



LOCAL PENSION COMMITTEE – 3 MARCH 2023

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

PARTNERS GROUP – PRIVATE DEBT MARKET UPDATE

Purpose of the Report

1. The purpose of this report is to provide the Local Pension Committee with information on the Leicestershire Pension Funds (Fund) investments held with Partners Group (“Partners”) and the performance of the private debt market generally.
2. This report will be supplemented by a presentation at the meeting by representatives from Partners Group.

Background

What are Private Debt investments

3. Private Debt is the name given to an asset class where money is loaned to companies that have not originated from a bank. Companies choose to raise capital from this source for a number of reasons including the cost of the loan, availability of traditional banking credit which has declined since the global financial crisis and the ability to negotiate terms specific to a deal.
4. The loan (or debt /credit) that the investment manager extends to the company can be senior and secured. Senior debt is the debt that a company must repay first if it goes out of business, before other forms of debt and equity are settled. Secured debt is backed by an asset, such as buildings or equipment, that may be sold to cover the debt if the loan goes into default.
5. Private debt investment products may include subordinated debt (debt less secure than senior debt), preferred equity (equity which ranks higher in the capital structure than ordinary equity but lower than debt) and equity, albeit there will be a limit on the riskiest types of lending as defined in the investment mandate for each product. The companies who take on the debt agree in advance the terms of the loan including the interest rate, (fixed or floating) the term of the loan, and if any security is provided in the event of a defined default by the company.
6. Private debt is an illiquid product. It takes time for money to be invested and selling an investment is often not possible due to limited secondary markets to trade in. As such proposals are carefully considered before a proposal is made to invest.
7. At the January 2023 Local Pension Committee meeting, the 2023 Strategic Asset Allocation (SAA) was approved. The allocation to private debt was held at 10.5% of total fund assets.

8. The private debt asset class is diverse and taken together with a 10.5% target allocation, the Fund has employed a number of managers.
9. The Fund has six investments with Partners Group, all within a strategy they define as multi asset credit (MAC) with the first investment dating back to 2014. Since then, a further five commitments to invest have been made with the latest being approved by the Investment Subcommittee at its meeting on 26 October 2022 for up to £60m into the latest MAC 7 product.
10. Other managers employed by the Fund in this space are detailed in the table below:

Manager	Value as at 31 st December 2022 £m	Current number of investments
LGPS Central	£29million	Three – all targeting different areas of the private debt market
Christofferson Robb and Company (“CRC”)	£69million	Two vintages of bank risk share investments, Capital Relief Fund 3 and Capital Relief Fund 5
M&G	£64million	Three vintages of distressed opportunities Funds (DOF), DOF 2, 3 and 4

11. As of 31 December 2022 the actual value of the private debt funds was £407m or 7.4% of total Fund assets. It is worth noting that there are significant uncalled commitments with LGPS Central which have been made following approval during 2022, with the most recent commitments approved by the Investment Subcommittee in October 2023 where £140m was committed to the LGPS Central Low Return vintage and £80m to the Real Assets vintage.

What is the multi asset credit (MAC) product

12. The MAC strategy is one that Partners have employed for several years and is now currently on its seventh iteration. Partners Group, as part of their presentation will describe their strategy in more detail, however a summary is provided below for the latest MAC 7 investment.

	Partners Group MAC 7
Fund size	£0.3bn target
Structure	Closed ended
Strategy	80-100% senior debt, 0-20% junior/subordinated debt / equity
Term	7 years from initial close + 3*1 yr extensions
End date investment period	2 years from initial close (October 2022) expected to be October 2024
Target return	SONIA +4-6% pa (Sterling over night index average)
Income	Semi annual once fully invested
Currency	Sterling
Hedging	May engage in transactions to reduce currency risk
Leverage	None

13. In aggregate, as at the 31 December, the Fund has a total investment valued at £244m with Partners Group, excluding any uncalled commitments which currently total £22m. Note that the latest MAC vintage, MAC 7 has approval from the ISC (October 2022 meeting) to invest up to £60m if the Fund is no more than 20% of the overall MAC 7 fund.

14. The mainly secured nature of loans made under this strategy means lower risk is taken and therefore a lower and safer return is expected which is tied to bank interest base rates. A lower interest rate environment (until recently in 2022) will have kept returns lower.

Vintage	Commitment £m	Uncalled commitment £m	31 st Dec 2022 NAV £m
MAC 1 2014	100	0	16
MAC 3 2016	70	0	16
MAC 4 2017	120	0	54
MAC 5 2019	100	0	99
MAC 6 2021	60	3	59
MAC 7 2022	19 (up to 60m approved)	19	0

15. The presentation from Partners will cover the following areas:

- a. A private debt markets update including change in pricing / returns
- b. Overview of the investments we have with Partners focusing on the most recent investments
- c. Performance of vintages again focusing on most recent vintages
- d. Responsible investment and ESG considerations when Partners invest

Recommendation

16. The Committee is recommended note the report and presentation.

Environmental Implications

17. The Leicestershire LGPS has developed a Net Zero Climate Strategy (NZCS) for the Fund. This outlines the high-level approach the Fund is taking to its view on Climate Risk. This will align with the Fund's Responsible Investment approach as set out in the Principles for Responsible Investment. The Fund is committed to supporting a fair and just transition to net-zero. There are no changes to this approach as a result of this paper.

Equality and Human Rights Implications

18. The Fund considers issues around Equality and Human Rights as part of its whole approach to responsible investment and environmental, social and governance factors in all investment decisions. The Fund will not appoint any manager unless they can show evidence that responsible investment considerations are an integral part of their decision-making processes. This is further supported by the Fund's approach to stewardship and voting through voting, and its approach to engagement in support of a fair and just transition to net zero. There are no changes to this approach as a result of this paper.

Background Papers

19. None.

Officers to Contact

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