation reflecting our cautious approach)
- £30m earmarked for potential allocation — £15m each to secondary and venture sleeves, subject to satisfactory findings from the due diligence (as referenced on p.13)

If one or both of the proposed sleeves — secondary and venture — do not proceed due to limited scale or uptake, we'd be comfortable holding off that portion of the allocation for now, with a view to revisiting the position in 12 months' time. This should be considered alongside how the Fund's 2026 commitment is best deployed.

Whilst we'd expect a similar split in terms of amount and broad areas to allocate to in 2026, whether that proves viable will depend on the structure and timing of Central's future products — which should become clearer over the coming year. In the interim, we recommend engaging with LGPS Central to ensure they are aware of the Fund's annual commitment needs, so these can be taken into account in Central's pacing plans and product pipeline.

Current expectation is that the 2025 vintage will have a first close in Q3 and a final close in Q4 2025, although this could shift depending on Partner Fund needs. We also note that Central is considering an 18-month product launch cycle. Should this go ahead, the Fund could allocate its 2026 commitment to a future vintage under that revised timeline. If no suitable product is available, the full 2026 commitment could be directed to the Adams Street 2026 Global Fund, although this would need to be discussed with LGPS Central given their increased role over decision-making post-31 March 2026.

Projected evolution of private equity portfolio

We expect the Fund's existing private equity investments, along with new commitments of around £110m per annum, to build a portfolio that broadly aligns with the Fund's private equity framework over time.

Geographically, the portfolio is currently within target ranges, though North America sits at the upper end (59%), offset by lower exposure to Asia Pacific (10%). This is expected to rebalance gradually, with most regions moving closer towards mid-range by 2032.

By lifestage, the Fund is currently underweight growth (3% vs. 10–30% target), but this is projected to increase to 21% by 2032, bringing the portfolio into better balance. Venture exposure is expected to moderate from the current high of 30%.

Origination channel exposures are already within target ranges, and forecasts suggest future allocations will remain broadly aligned.

Although the portfolio is expected to evolve naturally over time through existing commitments and new allocations, there will continue to be opportunities to fine-tune exposures. Regular review of the portfolio will allow the Fund to address any persistent under- or over-weights — either by adjusting allocations within the Central mandate or through selective commitments to Adams Street's specialist funds.

Projected allocation against target framework

	Segment	Target Allocation	Current Allocation	End 2028	End 2032
Geography	North America	30-60%	59%	49%	45%
	Europe	20-40%	25%	30%	31%
	Asia Pacific	10-30%	10%	17%	20%
	Emerging Markets	0-10%	6%	4%	4%
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	Secondaries	10-30%	26%	16%	17%
	Co-investments	15-25%	15%	14%	17%
Economic sector	No specified ranges as opportunity set varies, but aim for diversification	-	-	-	-

Projections assume £110m of new investments per year to LGPS Central, split as £65m to the primary sleeve, £15m each to the co-investment, secondary, and venture capital sleeves. This allocation split is likely to vary from year to year or with each review, so these projections should be seen as giving a general sense of direction rather than a precise forecast. More details on the assumptions applied are set out on page 24.

Thank you



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