



INVESTMENT SUBCOMMITTEE – 10TH OCTOBER 2018

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

UPDATE ON THE LAUNCH OF LGPS CENTRAL SUB-FUNDS

Purpose

1. The purpose of this report is to inform the Subcommittee of recent progress by LGPS Central to launch sub-funds that the Leicestershire Pension Fund will invest in.

Background

2. The Leicestershire Fund is one of 9 schemes that will pool pension assets within the LGPS Central Pension Pool. Pooling will take several years to implement, due to then need to set-up sub-funds by Central and then amalgamate the existing holdings for the 9 partner schemes.

Global Equities

3. The first sub-fund to be launched by LGPS Central will be the Global Equities Active Multi-Manager Fund. This is scheduled for launch on Friday 30th November 2018, although the transfer of money from the Funds may be after this time.
4. Information on the sub-fund and the manager selection process was circulated to the Pension Committee after the September meeting.
5. The Fund currently employs two managers in this class of assets, Kempen and KBI, with a total of has £340m of assets under management. Up to five other pension funds are expected to invest taking the estimated size of this sub-fund to £2.5bn.
6. Central has appointed three managers who will employ a range of styles. Harris Associates have a value style, Schroder Asset Management have a growth style and Union are neutral.
7. Kempen and KBI currently have a bias towards value factors and away from growth. In the latest annual strategy review of the Leicestershire Pension Fund, the Fund's advisors Hyman's, identified this bias and recommended a move to a more balanced portfolio. This process will be partially achieved under Central's offer.
8. Under normal circumstances the three managers will have an equal split, although Central can adjust the split by up to 10%. This additional management by Central, to enhance performance, is not expected to be a common occurrence.

9. The Fund will benefit from cost savings. However due to the fixed fee currently paid to KBI these savings will be relatively modest. If the Fund chose to change managers independently the fees paid would be expected to increase. More significant cost savings are expected from future fund launches, as the Fund will benefit from Central's scale.
10. Investment Consultants Hymans Robertson have reviewed the information available relating to the sub-fund and met with Central to discuss. Their appraisal is attached as an appendix to this report. They made two recommendations that require further work.
11. Firstly they recommend a phased implementation. The Fund will be better placed to consider this when the transition arrangements are known. However, the uncertain nature of the future performance of equity markets will mean that a fair degree of luck will be required to make the right decision.
12. Hymans also recommended that the due diligence performed by Central is reviewed. Central have confirmed that they are comfortable sharing their work. All investment managers have to meet the requirements of their national regulator; hence the likelihood of significant problems is expected to be low.
13. Should the launch of the sub-fund continue to proceed satisfactorily the Director of Corporate Resources, following consultation with the Chairman of the Local Pension Committee, will act using his delegated powers.

Private Equity

14. The Fund has a £160 million allocation to Private Equity, this is managed by Adams Street Partners (ASP). This is primarily through fund of fund arrangements, i.e. ASP select funds to invest in rather than identifying specific companies themselves.
15. The investments are in closed ended funds, which mean that money will be returned to the Fund and cannot be invested indefinitely. This requires the Fund to continually reinvest to maintain its target allocation.
16. Central have recruited a dedicated Private Equity team and are in the process of launching a sub-fund. This will provide two options for investment:
 - a. Investment through fund investment in a similar way to current arrangements, with Central taking the place of ASP.
 - b. Co-investment with fund managers, who lead on the due diligence. These investments have a higher risk profile, but also the potential for superior returns.
17. The sub-fund will run as annual vintages that hold specific investments, rather than pooling. Each vintage is expected to exist for no longer than twelve years, although funds will start to be returned after their third anniversary. Central are proposing to offer two opportunities each year to make investments into the sub-fund.
18. To maintain the Fund's target allocation it is estimated that £10 million should be invested in the current financial year. The Fund's Private Equity exposure is an area that will be looked at in the annual strategy review. Hence it is proposed to invest the £10 million in funds (rather than co-investment.)

19. Should the launch of the sub-fund continue to proceed satisfactorily the Director of Corporate Resources, following consultation with the Chairman of the Local Pension Committee, will act using his delegated powers.

Recommendations

20. It is recommended:

- a) That progress in relation to LGPS Central's progress in preparing a range of sub funds in which the Leicestershire Pension Fund can invest be noted;
- b) That a further report on the matter be considered by the Local Pension Committee on 9 November 2018.

Appendix

21. Briefing note of the Fund's Investment Advisor

Equality and Human Rights Implications

22. None.

Officers to Contact

Mr C Tambini, Director of Corporate Resources
Tel: 0116 305 6199 Email: Chris.Tambini@leics.gov.uk

Mr D Keegan, Assistant Director Strategic Finance and Property
Tel: 0116 305 7668 Email: Declan.Keegan@leics.gov.uk

This page is intentionally left blank