



## LOCAL PENSION COMMITTEE – 1 DECEMBER 2023

### REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

#### ACTION AGREED BY THE INVESTMENT SUB COMMITTEE

##### Purpose of Report

1. The purpose of this report is to provide the Local Pension Committee with details of decisions taken by the Investment Subcommittee (ISC) at its meeting held on 11 October 2023.

##### Policy Framework and Previous Decisions

2. The Leicestershire Pension Fund (the 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. At the January 2023 Local Pension Committee meeting, the 2023 SAA was approved. The new SAA and changes from the 2022 SAA are best described in the table below.

<b>Asset Group</b>	<b>Asset Class</b>	<b>2022 SAA</b>	<b>2023 SAA</b>	<b>Change from 2022 SAA</b>
Growth	Listed equities	42.00% (40% - 44%)	37.50%	- 4.5%
Growth	Private equity (PE)	5.75%	7.50%	+ 1.75%
Growth	Targeted return	7.50%	5.00%	- 2.5%
Income	Infrastructure (incl. timber)	9.75%	12.50%	+ 2.75%
Income	Property	10.00%	10.00%	
Income	Emerging market debt & Global credit – liquid sub inv grade markets	6.50%	9.00%	+ 2.5%

Asset Group	Asset Class	2022 SAA	2023 SAA	Change from 2022 SAA
Income	Global credit – private debt (inc M&G/CRC)	10.50%	10.50%	
Protection	Inflation-linked bonds	4.50%	4.50%	
Protection	Investment grade credit	3.00%	2.75%	-0.25%
Protection	Currency hedge	0.50%	0.75%	+0.25%
Protection	Cash / cash equivalent	0.00%	0.00%	

4. A schedule of work was agreed with Hymans Robertson (the Fund's investment advisor) post the January 2023 Local Pension Committee (LPC) meeting to facilitate the changes to the SAA in a similar way to what was done in 2022 with proposals considered with officers in advance of presenting these to the Investment Sub-Committee at its meetings (ISC) in 2023. All of the following reviews for 2023 have now been completed by Hymans:
- a. A listed equity asset group review
  - b. A targeted return review
  - c. A protection assets review
5. The first two reviews were presented to the ISC in April 2023 and subsequently reported to the LPC in June. The protection assets review was presented to the ISC in July 2023 ISC and thereafter reported to the LPC on 8 September 2023.

### **Private Equity proposal**

6. A proposal was taken to the ISC at its meeting on 11 October 2023 to commit c£80million to the private equity asset class in 2023/24 and £80million in 2024/25.
7. Hymans conducted a cashflow forecasting exercise with forecasts provided by the Fund's largest private equity manager, Adams Street Partners, which formed the basis of the multi-year commitment proposal.
8. A Hymans Robertson suitability review was conducted which proposed the commitment be split between two products for the 2023/24 commitment. It was recommended that general cash balances fund the below which will be called over a number of years:
- a. £40million (GBP) be committed to the LGPS Central PE 2023 vintage
  - b. \$50million (USD) be committed to the ASP Global Funds 2024 vintage

9. As part of the review a two-year recommendation was proposed and a combined £80million was approved to be committed to PE in 2024/25 with the split by PE Fund to be decided based on the geography, lifestyle origination channel framework, as described in the ISC paper on 11 October 2023, and with consultation with the Fund's investment advisor.
10. Similar to the reviews undertaken from property, infrastructure, and private credit over the last couple of years, officers agreed a framework to which future commitments to PE could be made and which would provide the Fund with a balanced portfolio of PE exposure. The target allocations are shown within the table below.

	<b>Segment</b>	<b>Target Allocation, %</b>
<b>Geography</b>	North America	30-60%
	Europe	20-40%
	Asia Pacific	10-30%
	Emerging Markets	0-10%
<b>Lifestage</b>	Venture	10-30%
	Growth	10-30%
	Buy-out	40-70%
	Special Situations	0-10%
<b>Origination channel</b>	Primary funds	40-60%
	Secondaries	10-30%
	Co-Investments	15-25%

### **Cash management strategy (CMS) proposal**

11. As a result of having a larger than usual cash holding it was deemed appropriate to formalise the CMS for the Fund. This Strategy was approved by the ISC at its meeting on 11 October 2023. It will be reviewed annually in line with other policies the Fund has.
12. The rationale for the CMS was detailed within the report which is included in the list of background papers further below). However, in summary, the allowable investments and their limits are best described within the table below.

<b>Investment</b>	<b>Level of security</b>	<b>Maximum period</b>	<b>Maximum sum invested</b>
Money Market Funds: Low Volatility and constant NAV <sup>(2)</sup> Triple A rated fund	At least as high as acceptable credit rated banks.	Same day redemptions and subscriptions	£250m (max £50m in each MMF) Minimum use of two MMFs <sup>(1)</sup> with each MMF having a minimum size of £3bn GBP
Term deposits with credit-rated institutions with maturities up to 1 year (including both ring-fenced and non ring-fenced banks)	Varied acceptable credit ratings, but high security	1 year	£250m <sup>(2)</sup>
Term deposits with overseas banks domiciled within a single country	Varied acceptable credit ratings, but high security	1 year	£100m <sup>(3)</sup>
Certificates of Deposit with credit rated institutions with maturities of up to 1 year	Varied acceptable credit ratings, but high security	1 year	£250m
Term deposits with the Debt Management Office	UK Government backed	1 year	£500m
UK Government Treasury Bills	UK Government backed	1 year – held to maturity	£500m
Term Deposits with UK Local Authorities up to 1 year	LA's do not have credit ratings, but high security	1 year	£50m

<sup>1</sup> Limits can be extended higher temporarily by the Director of Corporate Resources and will need to be reported to the next meeting of the Local Pension Committee.

<sup>2</sup>Funds will be invested in constant or low volatility NAV MMFs. Constant NAV MMFs where the capital value of a unit will always be maintained at £1. These funds have to maintain at least 99.5% of their assets in government backed assets. Low volatility NAV MMFs are those where the MMFs are permitted to maintain the unit price at £1 as long as the net asset value does not deviate by more than 0.20% from this level.

<sup>3</sup>Limits per counterparty as advised by the treasury advisor will be used up to a total for all term deposits of £350m

### **Recommendation**

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

### **Environmental Implications**

14. The Fund has developed 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 Investment Strategy Statement. 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.

15. The Fund will look to engage with investment managers to ensure they are taking appropriate action on capital allocation and engaging with underlying issuers to achieve real-world emissions reductions. It is recognised the Fund may also need to consider if further changes need to be made to the protection portfolio to support decarbonisation.

### **Equality Implications**

16. 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**

17. 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 January 2023 – Local Pension Committee – Minute 98, Overview of the Current Asset Strategy and Proposed 2023 Asset Strategy

11 October 2023 – Investment Sub-Committee – Agenda Item 9, Recommended Investment to Private Equity Products

11 October 2023 – Investment Sub-Committee – Agenda Item 8, Cash Forecast to Year End 23/24 and Cash Management Strategy

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