



## **LOCAL PENSION COMMITTEE – 16 JUNE 2023**

### **REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

#### **STAFFORD CAPITAL PARTNERS – TIMBERLAND UPDATE**

##### **Purpose of the Report**

1. The purpose of this report is to provide the Local Pension Committee with information on the Leicestershire Pension Fund (Fund) investments held with Stafford Capital Partners (“Stafford”) and the performance of the timberland and carbon credit markets generally.
2. A PowerPoint presentation will be provided at the meeting by representatives from Stafford. A copy of the presentation slides is appended to this report.

##### **Background**

3. The Fund has an infrastructure allocation to Stafford within the income asset group element of the portfolio. There are at present seven managers employed within infrastructure. The Fund’s timberland investments are managed by Stafford who manage over \$8bn in assets across timberland and agriculture, infrastructure, private equity and private credit asset classes.
4. The target allocation for Infrastructure, as per the 2023 Strategic Asset Allocation (SAA) approved in January 2023, is 12.5% of total Fund assets. The increase from 9.75% of total assets required additional commitments to be approved at the April 2023 meeting of the Investment Sub Committee (ISC). There is a paper elsewhere on the agenda for this meeting that summarises the changes approved. As of 31 March 2023, the Fund is underweight to infrastructure by c£150m or 2.6% of total Fund assets.
5. The Fund first invested with Stafford in 2011. The Fund has investments in 3 vintages of Stafford timberland funds totalling £132m as of 31st March 2023 or 2.3% of total Fund assets. These three funds are closed ended and as such are due to return money back to the Fund at the scheduled end dates for each investment.
6. At the July 2022 ISC meeting, a commitment of £55m was made to the new Stafford Capital Carbon Offset Opportunities fund (COOF). At the time of writing, no commitment has been called by the manager for this particular investment. An update on progress will be given by Stafford as part of their presentation.

## **Timberland and Carbon Credits Market update**

### Timberland Investments

7. The three closed ended funds are timberland investments in large global timber funds which own timber farms that grow sustainable lumber for sale. The Fund views timberland as part of a defensive allocation within the infrastructure allocation. The investment assets are mainly mature assets that generate a yield from harvesting and are spread globally with the USA, Latin America, Australia and New Zealand having the majority of the assets the Fund owns.
8. The holdings should be viewed as long-term investments 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.
9. All investments with Stafford are closed ended and as such there is limited ability to realise the investment given lack of secondary markets to trade. However, given the staged nature of the original three investments the Fund currently expects a steady return of capital over the next decade. Once the initial terms of the three funds expire there is the option of two-to-six-year extensions where the investing partners agree. It does, however, mean that in order to maintain an allocation to this asset class the Fund will need to reinvest proceeds.
10. Stafford are currently exploring the option to convert Stafford International Timberland (SIT) 6,7 and 8 (which the Fund is invested in) into an evergreen structure which would retain timberland assets rather than divest them as the fund life expired and return capital to investors. This process is in the early stages, with Stafford speaking to investors to assess appetite. An update will be brought to the Pension Committee when there is more information to share.

### Carbon Offset Opportunity Fund

11. Stafford recently launched a carbon offset opportunity fund (COOF) which the Fund has committed £55m to. At the time of writing two other LGPS funds have also committed to the Fund and at present the total committed to this fund is £195m.
12. The COOF targets afforestation projects, converting degraded land areas into forests as the most efficient method to sequester carbon from the atmosphere. It will also invest in reforestation (reforesting deforested areas with native species) projects which also remove carbon from the atmosphere. The Stafford presentation will talk further about the types of projects they have in their pipeline.
13. The investment strategy of the COOF targets 80% investment into 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.
14. The new commitment to COOF will also generate carbon credits which the 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. This means that 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.

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

- a. An overview of Stafford Capital
- b. Summary of current holdings by vintage including performance
- c. Summary of the COOF mandate
- d. Offsets and afforestation projects
- e. Emissions reporting overview
- f. COOF return expectations
- g. Stafford’s view: supply and demand of carbon credits

### **Recommendation**

16. The Committee is asked to note the report and presentation.

### **Environmental Implications**

17. The Leicestershire County Council Pension Fund has agreed a Net Zero Climate Strategy (NZCS). 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 Implications**

18. There are no direct implications arising from the recommendations in this report. The Fund incorporates financially material Environmental, Social and Governance (“ESG”) factors into investment processes. This has relevance both before and after the investment decision and is a core part of the Fund’s fiduciary duty. 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.

### **Human Rights Implications**

19. There are no direct implications arising from the recommendations in this report. The Fund incorporates financially material Environmental, Social and Governance (“ESG”) factors into investment processes. This has relevance both before and after the investment decision and is a core part of the Fund’s fiduciary duty. 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**

20.19 April 2023 – Investment Sub-Committee Meeting – [Cash Deployment, Strategic Asset Allocation Update and Infrastructure Investment Top Ups](#)

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