

Leicestershire County Council Pension Fund Investment Mapping to LGPS Central Pool

Introduction

This paper outlines the options and timetable for the Fund to potentially transfer investments to LGPS Central. Due diligence on the funds offered by Central would need to be undertaken before investments are made.

Equities

Current and target allocations (based on the 2018 strategy) are outlined below:

Manager	Asset Class	% of Fund at 30/9/18	Target % of Fund at 30/9/18
LGIM	UK (large cap exposure capped)	4.2	8.5
LGIM	UK market cap passive	3.5	
LGIM	Regional market cap passive (ex UK)	17.4	28.0
LGIM	RAFI (NA & Europe)	9.6	
<i>Kempen</i>	<i>Global dividend</i>	8.2	8.0
<i>KB</i>	<i>Global dividend</i>		
<i>Delaware</i>	<i>Emerging Markets</i>	4.2	4.0
Various	Private Equity	4.1	4.0
<i>LGPS Central</i>	<i>Private Equity</i>	-	
TOTAL	Equities	51.2	46.0

Expected transfers to LGPS Central (shown in italics above):

- The Fund has committed £10million to Central's new private equity fund. No investment has yet been made.
- Kempen and KB global equity portfolios are scheduled to be transferred to the Central's global equity fund in Q1 2019 (estimated to be in February).
- Plans are in place to launch an Emerging Markets fund later in 2019 which may a suitable alternative to Delaware.
- The above transfers currently total approximately 12% of the Fund.

Other mandates:

- While Central manage market cap passive mandates for funds which were previously managed in-house, they do not intend to develop these for wider use.
- Central currently manage a 'dividend growth' themed portfolio for a West Midlands Pension Fund which may be an option to explore in future if appropriate.
- At the request of clients, Central are in the process of developing other 'factor based' equity investing, reviewing a number of potential options to include carbon-

related factors. The investment case is being explored including the impact of the carbon-related factors on return and risk.

- The Fund has 4% invested in unlisted private equity with Adams Street and Catapult Ventures. Undrawn capital amounts to approximately a further 3.3% which will be invested over a period of years. Over a period of up to 10-15 years, investments will be returned to the Fund.

Real Income Assets

Current and target allocations are outlined below:

Manager	Asset Class	% of Fund at 30/9/18	Target % of Fund at 30/9/18
Kames	Index linked gilts	7.1	7.5
IFM	Infrastructure	4.9	6.0
KKR	Infrastructure		
JPM	Infrastructure		
Stafford	Timberland	2.8	3.0
La Salle	Property – fund of funds	4.6	10.0
Kames	Property – indirect (smaller lots)	2.3	
Colliers	Property - direct and indirect	2.4	
TOTAL	Real Income Assets	24.1	26.5

There are no plans currently in place to transfer any of the above assets to LGPS Central.

Index linked

- While Central's plans do not include an index-linked gilt bond fund, they do manage listed bonds under bespoke arrangement for other pension funds.

Infrastructure

- Central are developing a proposal for an infrastructure fund which should launch in 2019.
- The KKR infrastructure funds are closed-end (i.e. limited life). The Fund has approximately 1.0% of undrawn commitments which will be invested over a number of years. Investments will be returned over a period of up to 10-15 years.
- The JPM and IFM infrastructure funds are an open-ended (i.e. unlimited life) fund. Undrawn commitments to these funds amount to 0.8% of the Fund.

Timberland

- The Fund has a further 1% of undrawn commitments which will be invested over a number of years. Investments will be returned to the Fund in due course.
- Currently, Central has no plans to launch a timberland fund.

Property

- Central is considering options to manage property on a direct basis, as well as indirect. However timing is uncertain, particularly as the team lacks resource in this area of the market.
- The La Salle mandate currently consists of 17 property funds. The majority (73%) are invested in open-ended funds (i.e. with unlimited life), with the remainder in specialist funds which are typically closed-ended. Approximately £19million (10% of the mandate) is scheduled to be returned to the Fund in 2019 and a further £34million (18% of the mandate) by 2021. La Salle are likely to be making plans to reinvest this capital. As transaction costs for property are significant (c7%), it is important to develop a clear plan for the Fund's future exposure to avoid costs if investments are unwound.

Alternative Investments

Current and target allocations are outlined below:

Manager	Asset Class	% of Fund at 30/9/18	Target % of Fund at 30/9/18
<i>Ruffer</i>	<i>Targeted Return</i>	6.0	4.0
<i>Aspect</i>	<i>Targeted Return</i>	3.2	3.5
<i>Pictet</i>	<i>Targeted Return</i>	2.8	4.0
<i>Millennium</i>	<i>Currency Overlay</i>	-0.01	n/a
Ashmore	Opportunities – EM Debt	2.5	2.5
JPM	Opportunities - Credit	5.9	7.5
UK Financing Fund	Opportunities – Credit		
Partners	Opportunities – Private Credit		
InfraCap	Opportunities	3.2	5.0
M&G	Opportunities – Distressed debt		
Standard Life	Opportunities – Private equity secondaries		
TOTAL	Alternative Investments	23.6	26.5

Expected transfers to LGPS Central (shown in italics above):

- Central have plans to launch a Targeted Return fund later in 2019 which may be a suitable alternative to the Fund's current targeted return managers (Ruffer, Pictet and Aspect) and potentially the active currency overlay.
- Central are scheduled to launch a Corporate Bond fund in April 2019 and are also developing a Multi Asset Credit fund, potentially to be launched later in 2019. These funds could be alternative investments for the current 'Opportunities' allocation.

Other – Currency Hedge

The Fund currently has a currency hedge, implemented by Kames. The Committee/ISC decide on the currencies to be hedged and the size of the hedge and Kames overlay active views.

While Central do not currently have a currency overlay product, they have expressed willingness to develop one.

Conclusion

LGPS Central is developing investment funds and the following investments could be transferred to Central by the end of 2019:

- Equities - approximately 13% of Fund (Active Global and Emerging Markets and new investment in private equity)
- Real Income Assets – new investment in Infrastructure (likely to be small initially)
- Alternative Investments – approximately 12% of the Fund (Targeted Return) with potential for further transfers into credit opportunities.

It is likely to be many years before the majority of the Fund is transferred to LGPS Central. This is partly due to the Fund's unlisted and illiquid investments and the time taken by Central to develop investment options.

In the meantime, the Fund needs to ensure appropriate governance of investments which are not managed by Central.

The Fund continues discussions with Central to prioritise developments and to ensure the investment offerings meet the Fund's requirements. Specific discussions are being held on:

- Index-linked gilts and currency hedging as an alternative to Kames
- Indirect property
- Oversight of other investments which are not managed by Central.

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