



**INVESTMENT SUB-COMMITTEE – 24 JULY 2024**

**REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

**REVIEW OF THE LEICESTERSHIRE LGPS INFRASTRUCTURE ASSETS**

**Purpose of report**

1. The purpose of this report is to update the Investment Sub-Committee (ISC) in respect of a review of the Fund's infrastructure assets, including timberland investments.

**Policy Framework and Previous Decisions**

2. The annual strategic asset allocation (SAA) review is presented for approval each year and recommends high level asset allocation changes for the Fund. The latest SAA was approved by Local Pension Committee in January 2024, where a recommendation to review the Fund's protection asset holdings was also agreed.
3. The SAA for infrastructure assets (timberland investments are classed are held within this asset class) was held at 12.5% of total Fund assets with timberland representing up to 20% of total infrastructure or 2.5% of total Fund assets.
4. At the 27 July 2022 meeting of the ISC, a framework was agreed which is followed in order to control risk from a development of asset and geographical perspective. A summary of the target ranges is included in the table below.

	<b>Allocation range</b>
<b>By risk</b>	70-90% core / core plus infrastructure 10-30% value add and opportunistic infrastructure
<b>By geography</b>	10-30% UK 60-80% developed overseas 0-10% advanced emerging markets

5. At the same meeting of the ISC in July 2022 two new investments were approved by the Committee, alongside top ups to two existing managers products. A summary of which is included below:
  - a. An £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.
- 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 approve a £55m commitment to the Stafford Carbon offset opportunities fund if satisfactory due diligence is completed by Hymans Robertson.

## **Background**

6. The Fund's infrastructure assets are comprised of seven investments. The managers and investment valuation as at 31 March 2024 are shown in the table below. Two funds have had their valuations amended from the 31.12.23 valuations which were reported at the last Local Pension Committee meeting in June 2024. It is common for there to be a time lag between funds reporting valuations and the external valuations and performance provider needing to provide the Fund valuations for each committee.

<b>Manager and fund</b>	<b>Open / closed ended</b>	<b>Geographic</b>	<b>Risk</b>	<b>31 March 2024 £m</b>	<b>% total of infra</b>	<b>Outstanding commitments 31<sup>st</sup> March £m</b>
JP Morgan Infra investment fund	Open	Developed Markets	Core / core plus	164	25%	Nil
IFM Global infra fund	Open	Global	Core plus / value add	160	24%	Nil
LGPS Central core/core plus	Open	Mainly developed markets	Core / Core plus	85	13%	53
Stafford Timberland 6,7,8	Closed	Global	Core / core plus	124	19%	Nil
Stafford Carbon offset opportunity fund (COOF)	Closed	Global	Value add	0	0%	53
KKR	Closed	Mainly developed markets	Core plus/ value add	49	7%	8
Infracapital	Closed	Developed markets	Value add	32	5%	Nil
Quinbrook net zero power fund	Closed	Developed markets	Opportunistic	52	8%	47

## **Scope of the review**

7. The review which is included on the exempt section of today's agenda includes information covering the following:
- a. A performance review of the existing investments.

- b. Allocation vs the framework agreed in July 2022, risk and geographic mix.
- c. Include update and high-level opinion on LGPS Central open core/core+ and value add funds.
- d. Confirmation of our current rating for each manager (where rated) and reasons for changes in rating where applicable since the last review.
- e. Assessment of whether the managers are executing their target strategy.
- f. Pooling, ESG and net zero considerations.

### **Timberland investments**

8. The Fund's timberland investments are managed by Stafford Capital partners. The Fund has invested in three vintages of the Stafford timberland series of funds, six, seven and eight. In addition, the Fund has more recently committed to invest into the Stafford Carbon offset opportunities fund (COOF). A summary of holdings by vintage is shown below. It is worth noting that the pool, LGPS Central, does not at present offer a timberland strategy.

Fund	Commitment	Current NAV £m	Uncalled	End of term
Stafford timberland 6 (SIT6)	53m euros	36m	NIL	30 June 2024
Stafford timberland 7 (SIT7)	30m USD	22m	NIL	11 March 2027
Stafford timberland 8 (SIT8)	80m USD	66m	NIL	30 April 2030
COOF	67m USD	0m	67m USD <sup>1</sup>	

<sup>1</sup> at the time of writing the first call to the COOF has been made, c\$9m in June 2024.

9. The three Stafford Funds, SIT6,7 and 8 are closed ended, and will eventually return capital as it sells assets to realise capital to return to investors. The end of term for the SIT6 was 30 June 2024,
10. Stafford are currently considering launching a continuation vehicle to invest in assets within SIT6, 7 and 8. They have been talking to their investors to gauge interest in the continuation vehicle, with the main benefit for investors requiring a timberland exposure being not having to redeploy capital as it is returned from the existing SIT 6, 7 and 8 vintages. A continuation fund would help investors, therefore, maintain exposure to assets the fund manager deemed suitable.
11. With the 30 June 2024 deadline for SIT6, officers requested Hymans conduct a review of the continuation fund with a view to potentially investing into the continuation fund. Hymans concluded the review and officers voted in line with the advice to extend the initial fixed term for SIT 6 vintage by 6 years conditional upon closing of the continuation fund.
12. More information on the continuation fund is included in the exempt report on the agenda. In summary the continuation fund will retain many of the holdings from the three vintages whilst retaining the option to divest those holdings where they do not form part of the long-term strategy. The underlying holdings which cover multiple countries and over 50 underlying assets (forests) is highly diversified.

**Consultation**

13. None

**Resource Implications**

14. The Director of Corporate Resources has been consulted. There are no additional resource implications.

**Recommendations**

15. That the request for review of the Leicestershire LGPS infrastructure assets be noted.

**Background papers**

16. 27 July 2022 Investment Sub-Committee, Strategic Asset Allocation Update and Cash Deployment Plans -

<https://cexmodgov01/ieListDocuments.aspx?CId=919&MId=6953&Ver=4>

17. 26 January 2024 Local Pension Committee, Overview of the current asset strategy and proposed 2024 asset strategy –

<https://democracy.leics.gov.uk/documents/s180890/SAA%20Jan%202024%20public%20copy.pdf>

**Circulation under the Local Issues Alert Procedure**

18. None.

**Equality Implications/Other Impact Assessments**

19. The recommendation is a high-level strategic document and there are no direct Equality and Human Rights implications. The Fund takes into account issues around Equality and Human Rights as part of responsible investment which incorporates 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.

**Environmental Implications**

20. Climate risk implications have been taken into account as part of the review of the protection portfolio. The proposed approach aligns with the Net Zero Climate Strategy and the Fund's commitment to supporting a fair and just transition to net-zero.

**Human Rights Implications**

21. This paper outlines the approach the Fund is taking with protection assets. This will align with the Fund's Responsible Investment approach as set out in the Principles for Responsible Investment.

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