



LOCAL PENSION COMMITTEE – 9TH SEPTEMBER 2022

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

STAFFORD CAPITAL MARKETS UPDATE

Purpose of the Report

1. To provide the Committee with background information on the Leicestershire Pension Funds (Fund) investment in three Stafford Capital timberland funds and agreed new commitment into the Stafford Capital Carbon Offset Opportunities Fund (COOF). A PowerPoint presentation (Appendix) will be used at the meeting by representatives from Stafford Capital.

Background

2. The Fund has an infrastructure allocation to Stafford Capital within the income part of the portfolio. There are at present six managers employed within infrastructure with a seventh (Quinbrook) approved at the July ISC.
3. The target allocation for Infrastructure, per the 2022 Strategic Asset Allocation approved in January 2022 is 9.75% of total Fund assets. As at 30th June 2022 the Fund is underweight to this asset class by c£50m or 0.9% of total Fund assets.
4. The Fund has investments in 3 vintages of Stafford timberland funds totalling £137m as at 31st March 2022 or 2.5% of total fund assets. These three funds are closed ended and as such will return money back to the Fund. The Fund first invested with Stafford in 2011. A further commitment was made at the July ISC to the new Stafford Capital Carbon Offset Opportunities fund (COOF).
5. Timberland investments are generally investments in large global timber funds who own timber farms that generate sustainable lumber for sale. The Fund views timberland as part of a defensive allocation within the infrastructure allocation. The holdings should be viewed as a long-term investment and have shown in the past to have lower correlations to equities and bonds. Studies have shown that 65-75% of the total return is generated from biological growth which is independent of economic cycles. Log pricing makes up the second biggest contribution to return.
6. The new commitment to COOF will also generate carbon credits which ISC agreed would be sold to produce the net return target. This was agreed in line with managing the financial risks to the Fund, as it is likely any carbon 'taxes' resulting from legislation would be applied at company level, rather than to the Fund. Meaning the Fund would not benefit at this point from holding carbon credits in one part of the portfolio, to offset carbon in another. The Fund can amend treatment of carbon credits during the term of the investment which could be useful in the event of future changes in carbon tax treatments.

7. The investment strategy of the COOF is 80% greenfield (made up of 65% afforestation and 15% reforestation) and 20% brownfield (improved forest management). It is a closed ended fund, meaning it has an end date when the fund would be expected to wind up and return monies to investors. The COOF term is currently 20 years with an option for a 5-year extension.
8. The Stafford presentation will cover off the following items:
 - a. Summary of current holdings by vintage including performance
 - b. Summary of the COOF mandate
 - c. Offsets and afforestation projects
 - d. COOF return expectations
 - e. Stafford's view: supply and demand of carbon credits

Recommendation

9. The Local Pension Committee is asked to note the report.

Equality and Human Rights Implications

10. None

Appendix

Stafford Capital Partners Presentation

Officers to Contact

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