



INVESTMENT SUB COMMITTEE – 31st MARCH 2021

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

RECOMMENDED INVESTMENT:
ADAM STREET PARTNERS GLOBAL SECONDARY FUND 7

Purpose of the Report

1. The purpose of this report is to provide information in respect of a proposed investment into the Adam Street Partners (ASP) Global Secondary Fund 7 (GSF7).

Background

2. The Fund's strategic asset allocation (SAA) as approved by the Local Pension Committee in January 2020 stated a target allocation of 5.75% to private equity (PE) with a comment stating the Fund, 'consider opportunistic investment in Adam Street secondaries'.
3. As at December 2020 the Fund's private equity allocation totalled £294m or 6.0% of total fund assets. 0.25% overweight to the target allocation as at December 2020.
4. Private equity is an illiquid asset class, with investors required to commit for ten years or more. A secondary market in investments has arisen as the only way for individual investors to make an early exit from their private equity commitments. Adams Street Partners (ASP) Private Equity Secondary funds are built up of multiple purchases of existing private equity funds, including some ASP already own within their other funds. Funds on the secondary market are usually bought at a discount to the net asset value by virtue of the prevailing market conditions. Sellers could be institutions who require cash to fund other investments or benefits or are merely exiting to satisfy a new target weight in a revised strategic asset allocation. ASP have relationships with the private equity managers that allow, in some cases, exclusive access to these sellers. In any case the relative illiquid nature of the market can provide attractive buying opportunities.
5. The Fund has previously invested \$20million USD in ASP's Global Secondary Fund 6 in Q4 of 2017. This is the Fund's only dedicated secondary fund and is currently performing ahead of expectations.
6. Currently ASP's global funds which the Fund has invested in have an allocation to secondaries of around 20-25% which has risen over the years.
7. The Fund's last two investments with ASP were a \$39million USD investment to the 2019 Global Fund in December 2019 and \$26million USD investment to the 2020 Global Fund in November 2020.

The Fund's current private equity holdings

8. As at 30th December 2020 the Fund held £294million across three managers, ASP, LGPS Central and Aberdeen Standard Life. The majority of the Fund's private equity allocation is with ASP. The second largest allocation is with Aberdeen Standard Life's secondary fund totalling £24million. The Fund has also committed £10million to the 2018 LGPS Central Private Equity Vintage.
9. It is worth noting that LGPS Central do not have plans for a secondary 'sleeve' within their planned 2021 private equity offering. However Central are planning a 2021 vintage (covered later in this paper) that the Fund has expressed an interest in and has factored in the opportunity to potentially invest pending due diligence.
10. The Fund's holdings of private equity with ASP stretch back to 2002 and cover over 30 separate funds into which the Leicestershire Fund has committed over \$600million USD.
11. Private equity has a 5.75% target weight per the 2021 strategic asset allocation. Accounting for estimated commitments and distributions the Fund expects to receive a net distribution of c£70million over the calendar years 2021 and 2022. These numbers are based on the ASP current forecasts and can obviously change. This net distribution will lower the Funds allocation to private equity by c1.4% which, with all other things being equal, brings private equity underweight to the target allocation and hence requires commitments now given the time taken for money to be called by the managers. The table below show the expected weighting to private equity over 2021 and 2022.

	Dec-20	Jun-21	Dec-21	Jun-22	Dec-22	Note
Current PE weight	6.0%					Currently overweight
ASP secondary called in 2021			6.1%			25% called in 2021
Net distributions ASP 2021			5.5%			Effect of returning money to the Fund
Central commitment called in 2021			5.7%			20% called in 2021
ASP secondary called in 2022					5.8%	30% called in 2022
Net distributions ASP 2022					5.0%	Effect of returning money to the Fund
Central commitment called in 2022					5.23%	25% called in 2022

12. It is worth noting that the expected private equity weight at the end of 2022 is 5.23% which is c0.5% behind the target, all other things being equal. Officers believe that if the net distributions from ASP are lower than expected then the Fund still has the opportunity to further commit funds to future vintages. The Fund has planned for a decision in Summer 2021 regarding a Central private equity offering and will also have the opportunity to assess ASPs 2021 global funds offer if needed.
13. Officers propose a recommended commitment to ASP's Global Secondaries Fund 7 which takes expected future commitments and distributions into account. Officers are mindful the Fund remains diversified across multiple vintages, geographies, business sectors and sizes of private companies and hence regular investment is needed to minimise single vintage risks.

Adams Street Global Secondaries Fund 7 (GSF7)

14. ASP have a long history of secondaries investments dating back to 1986. Since then 240 investments have been completed (at 30th Sep 2020) and ASP have \$7billion USD of secondary assets under management (AUM).

15. GSF7 has a target fund size of \$1.5 billion USD and a target life of 10 years plus three one year extensions if needed, this is shorter than the global funds programme life given secondaries are usually already between three and eight years old when they are bought. Commitments are targeted to be invested within four years rather than eight years within global funds programmes. A factsheet is included within the appendix for GSF7.
16. The Fund has exposure to ASP secondary investments via the global funds and GSF6 investments. The more recent primary funds, the global funds vintages also target up to 25% into secondary funds.
17. The benefits associated with investing in secondaries are listed below:
 - a. Shorter duration than comparable ASP global funds which have a target life of 15 year plus extensions.
 - b. Secondary funds are usually available at a discount to the net asset value of the underlying companies, sometimes these can be large as was seen in the years post the global financial crisis.
 - c. ASP management fees are linked to committed capital, however underlying funds bought are between three to eight years old on purchase and so money is at work far earlier than a comparable global fund for example. GSF7 should invest all commitments within four years, whereas an equivalent investment within their global funds programme takes seven to eight years to fully invest.
 - d. Buying established funds lowers the risk profile versus a fund that would usually have a portion reserved for venture capital which is much higher on the risk spectrum of private investments. Any investments not performing would already be reflected in the price paid given ASP know the underlying holdings and are able to price them independently in many cases, this is not the case with primary investments where the managers are yet to deploy commitments.
18. With respect to discounts available, ASP expect discounts, but not at the levels seen post the global financial crisis. During 2020, ASP have witnessed a 13% discount for industry deals whilst during the years 2008 to 2012 saw far higher discounts.
19. Specific to ASP, they completed 11 secondary transactions in 2020 for \$511 million USD, at a 24% discount at close of deal to net asset value (NAV).
20. The ASP secondaries fund, GSF7, is currently attracting funding and has a first close planned in March 2021 with management fee discounts extended into April to clients who confirm their intention to invest. The strategy of this fund is similar to that of GSF6 with the highlights shown below:
 - a. Many deals, c90% are sourced through proprietary/restricted processes, some Private Equity fund's like to sell secondary investments to large investors like ASP who also invest in their primary funds.

- b. The majority of transactions are with Private Equity funds that ASP have an existing relationship with. During 2020 80%+ of transactions involved an existing ASP general partner. This allows for a deeper understanding of the underlying companies and pricing and hopefully lower risk to investors.
 - c. ASP believe that there is less competition in the area of the market they operate in (mid market) compared to the larger funds in the market that have a large amount of dry powder available to deploy.
 - d. ASP recognise investment themes they like to invest into, technology, healthcare, engineering and manufacturing and changing consumer preferences.
 - e. ASP's are able to deploy capital even during periods of volatility due to their strong links to general partners and knowledge of 100+ funds that are priced quarterly.
21. Appendix A contains a slide outlining ASP's approach to integration of Environmental, Social and Governance (ESG) factors into their investment process.

LGPS Central

22. Officers are in talks with Central alongside a number of other partner funds. Central are currently planning to launch a 2021 private equity vintage later in the year. The Fund has expressed a soft commitment to the product which will have a diverse geographic and strategy focus with a business sector focus on asset light, business critical sectors. A summary of the key features currently is shown in the table below.

Summary of key features			
Target Net Return	4% over FTSE All World Index after all costs - 15% IRR/1.7x		
Target AUM	Primary: £250m	Co-Investments: £150m	Minimum Commitment: £30m
Fund Structure	Scottish Limited Partnership		
Fund Currency	GBP		
Fund Life	10 years with up to 3 x 1-year extensions		
Investment/Commitment Period	15 months with up to 3 x 1-month extensions		
Geographic Focus	USA 35%	Europe 35%	Asia 30%
Strategy Focus	Growth/Small 30%	Mid Buyouts 50%	Large Buyouts 20%
Sector Focus	Focus on resilient, asset-light, business critical sectors		
Responsible Investment	Fully integrated approach to all investment decisions		
Target Size for Funds	5-8 investments at an average size of c£30-50m		
Target Size for Co-Investments	5-8 investments at an average size of c£20-30m		
Management Fees	As per Cost Sharing Agreement (~0.1% p.a. maximum)		
Performance Fees	Nil		

Supplementary Information.

23. An exempt paper which is of a sensitive nature is included elsewhere on the agenda which contains supplementary information on the potential investment in Adams Street Partners GSF7.

Recommendation

24. The Investment Subcommittee is recommended to consider an investment into the Adams Street Partners GSF7 fund.

Equality and Human Rights Implications

25. None

Appendices

Appendix A – Adam Street Partners ESG integration

Appendix B – GSF7 factsheet

Background Papers

26. 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

Mr B Kachra, Senior Finance Analyst - Investments

Tel: 0116 305 1449 Email: Bhulesh.Kachra@leics.gov.uk

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