

INVESTMENT SUBCOMMITTEE – 29TH APRIL 2015

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

RECOMMENDED SWITCH OF INVESTMENT WITH JPMORGAN

Purpose of the Report

1. To provide information in respect of a recommended switch between two credit funds managed by JPMorgan.

Background

2. The Fund's strategic benchmark includes a 5% weighting in credit, and this exposure is heavily biased towards private debt, a market which appears to offer considerably better future investment returns than those that will be available from liquid bonds (both government and corporate).
3. The Fund's exposure to private debt consists of a £35m investment in the Prudential/M & G UK Financing Fund and a £100m commitment (soon to be fully drawn) in the Partners Group 2014 Private Markets Strategy. Both of these investments are 'closed ended funds' where there is no ability to either add to the investment or to withdraw monies ahead of the natural mechanism built into the funds that will distribute cash as-and-when investments mature.
4. In combination these two investments will total about 4.4% of total assets, and the residual 0.6% is currently held in the JPM Strategic Bond Fund. This fund has been used as a source of funds for the Partners Group investment over the last 9 months.
5. Any target that is set as a percentage of total assets can drift away from the intended weighting simply as a result of divergent performance of different asset classes. For this reason it is considered preferable to maintain a small holding in an open credit fund (i.e. one into which subscriptions and redemptions can be made if necessary) as a 'float' to maintain the weighting at a level that is broadly equal to the strategic benchmark weighting.
6. The Prudential/M & G UK Financing Fund currently has 8 loans within it and the first one is due to mature in 2018, so there is no obvious reason why we should receive any meaningful amount of capital back within the foreseeable future. All of the borrowers, however, have the ability to repay the loans early (subject to certain penalties) if they wish and four of the original loans have previously been redeemed early. Maintaining a 'float' position gives a natural home to any early repayments and the ability to maintain the target weighting.
8. Attached as an appendix is a note from Hymans Robertson concerning the JPMorgan Multi Sector Credit Fund. Hymans view is that this fund is a better fit with

their investment views than the existing JPMorgan fund in which the Leicestershire Fund currently has invested in. As the Multi Sector Fund is relatively new and has only a small amount of assets invested within it, the manager is willing to offer a significant fee (and permanent) reduction for early investors. The fee for investment in the Multi Sector Credit Fund will, as a result, be lower than that paid on the current investment with JPMorgan despite the fact that this kind of fund would normally have a higher fee base. This fee reduction should not, in itself, be considered a reason to consider switching funds but in combination with the fact that the new fund is considered a preferable option to the existing investment, a switch is recommended.

9. Given the small size of the investment, a decision to switch (or not) is unlikely to have any material impact onto total fund performance. On balance, however, a switch is considered to be a better option than maintaining the status quo. The Multi Sector Credit fund has monthly dealing dates, as opposed to the daily dealing of the Strategic Bond Fund, and this is necessary as a result of the less liquid positions that it is likely to hold. Within the context of the Leicestershire Fund's likely activity in respect of purchasing and selling units within the fund, monthly dealing does not create any practical issues.

Recommendation

10. The Investment Subcommittee is recommended to approve a switch of investment from the JPMorgan Strategic Bond Fund to the JPMorgan Multi Sector Credit Fund.

Equal Opportunities Implications

None specific

Background Papers

None

Appendix

JP Morgan - Multi Sector Credit (MSC) Fund

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