



Minutes of a meeting of the Investment Subcommittee held at County Hall, Glenfield on Wednesday, 14 October 2020.

PRESENT:

Leicestershire County Council
Mr. P. C. Osborne CC (Chairman)
Mr. T. Barkley CC
Dr. S. Hill CC

Leicester City Council Representative
Cllr. A. Clarke

District Council Representative
Cllr. Malise Graham

Staff Representative
Mr. N. Booth

46. Minutes of the meeting held on 16 October 2019.

The minutes of the meeting held on 16 October 2019 were taken as read, confirmed and signed.

47. Question Time.

The Chief Executive reported that no questions had been received under Standing Order 36.

48. 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).

49. Declarations of interest in respect of items on the agenda.

The Chairman invited members who wished to do so to declare any interest in respect of items on the agenda for the meeting.

Dr. S. Hill CC declared a personal interest in Agenda Item 10 (Minute 10) as Aegon administered some personal investment services on her behalf.

50. Multi Asset Credit Update.

The Subcommittee considered a report by the Director of Corporate Resources which provided an update on LGPS Central's development of a Multi-Asset Credit (MAC) sub fund. A copy of the report is marked 'Agenda Item 5' is filed with these minutes.

Arising from the discussion the followings points were noted:-

- i. The MAC strategy allowed managers flexibility to move opportunistically between asset sectors, enabling them to create excess return via a combination of a wider variety of asset classes such as secured or non-secured debt. It was felt that MAC was an attractive strategy and provided yield enhancement compared to traditional fixed income strategies held by the Fund.
- ii. Work had been undertaken between the Fund's advisor, Hymans Robertson and LGPS Central with a view to design a MAC product that would be fitting for the Fund, prior to going to market for potential mangers. It was agreed that the designed mandate would have less than 10% weightings to investment grade corporate bonds and less than 10% weighting to emerging market debt as well as other limits to help manage risk.
- iii. While Managers would be able to invest in a wider pool of securities (thus having higher risk and expected return), the performance target was set at 4% net over the benchmark (three-month GBP London interbank overnight rate, that was at present around 0.05%). The Fund believed that the realistic target reduced the potential for mangers to take overly risky positions with securities such as collateral loans.
- iv. Members raised concerns regarding the link to collateralised loans (also known as 'junk bonds'). It was clarified that while managers could invest on Central's behalf into collateralised loans, the 4% benchmark combined with the limits imposed upon the mandate, and Central's stringent manager approval process and checks, would protect the Fund from significant risks. Nevertheless, it was queried whether the risks were worthwhile for a relatively modest return rate of 4%. Members were assured that once Central had chosen its mangers and been approved by the Financial Conduct Authority, Hymans would conduct due diligence for the Fund, in advance of a proposal being brought to the Subcommittee or Local Pension Committee for approval. At that stage members would be able to raise further questions and concerns with representatives from LGPS Central.

RESOLVED:

That the report be noted.

51. Recommended Investment: Adams Street Partners Private Equity Fund and JP Morgan Infrastructure Fund.

The Subcommittee considered a report by the Director of Corporate Resources which provided members with information in respect of a proposed investment with Adam Street Partners Private Equity product, 2020 Global Fund and a proposed further commitment with JP Morgan's Infrastructure Fund. A copy of the report marked 'Agenda Item 6' is filed with these minutes.

Arising from discussion the following points were noted:-

- i) The Fund held in the region of £400million in infrastructure funds with four managers, however the Fund remained 1.05% short of the target (around £50million). The Fund had two investments with two managers in open ended infrastructure funds, JP Morgan and IFM.
- ii) The Local Pension Committee had received a presentation from JP Morgan's Infrastructure Investments Fund at its last meeting which set out its investment in core and core plus infrastructure with a focus on diversification, inflation protection and cash yield which represented the safer end of the infrastructure spectrum. The Fund's current holdings with JP Morgan returned around £5-6million cash per annum.
- iii) In comparison with IFM, JP Morgan had lower management fee's and was felt more suitable to the Fund due to its more defensive portfolio, it also had a lower timeframe to invest capital, at around nine months.
- iv) Officers felt that a relatively small top-up of £25million (half the current deficit) to JP Morgan's Infrastructure Fund would enable the Fund to rebalance in future years if needed as cash was returned yearly.
- v) The Fund had also indicated a £25million interest in LGPS Central's Infrastructure Fund that was due to go live before the end of the financial year and would be brought to the Sub-Committee for approval before any investment to reach its target allocation of 9.75% was made.
- vi) JP Morgan had evidenced its commitment to responsible investment with its environmental, social and governance policy that set out its aims to provide investors with stable, sustainable, long-term returns in high

quality investments.

- vii) Further investment was also required for the Fund's allocation in Private Equity that was targeted at 4.75%. While the Fund was currently overweight (due to distributions slowing as a result of COVID-19), investments in private equity using the same manager and strategy as previously taken would take up to eight years to fully invest. For example, the Adams Street Partner Global Fund 2019 vintage that the Subcommittee had approved in October 2019 had only called 8% of the investment, evidencing the importance of long-term planning to remain close to target.

- viii) Officers proposed that the Fund invest £20million GDP in the Adams Street Partners Global Fund 2020 vintage to retain its vintage diversification.

- ix) Adams Street Partners was a multi manager investor that held a portfolio of other investment funds rather than investing directly in stocks, bonds or other securities. Due to its size it was able to have far more oversight and influence on environmental, social and governance factors than the Leicestershire Pension Fund could have due to its relatively small size.

- x) Members were pleased to note that Adams Street was also committed to responsible investment, with environmental, social and corporate governance (ESG) considerations being considered as part of its investment diligence process. The manager was also signatory to the United Nations supported Principles for Responsible Investment (the PRI), a voluntary initiative promoting the integration of ESG considerations into investment processes and encouraging ongoing engagement with broader ESG issues.

RESOLVED

That the report be noted.

52. Dates of Future Meetings.

RESOLVED:

It was noted that the next meeting would be held on 16 December 2020 at 10am.

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

54. Supplementary information informing Proposed Investment in Adams Street Partners Private Equity Fund and JP Morgan Infrastructure Fund.

The Subcommittee considered a supplementary paper containing further information on the proposed investment in Adams Street Partners Private Equity Fund and JP Morgan Infrastructure Fund, which was followed by questions from members. A copy of the report filed with these minutes marked 'Agenda Item 9'. The report was not for publication by virtue of Paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

- a) That the supplementary information provided be noted.
- b) That a £20m commitment to invest in Adams Street Partners 2020 Global Fund be approved.
- c) That a further £25m commitment to invest in JP Morgan Infrastructure Investments Fund be approved.

55. Aegon (formally known as Kames) Active Currency Hedge.

The Subcommittee received a presentation from representatives of Aegon Asset Management on their active currency hedge, which was followed by questions from members. A copy of the PowerPoint presentation is filed with these minutes marked 'Agenda Item 10'. The presentation was not for publication by virtue of Paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

RESOLVED:

That the report be noted.

56. Pending Transitions Update.

The Subcommittee received a updating them on Pending Transitions from the Director of Corporate Resources. A copy of the report is filed with these minutes marked 'Agenda Item 11'. The report was not for publication by virtue of Paragraphs 3 and 10 of Part 1 of Schedule 12(A) of the Local Government Act 1972.

The Subcommittee noted current progress set out within the report and that

further updates would be brought to the Subcommittee or Local Pension Committee where relevant to detail any transition approaches and estimated costs.

RESOLVED:

That the report be noted.

Wednesday, 14 October 2020
CHAIRMAN