

CONFIDENTIAL



Leicestershire Pension Committee

LGPS CENTRAL LIMITED – PRIVATE MARKETS UPDATE



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10 June 2022



Agenda



Private Markets Update

- Private Markets Overview
- Infrastructure
- Private Equity
- Private Debt
- ESG within Private Markets

Private Markets Overview

Portfolio Overviews

Platform Overview



Commitments as at 30 April 2022

	PE 2018		Infrastructure				Credit				PE 2021		Total
	Primary	Co-inv	Core	VA	Co-inv	Single	Inflation	Real	Lower	Higher	Primary	Co-inv	
Local Authority 1	20	2	80	10		40	340		170		50	10	722
Local Authority 2									50				50
Leicestershire	10		70						100	60	30		270
Local Authority 4	10	5	115	45		20					45	20	260
Local Authority 5			59	7					120		30		216
Local Authority 6	10		60			60			45	45	40		260
Local Authority 7	100	100					180		540	200	125	100	1,345
Local Authority 8													0
Total	150	107	384	62	0	120	520	0	1,025	305	320	130	3,123
Vintage		257				566				1,850		450	

Source: LGPS Central Limited

- Three asset classes, 12 sleeves 39 separate Partner Fund commitments
- 25 investments to date, c.35 by year end
- Significant commitments pending for real assets credit and infrastructure
- Direct property live in late summer and Indirect by year end

Funds Overview



Private Equity Funds	Launched	Commitments (31/03/22)	Sub-committed (31/03/22)	Called (31/12/21)	Net IRR (31/12/21)	Investments to date
Primary 2018	Jan 2019	£150m	100%	54%	31.5%	5 investments
Co-Investments 2018	Jan 2019	£107m	100%	92%	48%	5 investment
Primary 2021	Sept 2021	£320m	33%	0%	n.m.	3 investments
Co-Investments 2021	Sept 2021	£130m	28%	28%	n.m.	2 investments
Infrastructure Funds	Launched	Commitments (31/03/22)	Sub-committed (31/03/22)	Called (31/12/21)	Net IRR	Investments to date
Core/Core Plus	April 2021	£383.5m	67%	14%	n.m.	3 investments
Value Add/Opportunistic	April 2021	£61.5m	34%	6.6%	n.m.	1 investment
Single Asset	Feb 2022	£120m	100%	0%	7.3% (6.6% cash yield)	1 investment
Co-Investment	Feb 2022	Commitments due later in 2022	n/a	n/a	n/a	n/a
Private Credit	Launched	Commitments (31/03/22)	Sub-committed (31/03/22)	Called (31/12/21)	Net IRR	Investments to date
Stable Returns (CP III)	July 2021	£440m	0%	n/a	n.m.	n/a
Real Assets (CP IV)	First close due later in 2022	£480m	0%	n/a	n/a	n/a
Lower Return (CP II)	July 2021	£1025m	66%	2.4%	n.m.	4 investment
Higher Return (CP I)	July 2021	£305m	33%	8.3%	n.m.	1 investment

Private Equity

Portfolio Overview

Market Outlook – Private Equity



- ✓ Asset class continues to deliver strong relative returns
- ✓ Investor appetite for PE remains high, but allocation constraints due in part to the 'denominator' effect are beginning to bite
- ✓ 2021 was another strong year for PE with its second-best ever fundraising year
- ✓ 2021 also broke the \$1bn average deal size for the first time ever
- ✓ Increasing sector & sub-sector specialisation
- ✓ Less reliance on leverage to generate returns

- ✗ Pricing remain high but deal activity continues to be robust - increased inflation and rising interest rates could see deal volumes drop
- ✗ Supply chain issues and staffing shortages could further impact new investment activity as well as current investments
- ✗ Record \$3.4tn of unspent capital remains (largely at upper end of the market & ~2.5 years deployment)
- ✗ Deal activity amongst GPs is increasing with mergers, public listings and acquisitions all ticking up – expect further activity in this space
- ✗ Pace of fund-raising and level of fund sizes is a concern

Future PE Vintages



Larger vintages, raised less often?

- Current arrangements:
 - 18 month fundraising cycle
 - 18 month investment period
 - 8-9 primary investments
- Annual allocations frequently outside 18 month cycle
- Short investment period creates pressure and means best managers may be missed
- Size makes cost negotiations challenging
- Frequent cycles increases number of commitments
- A three year cycle (with three years of allocations) would achieve appropriate scale, reduce fund raising work, reduce number of commitments and provide more flexibility

Impact for LPF:

- Larger commitments
- Fewer number of investments
- Greater visibility on fund construction
- Development of underlying investments

Potential areas for future investment:

Secondaries, Long term capital, Venture, UK only, Energy transition, Impact, Regional focus

Infrastructure Funds

Portfolio Overview

Market Outlook – Infrastructure



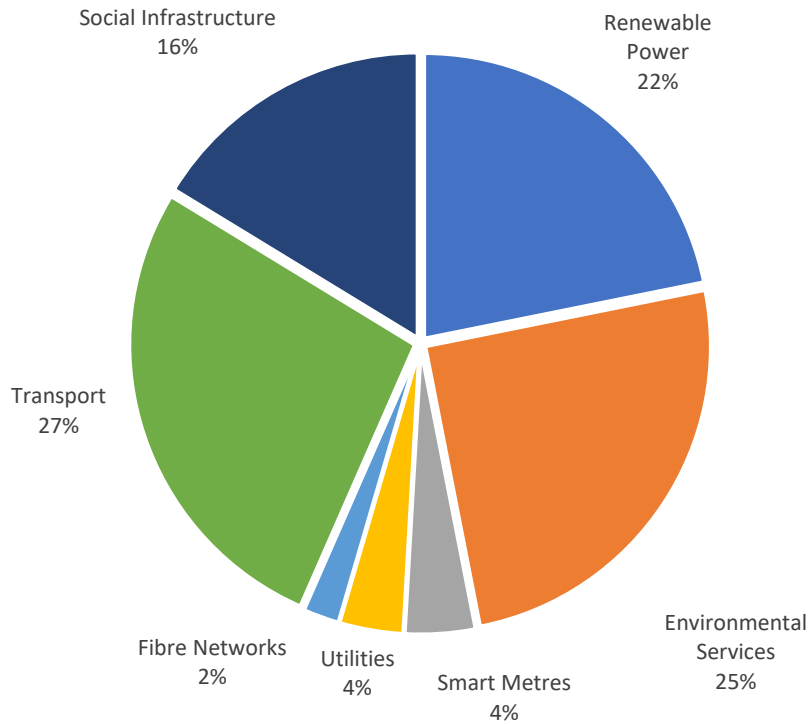
- ✓ Infrastructure investments viewed as important for economic recovery
- ✓ Current inflationary environment and low interest rates have created heightened interest
- ✓ Thematic shift towards assets with 'infrastructure characteristics'
- ✓ Demand for digital infrastructure i.e. datacentres, fibre and broadband
- ✓ Energy transition is growing fast including renewables, EV charging and energy storage

- ✗ Transport and logistics still recovering from covid and supply chain disruption
- ✗ Trend towards fewer but larger funds. However managers are attempting to be more investor friendly with lower management fee rates and fairer performance fee structures

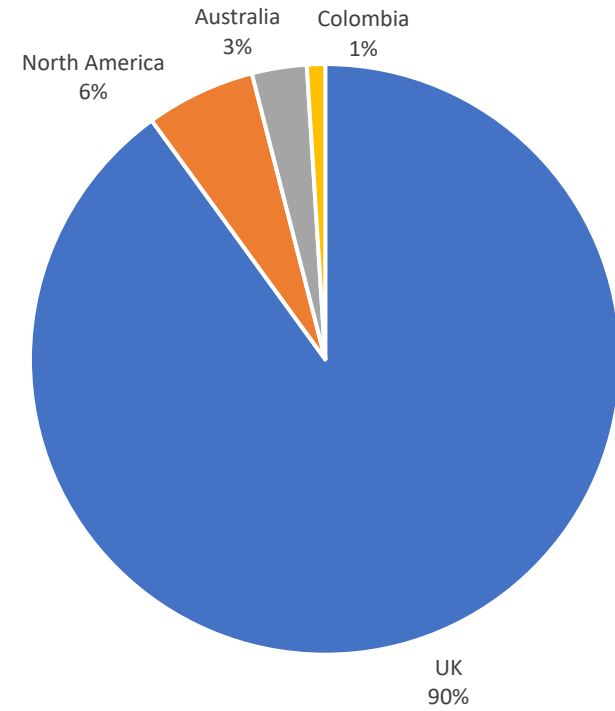
Core/Core Plus Exposures (31/12/21)



Sector



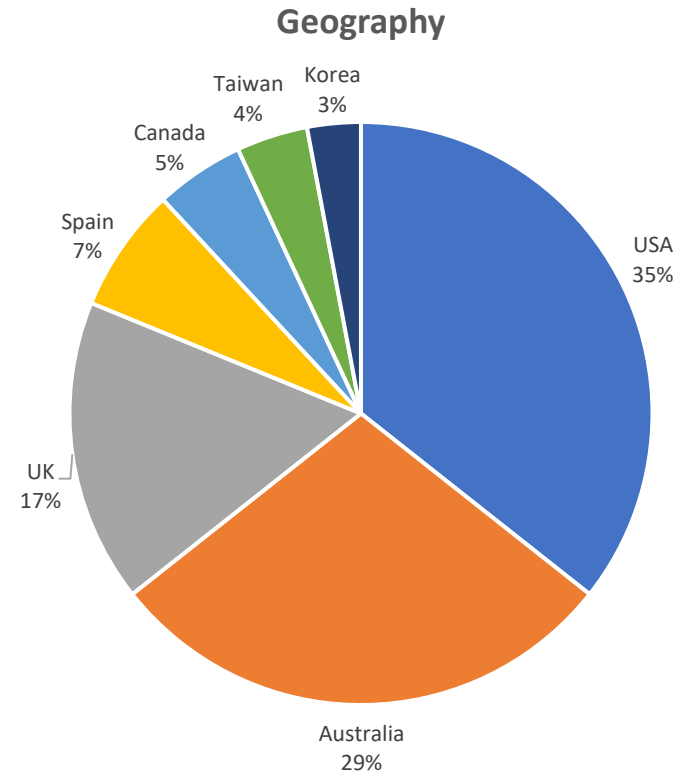
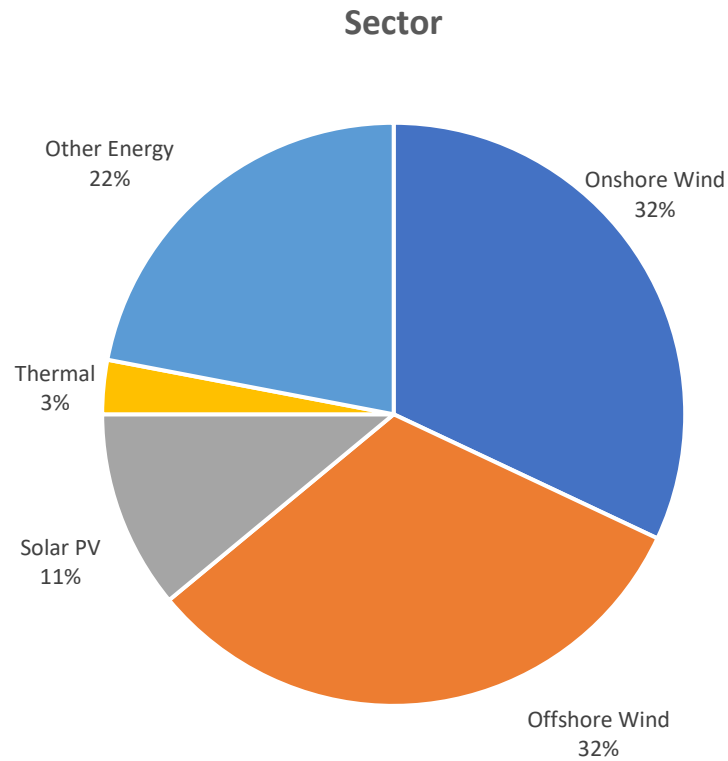
Geography



Source: Core/Core Plus Quarterly Report (31/12/21)

NB: Aiming for an allocation of 20% – 30% in UK based assets

Value Add/Oppportunistic Exposures (31/12/21)



Source: Value Add/Oppportunistic Quarterly Report (31/12/21)

Future Plans

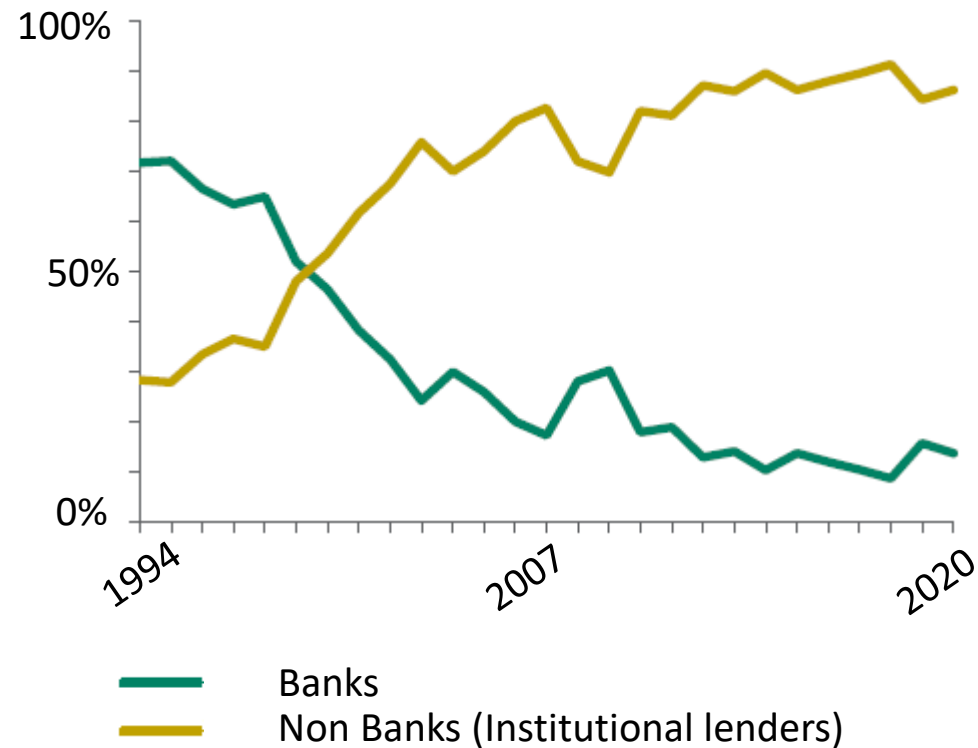


- Two more commitments into the Core/Core Plus fund in June 2022 (1 x European fund, 1 x UK solar fund)
- Investment into the UK Solar fund could potentially qualify for levelling up and/or net zero agendas
- Top up of existing commitments
- Next commitment into Value Add/Opportunistic Fund (1 x global fund) in May 2022
- Continue to source and diligence investments for the Core/Core Plus and Value Add/Opportunistic sleeves to achieve targeted parameters
- Work with Partner Funds if new products are required

Private Debt

Portfolio Overview

Market Outlook – Private Debt



- ✓ Investor demand remains strong
- ✓ Record fundraising in 2021, market now at \$1.2tn
- ✓ Graph illustrates US market retrenchment of traditional bank lending.
- ✓ Switch in Europe less prominent but follows the same trend
- ✓ Non Banks active across senior acquisition finance market and credit opportunities

Market Outlook – Private Debt



Higher Return

- ✓ The current market environment remains favourable for opportunistic funds, and as volatility continues, the opportunities to deploy capital should broaden
- ✓ Credit opportunity funds focus on relatively short lends, 3-5 years, applied to viable companies that nevertheless cannot access traditional capital markets through either market dislocation or company specific drivers
- ✓ Complexity premiums drive returns. Equity upside in the form of warrants and options
- ✓ Floating rate structures aid achievement of returns

- ✗ Lending by traditional banks to middle market companies continues to retrench, accelerated by volatility
- ✗ In-house credit teams taking a 'risk off' approach.
- ✗ Dislocation tending to correct more quickly potentially reducing for landscape for credit strategy funds
- ✗ Manager selection narrowed by use of leverage at fund level

Market Outlook – Private Debt



Lower Return

- ✓ Lower return funds dominated by direct lenders providing debt to sponsor backed (e.g. private equity) companies
- ✓ The current market environment remains favourable as strong US economic tailwinds remain, and record levels of private equity dry powder bode well for future investment and portfolio performance.
- ✓ Investors looking for yield still see private debt as an attractive asset class

- × On the downside, higher interest rates, supply chain issues and inflationary pressures serve to reduce lending viability of borrowers
- × Higher energy costs puts European companies at a competitive disadvantage
- × Default rates – currently at record lows of 0.7% - to trend towards long term average of 2.5%

Future Plans



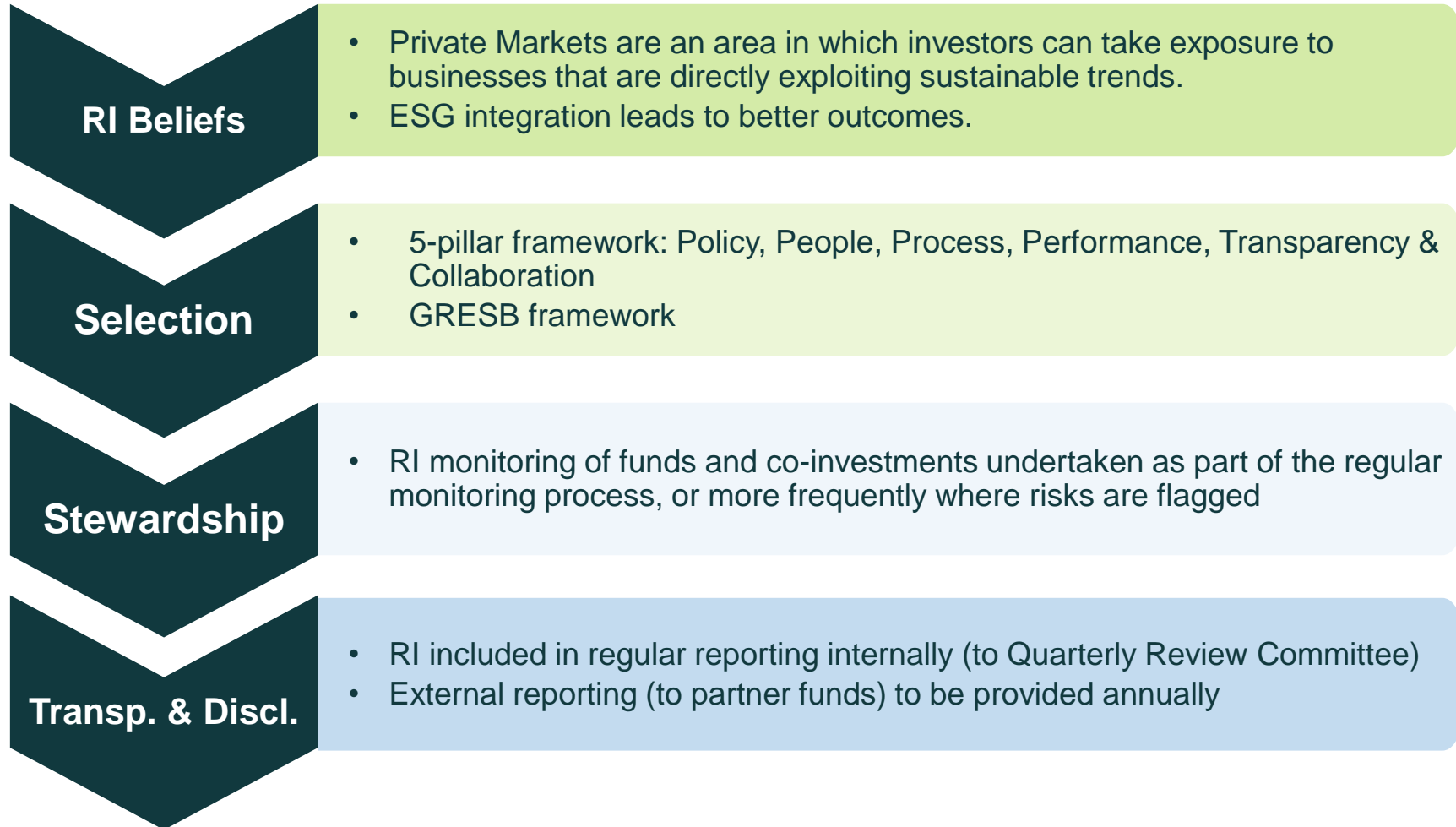
- ✓ Greater cross pool co-operation – scale and non-scale benefits
- ✓ Leverage – enhancing returns at fund level by investing in modestly levered managers
- ✓ Broaden the types of investable strategies e.g. secondaries for rapid diversification and deployment
- ✓ Open vs close-ended

ESG within Private Markets

Update

RI&E Integration in Private Markets

RIIS OVERVIEW



Climate Risk Management in Private Markets



METHODOLOGIES

Net Zero Zeal Tool

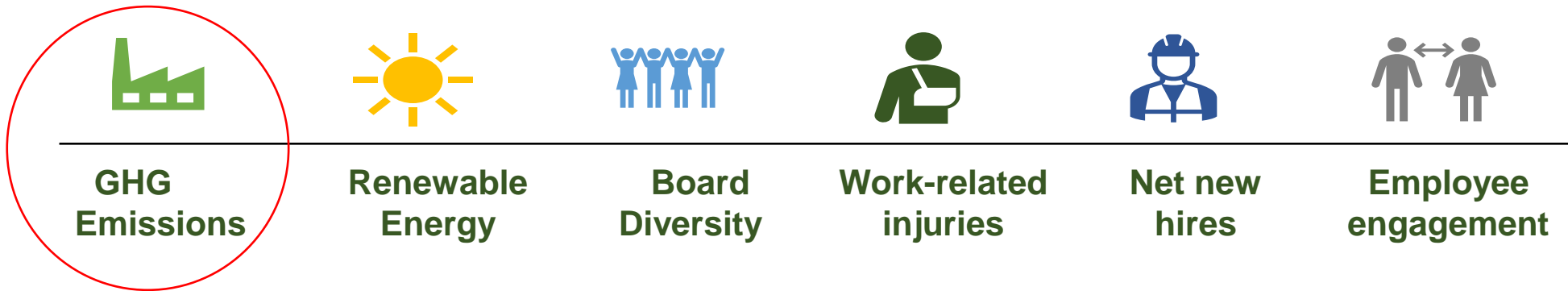
- Net Zero rating that follows 6 consecutive tests.
- Measures Net Zero alignments, which is reliant on a firm having a website and publicly available information.

Scenario Analysis

Climate Scenario Analysis to examine the return implications across different temperature scenarios. Includes 1.5°C

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ESG Data Convergence Project



Carbon Footprinting in Private Markets



Private Equity	<ul style="list-style-type: none">• ESG Data Convergence Project – first round of data received for 2020• ESG Data Tool procurement – August completion• Co-Investment data collection – August completion
Private Credit	<ul style="list-style-type: none">• To be included in the ESG Data Convergence Project in future years
Infrastructure	<ul style="list-style-type: none">• Expectation set at the due diligence stage



Appendices

PE Primary Partnership 2018 LP



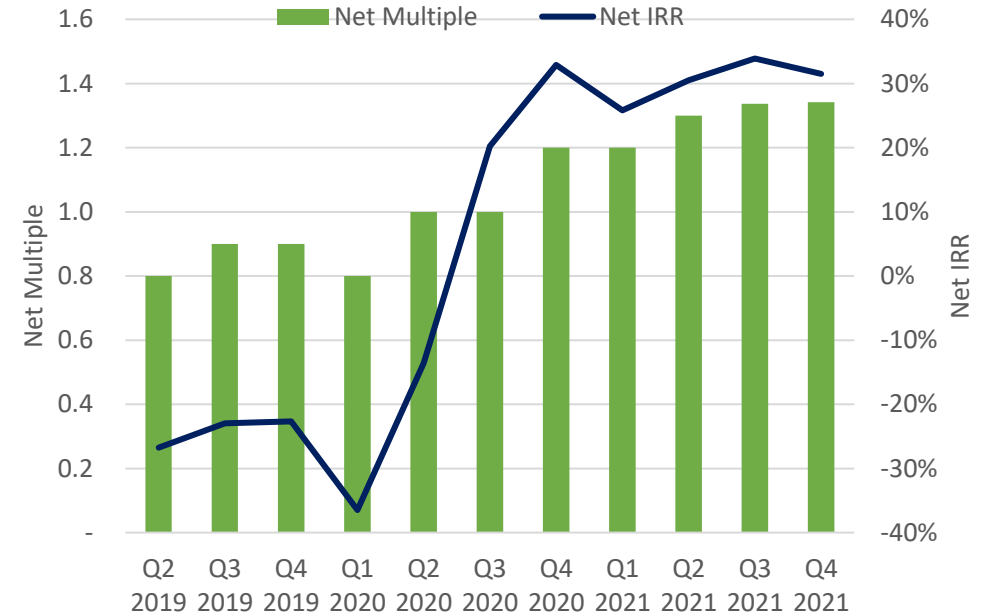
Continued steady performance

Investment Performance

	Performance Since Inception	Target Since Inception	Relative vs Target	Gros MOIC	Gross IRR
LGPS Central PE Primary Partnership 2018 LP	31.5%	20.2%	+11.3%	1.3x	32.5%

Portfolio

	Commitment	Underlying Companies	Capital Called	Gross MOIC	Gross IRR
Asia Fund VII	£30.5m	21	89%	1.6x	41.5%
USA Fund VIII	£26.0m	9	29%	1.4x	54.4%
European Fund V	£31.7m	12	55%	1.3x	20.4%
Global (US HQ) Fund VIII	£31.6m	19	27%	1.3x	62.6%
Global (EU HQ) Fund VII	£30.6m	15	69%	1.2x	17.1%
	£150.3m	76	54%	1.3x	32.5%



- Investment period for three funds have ended for management fees
- Capital called to date is now 59.9%
- Distributions now stand at 21.8% of paid-in capital

Source: LGPS Central Limited

PE Co-Investments Partnership 2018 LP



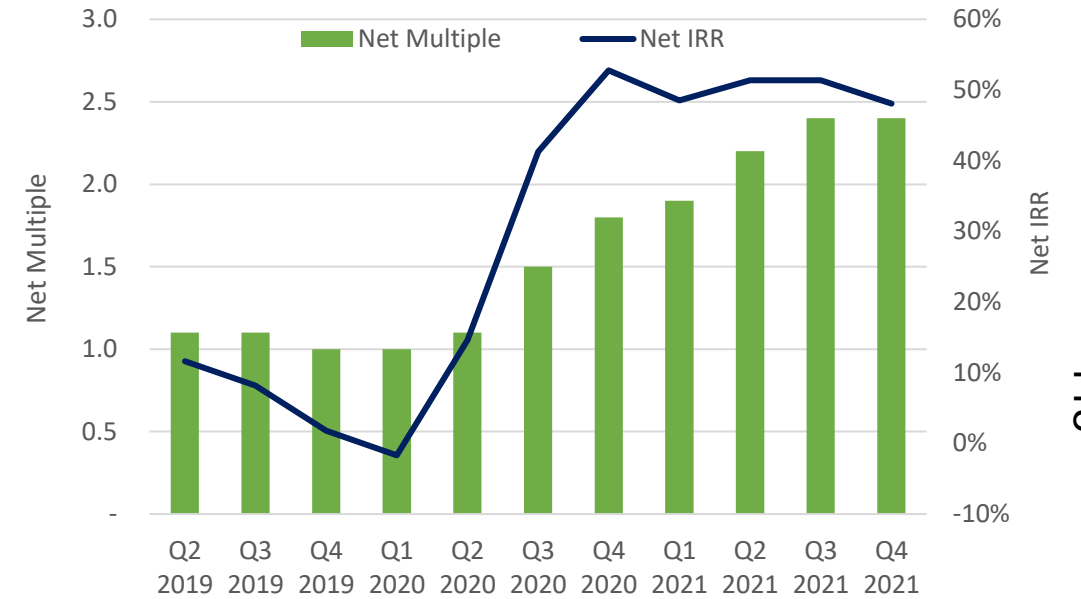
Continuing strong performance

Investment Performance

Fund	Performance Since Inception	Target Since Inception	Relative vs Target	Gross MOIC	Gross IRR
LGPS Central PE Co-Investments Partnership 2018 LP	48.1%	18.9%	+29.2%	2.4x	48.4%

Portfolio

Fund	Geography	Sector	Commitment	Gross MOIC	Gross IRR
Project Pet	Europe	Medical Services	£20.7m	4.4x	103.5%
Project Betty	North America	Waste	£20.7m	2.6x	44.2%
Project Spider	Europe	Software	£15.0m	2.0x	30.6%
Project Agora	Asia	Financial Services	£20.5m	1.5x	19.7%
Project Biliken	USA	Medical Services	£24.2m	1.4x	19.0%
			£101.1m	2.4x	48.4%



- 92.0% invested (£98.5m)
- Project Pet is a standout performer, but others developing well
- TVPI now stands at 2.4x and DPI at 73.3%
- Further partial realisations expected

PE Primary Partnership 2021 LP



Portfolio building steadily

Intended portfolio construction

	Sector	Strategy	Currency	Amount	£m	Stage
Europe						
UK PE Fund VI	Tech	Small	GBP	35	35.0	Committed
France PE Fund VI	Tech	Mid	EUR	35	29.7	DD
ANO	Gen	Small	GBP	20	20.0	Reviewing
ANO		Small	GBP	38	38.0	
					114.7	
Asia						
Asia Fund II	Gen	Large	USD	53	39.8	Committed
Asia Fund VIII	Gen	Large	USD	50	37.6	Committed
ANO		Mid	USD	30	22.6	
					100.0	
US						
ANO		Mid	USD	70	52.6	
ANO		Mid	USD	70	52.6	
					105.3	
Total commitments		9			319.9	

Source: LGPS Central Limited

Geographic and strategic targets

	£m	Projection	Target
Strategy			
Small buy-out	85.0	27%	30%
Mid-Market buy-out	157.5	49%	50%
Large buy-out	77.4	24%	20%
	319.9	100%	100%
Region			
Europe	114.7	36%	35%
Asia	100.0	31%	30%
US	105.3	33%	35%
	319.9	100%	100%

- On target to achieve geographic and strategic parameters
- One European fund in due diligence, others undergoing scoring review
- Material fee savings negotiated with UK PE firm, despite another LGPS pool having agreed to a higher fee level

PE Co-Investments Partnership 2021 LP



A cautious approach to opportunities

Portfolio

Company	Sponsor(s)	Geography	Sector	Commitment
Project Mozart	Three Global Buyout Firms	US	Healthcare	\$25m
Project Apple	Global Buyout Firm	Asia	Technology	\$20m

Source: LGPS Central Limited

- Investments under consideration:
 - Logistics, Japan, Global Buyout Firm

- Opportunities declined:
 - Early-stage digital bank, UK, UK Financial Services Firm
 - Automotive software, Switzerland, Global Buyout Firm
 - Café chain, South Korea, Global Buyout Firm
 - Tea producer, emerging markets, European Buyout Firm
 - Software, US, European Buyout Firm
 - Fund transfer, global, US Buyout Firm
 - Software, global, Global Buyout Firm

Infrastructure



Fund Portfolios

Fund	Commitment Date	Geography	Sector	Industry	Commitment	Stage
Core / Core Plus Infrastructure LP						
Investment 1	June 2021	Global	Diversified	Diversified	£83.2m	Committed
Investment 2	November 2021	UK	Diversified	Diversified	£75m	Committed
Investment 3	March 2022	Global	Diversified	Diversified	£100m	Committed
Due Diligence 1	Planned for June 2022	Global	Diversified	Diversified	£70 - £100m	DD
Due Diligence 2	Planned for June 2022	UK	Renewables	Solar	£50m	DD
Value Add / Opportunistic Infrastructure LP						
Investment 1	April 2021	Global	Renewables	Energy	£21.4m	Committed
Due Diligence 1	Planned for May 2022	Global	Diversified	Diversified	£35m	DD
Single asset						
Investment 1	February 2022	Global	Diversified	Diversified	£120m	Committed

- Core / Core Plus Infrastructure LP investment target CPI + 3.5%
- Value Add / Opportunistic Infrastructure LP investment target CPI + 5%
- Investments 1 and 3 are open-ended funds. Majority of commitments expected to be drawn in Q2/Q3 2022
- Investment 2 is expected to be fully drawn by end 2022

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Core/Core Plus Portfolio



Current Exposures

The following information is based on the first three investments as at 31/3/2022

	Target	Existing Portfolio vs Target
Sector		
Energy (traditional)	5.0% - 10.0%	12%
Energy Renewables & Transition	20.0% - 45.0%	12%
Utilities	10.0% - 25.0%	25%
Transport	0.0% - 20.0%	22%
Social	5.0% - 20.0%	11%
Telecommunications	5.0% - 20.0%	12%
Other	0.0% - 15.0%	5%
Open vs closed		
Open	>= 70.0%	71%
Closed	< 30.0%	29%
Currency		
GBP Funds	>= 50.0%	29%
Non GBP Funds	< 50.0%	71%
Geography (look through)		
UK	20.0% - 30.0%	30%
Europe	20.0% - 30.0%	24%
US	20.0% - 30.0%	36%
Asia	10.0% - 20.0%	5%
Other	5.0% - 15.0%	5%

Source: LGPS Central

Co-Investment Fund Overview



- Fund launched - February 2022
- Lower management fees often with no performance fee
- Strategy focus – Core/Core Plus (minimum 50%) via passive investments
- Small investments (usually <5% of total value)
- OECD focus
- Benchmark – CPI + 3.5%
- 5 year lock in period
- Quarterly subscriptions
- Annual redemptions
- Significant opportunities available from existing fund managers

Illustrative Portfolio

Asset Type	Geographic Focus	Description
Electricity Distribution	UK	Bilateral discussions for a 25% - 33% stake in a UK Power Network. Will provide regulated and contracted cashflows with inflation linkage
Water Company	UK	Bilateral discussions for a significant minority stake in one of top performing UK water companies. Regulated cashflows with inflation linkage
Renewables	Sweden	Operational wind farm portfolio. Mainly merchant power prices at present but will be exploring PPA strategies
Battery Manufacture	UK	Development of the UK's largest gigafactory in Northumberland producing batteries for electric vehicles

Private Credit



Fund Portfolios

Fund	Commitment Date	Region	Strategy	Commitment	Underlying Companies	Called To Date
Credit Partnership I LP ("Higher" return, 12-14% net)						
Fund 1	Q4 2021	Global	Credit Opportunities	£100m	14	£25.9m
Credit Partnership II LP ("Lower" return, 6-8% net)						
Fund 2	Q3 2021	US	Mid Market Direct Lending	£72.7m	31	£15.4m
Fund 3	Q4 2021	EU	Mid Market Direct Lending	£200m	0	£Nil
Fund 4	Q4 2021	EU	Mid Market Direct Lending	£200m	0	£Nil
Fund 5	Q2 2022	US	Mid Market Direct Lending	£185m	0	£Nil

- Order of commitments driven by closing dates or first close discounts
- Significant scale economies being achieved, but also further savings through direct negotiation
- Approximately £1m of fund life non-scale savings achieved so far
- Co-ordinating with B2C and Brunel to maximise negotiation impact
- CP III and CP IV commitments undergoing due diligence

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Share Class and Benchmark performance displayed in GBP.

Performance is shown on a Net Asset Value (NAV) basis, with gross income reinvested where applicable.

All information is prepared as of 10 June 2022

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“One Central team, working in partnership to invest with purpose and deliver superior returns”



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