HYMANS ROBERTSON

Review of LGPS Central Infrastructure mandates

Addressee

This paper is addressed to the Local Pension Committee ("LPC") of Leicestershire County Council Pension Fund (the "Fund"). The purpose of the paper is to provide a high-level view of the progress LGPS Central ("Central") have made with their infrastructure funds in certain areas, prior to making additional commitments to the funds.

We have provided this advice in our capacity as investment advisers to the Fund. This paper should not be used for any other purpose. The paper should not be disclosed to any third party except as required by law or regulatory obligation or with our prior written consent. We accept no liability where the paper is used by or disclosed to a third party unless we have expressly accepted such liability in writing. Where this is permitted, the paper may only be released or otherwise disclosed in a complete form which fully discloses our advice and the basis on which it is given. Where the subject of this note refers to legal or tax matters, please note that Hymans Robertson LLP is not qualified to give such advice therefore we recommend that you seek independent advice on these matters.

Background

The Fund's Infrastructure assets were previously reviewed in depth in July 2024, concluding that the underweight position should be closed by further commitments to Central Core / Core Plus fund, and Central Value Add fund. Commitments to both funds were to be implemented in a phased manner over 3 years and subject to satisfactory progress in several areas.

As a reminder, the Committee set practical target allocations across risk and geography, to ensure that the Fund remains well diversified and balanced across risk and returns.

		Practical Target Allocation	Actual Allocation (Q1 25)
Risk	Core / Core Plus	70 – 90%	86%
	Value-add / Opportunistic	10 – 30%	14%
Geography	UK	10 – 30%	16%
	Developed Overseas	60 - 80%	75%
	Advanced Emerging	0 – 10%	8%

The actual allocation weightings align with the practical target allocations. For each category the allocation falls within its respective target range.

The Fund have investments with a number of other third party funds, a mixture of open and closed ended and well diversified exposures - see table in the appendix.

Infrastructure market outlook

Our view remains positive on long-term infrastructure investment. The core characteristics of infrastructure investing remain intact due to the strong ability of assets to pass through inflation and the certainty of contracted revenue from long-term or regulated contracts. In a slow growth and high interest rate environment, where earnings are hard to achieve and returns may be uncertain, an inflation-linked income stream from infrastructure could be valuable for clients with regular cashflow requirements.

Private infrastructure returns have remained stable since 2015, while other growth assets had periods of volatile performance over the same timeframe. Concerns around high interest rates, a mixed economic outlook and geopolitical conflicts have led to some shorter-term volatility in the asset class. Most noticeably, we saw a marked slowdown in infrastructure fundraising and transactions from mid-2022 to 2024. We believe these are short-term trends and expect infrastructure market activity to pick up once the economic environment stabilises.

Over the longer term, we believe there are four global themes (decarbonisation, digitalisation, deglobalisation and demographics) that will drive the need for continued capital investment in infrastructure. In 2025, we expect infrastructure managers to take advantage of the recent volatility to invest in these themes, with a focus on assets that have strong growth prospects and are likely to remain resistant to revaluations.

The current policy environment is supportive for long-term infrastructure investments. Public policy is strongly in favour of these four long-term themes, with examples such as the European Green Deal in Europe providing favourable tax incentives and strong regulatory support for decarbonisation investments. We expect these themes will persist through changing political environments. Political changes could make the short-term case for investment in some of these themes or geographies less attractive, but the long-term prospects for investments remain strong in our view.

The recent slowdown in infrastructure fundraising and transactions has created a tactical opportunity in infrastructure secondary investments. The need for secondary capital currently exceeds supply, which has led to market conditions where secondary investors can be highly selective and negotiate favourable pricing terms, with significant discounts to NAV (5–15%) available on secondary funds.

Overall, we continue to be supportive of maintaining strategic exposure to infrastructure in the current market environment and selectively adding to funds that can improve outcomes. The variety of solutions currently available means the Fund can tailor the portfolio mix to focus on the need for stable inflation-linked income, long-term capital growth, and local investment and still achieve the blended investment return expected from an infrastructure allocation. We remain comfortable with the practical target allocations.

Review of suitability of LGPS Central Infrastructure

The remainder of the paper discusses the suitability of Central Infrastructure investments and whether the previously earmarked commitments to the funds remain appropriate.

Investment team

The investment team responsible for the sub-fund comprises five individuals. The team is led by Nadeem Hussain, who joined Central in January 2020 from Amber Infrastructure where he sourced and managed infrastructure and property portfolios. Nadeem Hussain has 15 years’ experience across infrastructure, property, mergers and acquisitions and corporate finance.

Nadeem is supported by Tanya Nolan (Portfolio Manager), who joined from West Midlands Pension Fund where she had 8 years’ investment experience across asset classes, including 4 years’ infrastructure investment experience alongside Mike Hardwick. Fuad Ahmed joined the Private Markets Team in December 2024 and is a Senior Portfolio Manager across infrastructure and property. He has over 12 years of experience in investment strategy and fund allocations covering primate markets. The team are supported by Andrew McClean (Junior Portfolio Manager), who also works on Private Credit Investments, and Sanesh Patel (Junior Portfolio Manager) who also works on Private Equity. There have also been 3 new analysts hired from the investment management industry, who will work across the private markets asset class within Central before concentrating on a particular area.

We believe the team to be of adequate size and experience to successfully manage the strategies. We previously noted that the team is small and lacks the depth of infrastructure investing experience typically seen at fund of fund managers, but they compare favourably to some infrastructure teams within other LGPS pools and we view the recent senior hire a positive step for Central to broaden infrastructure experience. It is pleasing that the team now have some years of experience running these sleeves.

Philosophy & Process

Central continue to have the following core set of investment beliefs that aim to deliver positive future performance:

- Strong performance in private markets can be reproduced over differing economic conditions
- Consistent performance can only be achieved through a combination of good processes and people
- Embracing responsible investment is accretive to investment returns
- Comprehensive due diligence adds significant value
- Diversification is a valuable tool for infrastructure investors

The team has engaged with the Partner Funds on the requirements of the sub-funds and this has led to the creation of two sleeves that Partner Funds may allocate to: a core/core-plus sleeve and a value-add/opportunistic sleeve. Both sleeves have the following key aims:

- To provide Partner Funds a return above CPI inflation
- To create a diversified portfolio of investments
- To invest with top performing investment managers
- To integrate Responsible Investment (RI)
- To provide future cost savings to investors

The team employs a nine stage investment process. The investment process hasn’t changed over the year. More details on the nine-stage investment process can be found in the appendix.

We are comfortable with the manager’s investment philosophy and we believe that they have a robust manager selection and monitoring process in place with Responsible Investment given meaningful consideration throughout the process. In reviewing the commitments to date, we see clear evidence of the investment process being carried out in accordance with the stated process and procedures and have no concerns.

Performance and Outlook

LGPS Central Infrastructure Core / Core Plus

Since increasing the commitment to the Core / Core Plus fund in 2024, the Fund now represents 12.6% of committed capital to the Sleeve (not exceeding the Fund's cap of 25% share of total commitment to the Sleeve). The portfolio is now well established with 9 underlying investments, comprising a mix of open-ended and closed-ended funds with well-known managers who have good track records. The new underlying investment (date of investment Dec 2024) has a more cautious approach due its focus on core infrastructure assets which are typically characterised by the following which contributes to the high degree of downside protection:

- High barriers to entry and often monopolistic or quasi-monopolistic market positions
- Reducing competitive pressures, income-generating assets with long-term, stable cash flows, providing a reliable yield component
- Strong inflation protection, often through contractual mechanisms or regulatory frameworks; and
- Minimal exposure to volume and GDP-related risks, as revenues are generally less sensitive to economic cycles.

The presence of existing open-ended investments means money can be deployed more quickly (at Central's discretion), as well as adding an element of liquidity should it be needed. Central does not intend to add to the line-up of managers for the time being, as they are satisfied with the composition of the portfolio. Additional investments will be made when further commitments are received from Partner Funds.

The investment strategy is largely unchanged although they have recently increased the allocation to renewables (adding the IFM Net Zero fund) and reduced the allocation to Asia where they see less opportunity. Central is considering investing in the secondary market for fund interests which we believe is appropriate given the current market opportunity.

The fund's mandate does not permit co-investments without prior investor approval and no such investments have made. Co-investments can increase exposure to attractive assets and reduce investment management costs, so this is a material limitation. However, we consider it an appropriate constraint because the Central team does not realistically have the capacity to originate and evaluate such investments at present.

This fund now has a track record, albeit still relatively limited, and performance seems to be heading in the right direction.

Return on Investment Since Inception (as at 31 December 2024, latest available at time of writing)

	To 31 December 2024	To 31 December 2023
FUND IRR	6.0%	1.4%

In terms of new commitments, money is still coming in albeit less quickly than previously. We note the underlying funds are generally performing in line with expectations; Dutch Infrastructure Fund (DIF) VII is the exception with returns being impacted by upfront costs, which were not originally anticipated. Capital committed has now been largely allocated to underlying managers; approximately 70% of the Core/Core Plus sleeve has currently been sub-committed and there are plans to commit a further £150 million by the end of Q2 2025 to top up three of the existing open-ended funds. Approximately 42.8% of committed capital is undrawn (an improvement from last year where 52% of committed capital had yet to be drawn). The fund is relatively close to sector target ranges, whilst geographically remaining overweight UK. They are currently at the top of their target parameter for renewables and therefore will not be looking at any new renewables only funds for a while; instead they are looking to reduce the proportion by deploying new money elsewhere.

Strategic diversification – Geographic target against current composition (as at 31 December 2024, latest available at time of writing)

Geography	Target (%)	Current (%)
UK	20 – 30	30
Europe	20 – 40	34
US	20 – 40	24
Asia	0 – 15	8
Other	0 – 15	4

Strategic diversification – Sector target against current composition (as at 31 December 2024, latest available at time of writing)

Sector	Target (%)	Current (%)
Energy (traditional)	0 – 10	8
Renewables	20 – 50	45
Utilities	10 – 25	18
Transport	0 – 20	7
Social	0 – 9	6
Other	0 – 10	0
Telecoms	5 – 20	16

Central see reasons to be optimistic within the asset class, with fundraising picking up pace and easing inflation, though geopolitical tensions could be headwinds. They are therefore focussed on managers that have an eye on downside protection. The fund recently committed £100m to the IFM Net Zero Infrastructure Fund, which also forms a very small part of the IFM Global Infrastructure Fund used directly by the Fund. The fund also invests in KKR's Diversified Core Infrastructure Fund but this is a different, lower risk strategy to the KKR fund that the Fund invests directly.

Central have confirmed that their focus going forward is allocating to Core Plus opportunities, where the current allocation is below the target of 50%. These strategies typically involve slightly higher risk in exchange for enhanced return potential, such as through asset development or operational improvements. We do not expect this to change the risk profile materially, and the fund could be considered to be at the lower end of the Core/Core Plus risk spectrum presently. We recommend closely monitoring the funds selected and impact on risk for the fund.

Central are aiming to eventually increase the total number of underlying funds to 10–12, which would provide high levels of diversification once reached. Central are expecting continued demand for the Core / Core Plus offering so this should be achievable in time.

We remain comfortable with the mandate, and are satisfied with progress and future direction. We therefore continue to support the Fund making further commitments to this fund.

LGPS Central Infrastructure Value Add / Opportunistic fund

Since investing in the Value add/ Opportunistic fund in 2024, the Fund represents 7.1% of committed capital to the Sleeve (not exceeding the Fund's cap of 25% share of total commitment to the Sleeve). The fund currently consists of 4 underlying sub-funds, all of which are closed-ended. Performance has been well below target since inception although this is to be expected from recent investments in closed-end, value-add funds.

Capital deployment has been fairly slow. Whilst this has increased slightly since last year, approximately 78.4% of committed capital is still undrawn (versus 82% a year previous). Central have a potential investment of £50 - £60m currently going through due diligence, expected to be completed in Q3. We acknowledge that a selective approach to origination was likely justified in a challenging market environment.

Central has seen strong performance from power-producing assets where returns correlate with increased long-term inflation, and assets with long term fixed debt riding out the high-rate environment. They also see opportunities in planning and logistics due to US onshoring and e-commerce trends.

Return on Investment Since Inception (as at 31 December 2024, latest available at time of writing)

	To 31 December 2024	To 31 December 2023
Fund IRR	2.6%	0.5%

The fund remains out of line with its sectoral and geographical target allocations, but this is not a material concern given the portfolio is still being built up. Note that there has been some progress towards target over the last year. They are currently at the top of their target parameter for renewables and therefore will not be looking at any new renewables only funds for a while; instead they are looking to reduce the proportion by deploying new money elsewhere.

Strategic diversification – Geographic target against current composition (as at 31 December 2024, latest available at time of writing)

Geography	Target (%)	Current (%)
UK	20 – 30	10
Europe	20 – 40	30
US	20 – 40	49
Asia	0 – 15	8
Other	0 – 15	3

Strategic diversification – Sector target against current composition (as at 31 December 2024, latest available at time of writing)

Sector	Target (%)	Current (%)
Energy (traditional)	0 – 10	14
Renewables	20 – 55	38
Utilities	0 – 15	-
Transport	5 – 25	21
Social	0 – 15	12
Other	0 – 25	-
Telecoms	5 – 25	15

*Includes committed investments and development projects of capital drawn

The fund still has a very limited track record, making it hard to assess whether it will deliver an adequate level of return over time. However, satisfactory progress has made in achieving the target investment return. The fund is still in early stages and therefore at this stage there are no red flags regarding performance.

As per the previous review, we note that the fund is open-ended whilst the underlying investments are all closed-ended in nature. Central have said that it is likely any further investments would also be closed-ended, as they do not see many attractive open-ended options in the value-add space. This liquidity mismatch should continue to be noted. However, there are some mitigating factors here including: relatively complicated rules around redemptions including lock-ins and gating mechanisms; unused commitments – Central stated they would never be fully committed; and the fact that Partner Funds are also long-term investors who are unlikely to require liquidity urgently.

We met with the infrastructure team where we discussed the future direction of the fund. Similar to the Core-Core Plus fund, Central are looking to increase the risk profile of this fund. They feel the fund is currently at the lower end of the Value Add / Opportunistic scale, and they are looking to increase exposure to Real GDP / Volume risk and where possible more opportunistic / Private Equity like funds, however the latter has not been decided yet. This evolution reflects a measured and deliberate approach to portfolio construction, aiming to enhance returns while maintaining a disciplined risk posture. Whilst not a significant concern at this stage, we recommend monitoring progress here closely as we continue to increase commitment to the fund.

Central also suggested that they would eventually like 10-12 investments in this fund, although that feels like a long way off at present, given the current pace of deployment, and expectations that demand for this fund may not be as great as for the Core / Core Plus fund. We would note however that due to limited visibility of Central's pipeline of fund investments, there is material blind pool risk of committing to the sleeve.

We remain comfortable with the commitment to the fund this year. However we recommend that any changes in the fund's risk profile are reviewed carefully.

Responsible Investment (RI)

Central’s RI & Engagement Framework has been designed using the investment beliefs of the Partner Funds and is focused on two key objectives: (1) primarily, to support investment objectives; (2) secondarily, to be an exemplar for RI within the financial services industry, promote collaboration, and raise standards across the marketplace. These aims are realised through actions taken in the selection of investments, stewardship of investments and by being transparent & accountable through regular disclosure of RI activities.

The Central RI & Engagement Framework is reviewed annually by the Board. Central is a signatory to UN PRI, the LGPS Code of Transparency and report on climate change disclosure annually using TCFD recommendations.

RI and its integration into the investment process was given a meaningful weight at all stages of the selection and due diligence process with Central’s Director of Responsible Investment and Engagement responsible for the scoring of managers and their approaches to RI.

We held a meeting with their RI and Infrastructure teams in 2024 to discuss their approach in more detail. They continue to consider their Net Zero approach across private markets as a whole (including infrastructure) and have considered the recent NZIF guidance on infrastructure but believe that other frameworks are helpful. Their initial focus is to carbon footprint the current portfolios, using portfolio company measurements where possible or their own estimates, and to prioritise (using a risk-based framework) underlying managers for engagement on decarbonisation targets and plans. Work on the infrastructure funds will commence this year.

Based on discussion, we believe Central’s approach is pragmatic and fairly well aligned with the Fund’s climate strategy and beliefs. In particular, it reflects the current status of the market on key issues such as data availability, target setting/planning and manager readiness. Their commitment to developing their approach appears strong.

Central have made no changes over the last year which would affect the Responsible Investment suitability of the funds.

Conclusion & Next Steps

We continue to consider the Central infrastructure mandates as a **suitable investment**. There have been **no key changes** to the manager or fund approach since our last review. Although we do note that the Core / Core Plus fund has begun investing, which reduces blind pool risk. We note the following areas for continued close monitoring.

Core / Core Plus fund:

- The fund has continued to make progress on deploying capital, however this still remains slower than we would prefer. Although Central have confirmed new commitments are being made to top up existing funds, which we see as positive progress.
- Central have confirmed that their focus going forward is allocating to Core Plus opportunities. This will increase risk in the fund, however we do not expect this to change materially and the fund could be considered to be at the lower end of the Core/Core Plus risk spectrum presently. We recommend closely monitoring any new funds selected, and the impact on risk for the fund, before making next year's commitments.

Value Add / Opportunistic fund:

- We note that the fund is open-ended whilst all of the underlying investments are all closed-ended in nature. Central have said that it is likely any further investments would also be closed-ended, as they do not see many attractive open-ended options in the value-add space. This liquidity mismatch should be noted, though there are some mitigating factors here as set out earlier.
- Central are also looking to increase the risk profile of this fund. The fund is viewed to be currently at the lower end of the risk scale for this type of fund, and are looking to increase exposure to Real GDP / Volume risk with more opportunistic / Private Equity like funds, however this has not been decided yet. Whilst not a significant concern at this stage, we recommend monitoring progress here closely as we continue to increase commitment to the fund.

Overall the funds have made satisfactory progress for us to remain comfortable with the next phase of commitments in each fund. However we continue to propose a similar comfort check before making next year's commitments, particularly in light of the continued slow deployment and potential future increase in risk profile (both of particular concern on the Value Add fund).

Prepared by;

Richard Lunt, Senior Investment Consultant

With contributions from;

Russell Oades, Investment Consultant

Tianna Patel, Investment Associate Consultant

June 2025

For and on behalf of Hymans Robertson LLP

Appendix 1: Characteristics of Infrastructure funds

Manager/Fund	Allocation (Q1 25)	Characteristics					
		Active/ Passive	Geographic Focus	Sector Focus	Risk Profile	Manager's target return (% p.a.)	Fund Structure
JPM Infrastructure	2.5%	Active	Developed markets	Economic sectors	Core/core-plus	8-12%	Open-end
IFM Global Infrastructure	2.5%	Active	Global	Economic sectors	Core-plus/ Value-add	10%	Open-end
KKR Global Infrastructure Funds I, II, III	0.6%	Active	Mainly developed markets	Energy, utilities, transport and others	Core-plus/Value-add	10-15%	Closed-end
Stafford Timber Funds VI, VII, VIII	1.7%	Active	Global	Timber	Core/core-plus	10%	Closed-end
Infracapital Infrastructure	0.3%	Active	Developed markets	Energy, utilities, transport and others	Value-add	10-15%	Closed-end
LGPSC Infrastructure Core/Core Plus sleeve	2.1%	Active	Mainly developed markets	At least 3 of energy, utilities, transport, social and other	Core/core-plus	CPI+3.5%	Open-end
LGPSC Value Add fund	0.0%	Active	Global	Energy, utilities, transport and others	Value-add/ Opportunistic	CPI+5%	Open-end
Quinbrook Net Zero Power Fund	0.6%	Active	Developed markets	Renewable	Value-add/ Opportunistic	13% IRR	Closed-end
Quinbrook Net Zero Power Fund - Co-inv	0.6%	Active	Developed markets	Renewable	Value-add/ Opportunistic	13% IRR	Closed-end
Total Infrastructure Portfolio	**11.1%**						

Appendix 2: Investment Process

1. **Mandate** – the sub-fund has been designed with the following considerations: geographic weightings; industry and sector weightings; co-investments; investment limit; investment restrictions; and liquidity.

2. **Strategy** – the portfolios within each sleeve have an investment strategy set by Central which is reviewed annually. Considerations include: macroeconomic factors; predictability of income streams; competition; consumer trends; leverage; sustainability; and operational and regulatory risks. This provides the framework for the creation of a model portfolio which aids portfolio construction.

3. **Portfolio construction** – this stage involves the team making decisions about how to execute the annual strategy given the current positioning of the portfolio and the output of the model portfolio. This allows for the key risks to be monitored, including: geographical, sector and manager exposure; brownfield/greenfield mix; leverage; and economic exposure.

4. **Source** – the team sources suitable opportunities in order to deliver the intended portfolio construction from the previous stage. Opportunities are sourced through their own networks as well as utilising the Preqin Fund Database. The team filters down the opportunities to a shorter list of potential investment opportunities.

5. **Review** – the infrastructure team will then conduct an initial review of each opportunity from this filtered universe. Each opportunity is given an initial score across the following eight key areas: management fee and terms; strategy, focus and investment process; geographic footprint pipeline and seed investments; track record and capital deployment; team, leadership and experience; General Partner commitment; and responsible investment and ESG considerations. Funds are then ranked by score and further due diligence is undertaken. An initial due diligence report, known as a Preliminary Investment Recommendation, is then produced on each potential investment and shared with Central's Private Markets Investment Committee (PMIC) who may make observations before providing an initial approval, which requires a majority vote.

   The PMIC consists of Mike Hardwick and Nadeem Hussein from the investment team, along with the following five individuals from elsewhere within Central: Ian Brown (Head of Private Markets); Jas Sidhu (Senior Portfolio Manager – Private Equity & Debt); Colin Pratt (Investment Director – Total Return and Manager of Managers); Patrick O'Hara (Investment Director – Responsible Investment and Engagement); and Antony Clark (Investment Risk Reporting Manager).

6. **Diligence** – if approval is gained at the previous stage, a full due diligence report is written, covering each of the areas in greater depth than during the initial review. The aim of this stage is to ensure the underlying manager has the ability, motivation and tools to deliver future performance without incurring unnecessary risks.

7. **Refine** – following the completion of the more detailed due diligence of the previous stage, the investment team will then refine the analysis and another PMIC meeting convened. If the PMIC is satisfied that all questions have been addressed then it will provide final approval, subject to a majority vote. All legal documentation is then reviewed and refined before a formal commitment is made to commit to the investment opportunity.

8. **Close / Execute** – the investment is then executed and the Partner Funds are informed how much commitment they have made to the opportunity.

9. **Perpetual Oversight and Monitoring** – regular contact is maintained with the underlying manager after commitment has been made, with fund performance and activity monitored. Manager review meetings are held at least annually and held more frequently if there are any issues of concern. There are no formal triggers that, if breached, would result in a termination of a manager but Central regards breaches of a fund's restrictions or limitations as a reckless disregard of the consequences or a breach of a manager's duty of care to its investors. As many of the funds that the sub-fund will invest in are likely to be closed-ended, there is limited action Central can take to terminate a manager of a closed-ended fund so in this instance they would look to work with other investors to obtain a better outcome as well as not committing to follow-on funds.

Appendix 3: Responsible Investment

Manager/Fund	LGPSC Infrastructure Core/Core Plus and Value Add sleeves
Overall approach to Net Zero	Strategy is to work with portfolio companies to decarbonise and invest in climate solutions, but limited detail provided
Aim for NZ 2050 or sooner	Yes – no specific overall target for LGPSC, but underlying manager targets range from 2040 to 2050
Short/medium term objective	
Portfolio Coverage	No
Financing Climate Solutions	No
Decarbonisation Reference	No
Engagement	No
Comments	LGPSC has begun applying its Net Zero approach to infrastructure funds. Their initial focus is baselining current emissions and understanding their managers' decarbonisation plans, a focus which we support. Overall fund or underlying fund objectives will be considered in due course.
Metrics	
Current scope 1/2 emissions	No - work-in-progress
Material scope 3 emissions	No - work-in-progress
Forecast emissions	No
Whole life emissions	No

Manager/Fund	LGPSC Infrastructure Core/Core Plus and Value Add sleeves
Decarbonisation plan	
Portfolio construction/management	No - work-in-progress
Asset stewardship	No - work-in-progress
Comments	LGPSC has prioritised underlying managers for engagement on NZ and has begun working with them to understand their decarbonisation strategy and plans
Governance - explicitly covering NZ targets/plans	[Not disclosed]
Hymans RI rating	Unrated