Leicestershire County Council

LOCAL PENSION COMMITTEE – 9 SEPTEMBER 2022

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

ACTION AGREED BY INVESTMENT SUBCOMMITTEE

Purpose of the Report

1. The purpose of this report is to provide the Local Pension Committee with details on:
    a. Decisions agreed by the Investment Subcommittee at its meeting held on 27 July 2022.
    b. Action taken by the Director of Corporate Resources, following consultation with the Chairman on a change to what was agreed at the 27 July 2022.

Background

2. The Leicestershire Pension Fund has a requirement to maintain investments in asset classes close to the Fund's Strategic Asset Allocation (SAA) as existing investments are returned.

3. The Leicestershire Fund requires investments into income assets where the Fund is underweight to the target SAA. Income assets include investments in private debt, infrastructure and property. The Fund was at 31st March 2022 underweight to the infrastructure asset class by 2% (circa £115m). The target allocation to infrastructure is currently 9.75% of total Fund assets as approved at the January 2022 Committee meeting.

4. Hymans, the Fund's investment advisor did note at the January 2022 meeting an ambition to move to a higher infrastructure allocation of 12.5% once the 9.75% target had been met.

5. The ISC were informed of the current infrastructure holdings covering all managers including an overview of the mandates, performance metrics and future returns of capital. The ISC were also presented with the proposed strategy with regard to risk and geographical allocation of the infrastructure allocation.

6. The Fund, as a part owner of LGPS Central (Central), has an aim to transition investments to cost effective and relevant products at Central as and when they are made available. Central have developed an infrastructure fund which the Fund first committed £70m to at the July 2021 ISC.

7. Two investment managers were invited to present to the ISC, Stafford Capital partners and Quinbrook infrastructure partners. Details of which are highlighted elsewhere in this paper.

8. Hymans presented their recommendations to the Committee which were approved and are summarised below.

   a. An additional £30m commitment to the LGPS Central Core / core plus infrastructure fund bringing the total commitment to £100m.

   b. A £30m commitment to the JP Morgan IIF fund bringing the total commitment to c$190m USD based on current exchange rates.

   c. A £55m commitment to the Quinbrook net zero infrastructure power fund.

   d. That the Director of Corporate Resources, following consultation with the Chairman of the Local Pension Committee, be authorised to:

      i. approve a £55m commitment to the Stafford Carbon Offset Opportunities fund if satisfactory due diligence is completed by Hymans Robertson.

      ii. instruct Stafford to sell the carbon credits generated, subject to recommendation i. above,

      iii. Continually review the position to sell the carbon credits and that any proposed change to the approach (e.g. to keep the carbon credits generated) be subject to a further report to the Local Pension Committee or Subcommittee

   e. That the Director of Corporate Resources. Following consultation with the Chairman of the Local Pension Committee, be authorised to reinvest income received from the Fund's open ended infrastructure investment in JP Morgan IIF, back into the same fund as long as the Fund remains below its infrastructure target allocation.

   f. That the approved commitments are funded from existing cash resources and that the Director of Corporate Resources, following consultation with the Chairman of the Local Pension Committee, be authorised to divest overweight positions to the SAA target to fund any remaining commitments.

<u>Stafford Capital Carbon Offset Opportunities Fund</u>

9. The Fund has previously committed £129m across three Stafford Timberland funds. Hymans Robertson recommended that the Fund further invest as part of the Fund's infrastructure allocation in sustainable timber given positive financial returns to the Fund and the role the asset class could play in the Fund's management of risks related to climate change. As a result, the ISC agreed to commit £55million in Stafford Capital's new Carbon Offset Opportunities Fund (COOF), made up of 80% greenfield projects (65% afforestation and 15% regeneration) and 20% brownfield projects (improved forest management), subject to satisfactory due diligence which at the time of writing is ongoing.

10. It's worth highlighting the investment in Stafford Capital COOF will generate carbon credits, The ISC agreed to sell generated carbon credits, in line with advice from the Fund's Investment Advisor as the best approach to managing

the financial risks to the Fund from climate change. It is likely that any carbon ‘taxes’ resulting from legislation would be applied at company level, rather than to the Pension Fund, and as such the Fund would not benefit from holding carbon credits in one part of the portfolio (timber investment) to offset taxes in another.

11. The investment allows for a flexible management of carbon credits, where credits can be kept or sold and does not need to decide upon at the outset of the funds 20-year term. The Fund will keep the situation under review and consider amending its treatment of carbon credits if needed which could be useful in the event of future changes in carbon tax treatments.

Quinbrook Infrastructure Partners

12. Quinbrook Infrastructure Partners is a new manager to the Fund. Representatives presented to the Investment Subcommittee on their investment processes as a ‘value add’ investment manager that specialises in low carbon and renewable energy supple, storage, grid stability and related assets and businesses.

13. The ISC agreed to invest into the Net Zero Power Fund which focuses on the decarbonisation theme, with a focus on solar panels and storage, renewables for green data centres, renewables for energy intensive industries and distributed energy solutions.

Action taken following the July 27th ISC meeting

14. At the 27 July meeting an option to split the commitment of £55m Quinbrook between the main fund and their co-investment fund was mooted. Following the meeting the Fund’s Independent Investment Advisor investigated the option further and recommended splitting the £55m commitment between the main fund and co-investment.

15. The co investment fund allows investors to invest into the US assets Quinbrook develop. The co invest option is common with many infrastructure funds and typically is offered at lower fees. The Quinbrook co-investment option allows investors to allocate up to 50% of their total commitment to the co-investment vehicle which carries far lower management and performance fees bringing the overall fee level much lower.

16. The investment into the co-investment vehicle will add to investment weighting in North America, however officers were advised by Hymans with regard to splitting the allocation (50% co-investment and 50% main fund) post the ISC and it was deemed suitable given the sizeable benefits from a fee reduction. The change to invest into the co-investment vehicle has been agreed by the Director of Corporate Resources following consultation with the Chairman of the Local Pension Committee.

Recommendation

17. The Local Pension Committee is asked to note the content of the report.

Equal Opportunities Implications

None specific

Background Papers

None

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