Appendix C

HYMANS ROBERTSON

Leicestershire County Council Pension Fund

Private equity review

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October 2025

Overview

Purpose

This paper is addressed to the Pension Fund Committee (the "Committee") of the Leicestershire County Council Pension Fund (the "Fund"). The purpose of this paper is to make recommendations on private equity commitments for 2025, and to provide an indicative view for 2026, recognising that current pooling guidance may present complexities that require further consideration.

Background

As at Q1 2025, the Fund's private equity allocation was 1.4% below its target. Whilst there are significant uncalled commitments, primarily to LGPS Central and Adams Street, further commitments will be needed to close the shortfall, keep pace with capital being returned and the Fund's asset growth, and maintain diversification across vintage years.

Key questions to be addressed in this paper

- What does the current private equity portfolio look like?
- What is the current overview of the Fund's private equity managers, and how do they support the Fund's objectives?
- Can the Fund's strategy be delivered through LGPS Central alone, or is there still a role for third-party managers?
- What level of further commitments are required to maintain target exposure and vintage year diversification?

General risk warning

Please note the value of investments, and income from them, may fall as well as rise. You should not make any assumptions about the future performance of your investments based on information contained in this document. This includes equities, government or corporate bonds, currency, derivatives, property and other alternative investments, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an investment. As a result, an investor may not get back the full amount originally invested. Past performance is not necessarily a guide to future performance.

Executive Summary

LGPS Central and Adams Street now form the core of the Fund's private equity programme, with legacy investments in Catapult and Patria expected to be fully wound down over the coming years.

LGPS Central

LGPS Central's private equity team, led by Jaswant Sidhu, remains appropriately resourced and supported by wider functions across the organisation. **We remain comfortable with the team's capacity, risk oversight, and investment processes, and note that pooling continues to offer a cost-effective way of accessing private equity compared to legacy arrangements.**

Across the 2018, 2021, and 2023 primary sleeves, performance has been broadly in line with expectations given their stage of maturity. The 2018 sleeve has shown resilience, the 2021 vintage is now more progressed with deployment underway, and the 2023 vintage remains in the early stages of deployment. Initial indicators across the more recent vintages are encouraging. **We remain comfortable with the primary sleeve and continue to view it as a strong long-term building block for the Fund's private equity exposure.**

The co-investment sleeve has also made a promising start, with early transactions delivering encouraging returns. While our previous recommendation was to avoid committing due to concerns around team capacity, recent progress and growing experience in executing deals across multiple regions and sectors support a more balanced view. **That said, we continue to advise a cautious approach given the limited opportunity set and the relatively short track record in this area.**

Adams Street

Adams Street continues to provide complementary exposure, particularly in secondaries and venture capital — strategies that have historically not been available through LGPS Central. Existing investments are performing well, and the manager remains a key strategic partner for the Fund. **We remain comfortable with Adams Street's role in supporting areas of the private equity framework that LGPS Central is not yet fully positioned to deliver.**

Future Opportunities

LGPS Central is looking to raise four separate sleeves for the 2025 vintage: the usual Primary and Co-investment sleeves, along with new sleeves for secondaries and venture. They recognise that the right-sized fund is essential for successful deployment and will only proceed with sleeves where there are appropriate levels of committed capital, which—at the time of writing—remain to be confirmed. **We would recommend holding off on any commitment to secondaries and venture sleeves for now, with a view to revisiting the position and undertaking a detailed due diligence review. Any future commitment should be subject to satisfactory findings from that review.**

Adams Street is also bringing forward new offerings: Global Fund 2025 (closing September 2025, with a possible extension to October 2025), Global Secondaries Fund VIII (final close Q1 2026), Co-Investment Fund VI (fully subscribed), Venture Innovation Fund V and Leaders III (launching in 2026)

These options offer flexibility to support the Fund's private equity objectives, diversification, and pacing.

Executive Summary

New commitments required

The Fund is currently c.1.4% below its 7.5% private equity target. Existing undrawn commitments are not sufficient to close the gap, with annual distributions (c.£100m) expected to far exceed drawdowns (c.£25m). **We estimate new commitments of c.£110m p.a. are needed to maintain exposure and gradually close the shortfall by 2031–2032**. Whilst it would be possible to commit more heavily in the short term to close the gap sooner, we would not recommend this. A more aggressive pacing strategy risks overexposing the portfolio to a single vintage year, which could reduce diversification and increase vulnerability to market timing risks. Instead, we believe a steady and consistent level of annual commitments is more appropriate. We are also comfortable that the current underweight position remains within a reasonable range in the near term. We recommend that pacing is reviewed annually as part of the SAA review.

Where and how to allocate future commitments

With pooling now a more prominent requirement, and Central signalling plans to broaden its offering, we recommend reducing reliance on third-party solutions and committing the full £110m for 2025 to support the continued development of Central's programme, as follows:

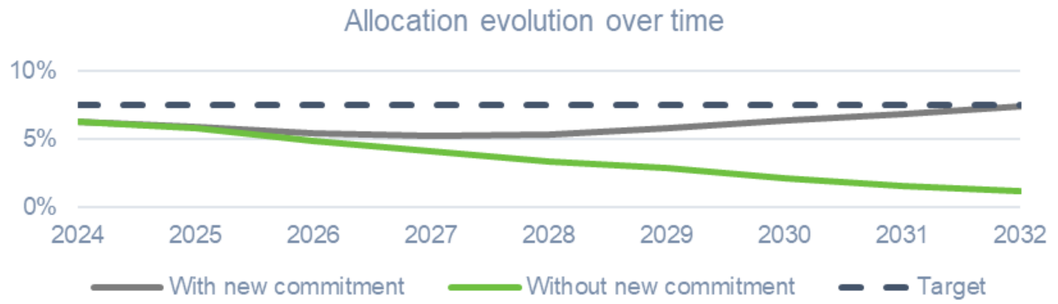
- £80m firm commitment to Central now — £65m to the 2025 primary sleeve and £15m to the 2025 co-investment sleeve (a modest allocation reflecting our cautious approach)
- £30m earmarked for potential allocation — £15m each to secondary and venture sleeves, subject to satisfactory due diligence.

If one or both of the proposed sleeves — secondary and venture — do not proceed due to limited scale or uptake, we'd be comfortable holding off that portion of the allocation for now, with a view to revisiting the position in 12-18 months' time. This should be considered alongside how the Fund's 2026 commitment is best deployed.

Whilst we expect a similar approach may be appropriate for 2026 (in terms of amount and broad areas of allocation) in line with the Fund's current framework, this would need to be discussed with LGPS Central given their increased role in decision-making post-31 March 2026. We recommend engaging with LGPS Central to ensure they are aware of the Fund's annual commitment needs, so these can be taken into account in Central's pacing plans and product pipeline.

New commitments are expected to be funded through a combination of ongoing distributions (projected at c.£100m p.a.) and the use of existing cash reserves to cover the balance.

Projected evolution of private equity portfolio



	Segment	Target Allocation	Current Allocation	*End 2028[1]*	*End 2032[1]*
Geography	North America	30-60%	59%	*49%*	*45%*
	Europe	20-40%	25%	*30%*	*31%*
	Asia Pacific	10-30%	10%	*17%*	*20%*
	Emerging Markets	0-10%	6%	*4%*	*4%*
Lifestage	Venture	10-30%	30%	*21%*	*19%*
	Growth	10-30%	3%	*16%*	*21%*
	Buy-out	40-70%	63%	*60%*	*56%*
	Special Situations	0-10%	3%	*3%*	*4%*
Origination channel	Primary funds	50-70%	58%	*70%*	*66%*
	Secondaries	10-30%	26%	*16%*	*17%*
	Co-investments	15-25%	15%	*14%*	*17%*
Economic sector	No specified ranges as opportunity set varies, but aim for diversification				

[1]Projections assume £110m of new investments per year to LGPS Central, split as £65m to the primary sleeve, £15m each to the co-investment, secondary, and venture capital sleeves. This allocation split is likely to vary from year to year or with each review, so these projections should be seen as giving a general sense of direction rather than a precise forecast. There will continue to be opportunities to fine-tune exposures as needed.

Why invest in private equity

The rationale for the inclusion of private equity within the Fund's investment strategy is primarily a combination of the following:

Diversification from listed equities and other traditional asset classes

Illiquidity premium provides additional return potential

Capital growth, driven by both market trends and manager value-add

Responsible investment impact through manager engagement on ESG factors

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Current portfolio

As at 31 March 2025, the Fund held £410.0m (6.1% of total assets) in private equity across a combination of pool and third-party managers, below its 7.5% target allocation. Whilst there is £231.1m in outstanding commitments, primarily to LGPS Central and Adams Street, further commitments will be required to close the shortfall, keep pace with capital being returned and the Fund's asset growth, and maintain diversification across vintage years.

The Catapult and Patria funds are largely in liquidation and expected to be fully wound down over the next few years. As such, the remainder of this paper and the supporting slides will focus on the Fund's key active private equity relationships — LGPS Central and Adams Street.

Current allocation as at 31 March 2025

Fund	Inception date	Invested £m	Invested % Fund
UK Private Equity Fund - Catapult	Mar-16	0.9	0.0
Private Equity Fund – Adams Street	Mar-16	366.8	5.5
LGPSC Private Equity Fund 2018	May-19	9.2	0.1
LGPSC Private Equity Fund 2021	Oct-22	11.2	0.2
LGPSC Private Equity Fund 2023	Apr-24	6.5	0.1
Patria Capital Partners SOF III Feeder LP	Sep-19	15.3	0.2
Total		**410.0**	**6.1**

Current commitments as at 31 March 2025

Fund	Total Commitments £m	Commitments Undrawn[1] £m
UK Private Equity Fund - Catapult	3.0	-
Oseas Private Equity Fund – Adams Street	634.8	129.7
LGPSC Private Equity Fund 2018	10.0	0.9
LGPSC Private Equity Fund 2021	30.0	19.0
LGPSC Private Equity Fund 2023	80.0	73.7
Patria Capital Partners SOF III Feeder LP	31.9	7.7
Total	**789.7**	**231.1**

[1]Commitments undrawn = total commitments minus amounts already drawn. These may or may not be called in future
Source: Investment managers and "Leicestershire Total Fund Q1 2025 - Manager Summary" quarterly report.
USD/GBP exchange rate used: 1.25

Target portfolio

We believe the Fund should continue to maintain a private equity portfolio that is well diversified by geography, sector, and life-stage (venture, growth, buyout). Regular commitments should be maintained to ensure the target level of exposure is met and to support adequate vintage year diversification.

The majority of investments should continue to be made through primary funds; however, other origination channels — notably co-investments and secondaries — have become more important in recent years and can make up 20-50% of the portfolio.

The portfolio mix should broadly reflect that of the wider market. While we do not believe the Fund should take a tactical allocation approach itself, we do support managers retaining flexibility to adjust allocations based on where they see the most attractive opportunities.

We believe the current framework (as shown in the table on the right) remains appropriate to guide the ongoing development of the Fund's private equity portfolio.

Current framework

	Segment	Target Allocation	Current Allocation
Geography	North America	30-60%	59%
	Europe	20-40%	25%
	Asia Pacific	10-30%	10%
	Emerging Markets	0-10%	6%
Lifestage	Venture	10-30%	30%
	Growth	10-30%	3%
	Buy-out	40-70%	63%
	Special Situations	0-10%	3%
Origination channel	Primary funds	50-70%	58%
	Secondaries	10-30%	26%
	Co-investments	15-25%	15%
Economic sector	No specified ranges as opportunity set varies, but aim for diversification	-	-

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New commitments required

The Fund's current private equity exposure is c. 1.4% below its 7.5% target allocation. The cashflow projection chart on the right shows the expected evolution of the portfolio's NAV relative to this target, incorporating projected drawdowns and distributions provided by the Fund's private equity managers. This includes c.£220m of undrawn commitments across Adams Street and LGPS Central, which are expected to be called over the next few years. However, as the chart illustrates, these existing commitments alone are not sufficient to close the allocation gap.

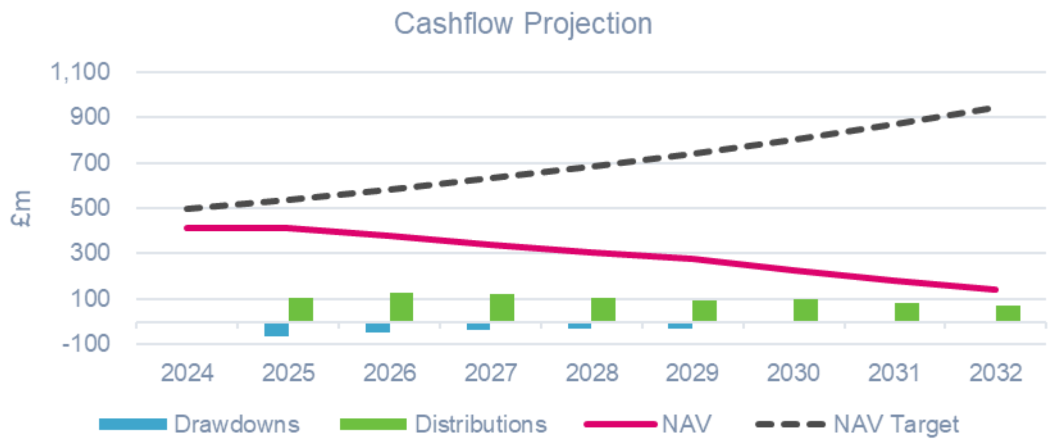
Distributions are projected to average c.£100m per year, while drawdowns are expected to be only c.£25m per year. Without further commitments, the portfolio will continue to decline in relative size due to these net outflows and growth in the wider Fund.

Taking these factors into account, **we estimate that the Fund would need to make new commitments of c.£110m per year.** As shown in the allocation evolution chart, this level of pacing should allow the Fund to steadily rebuild its private equity exposure and bring the Fund's allocation close to target by 2031–2032.

Whilst it would be possible to commit more heavily in the short term to close the gap sooner, we would not recommend this. A more aggressive pacing strategy risks overexposing the portfolio to a single vintage year, which could reduce diversification and increase vulnerability to market timing risks. Instead, we believe a steady and consistent level of annual commitments is more appropriate.

We are also comfortable that the current underweight position remains within a reasonable range in the near term. The shortfall is modest relative to the size of the overall Fund and is offset by meaningful exposure to other growth assets, such as listed equities. As highlighted in the last SAA review, listed equities can act as a 'liquid holding place' with broadly similar high-level risk and return characteristics to private equity, providing flexibility awhile PE exposure is built up gradually and without the risk of overcommitting. The upcoming tail-risk review will consider whether to allocate additional capital to listed equities or other 'liquid holding places' while waiting for private equity and other illiquid allocations to be deployed.

As with any long-term projection, actual cashflows are likely to fluctuate; some years may see slower distributions or drawdowns due to delays in realisations or deployment, while others may be more active. We recommend that pacing is reviewed annually as part of the SAA review.



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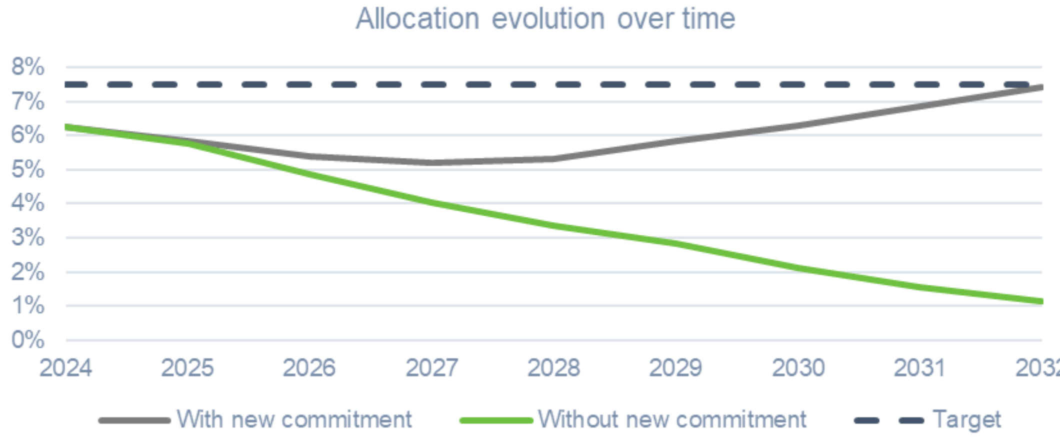

Cashflow projections have been provided by investment managers as at 31 December 2024. Where NAV projections were not provided, and for projections relative to Fund size, additional assumptions have been applied. Further details on assumptions used to carry out cashflow modelling is available upon request

Where and how to allocate future commitments?

We believe the Fund's private equity framework remains appropriate to guide the continued development of the portfolio, and that maintaining exposure to both secondaries and venture capital should remain a core part of this approach.

Historically, LGPS Central's private equity sleeves did not provide access to these areas, leading to the continued use of Adams Street's global fund programme as a third-party solution in the last review. However, with pooling now a more prominent requirement, and Central signalling an ambition to broaden its offering, further allocations to external managers risk limiting the pool's ability to develop scalable, demand-led solutions — and could reduce the Fund's flexibility to respond to new opportunities within the pooled structure as they emerge. Given this direction of travel, we believe the Fund should now look to reduce its reliance on third-party solutions such as Adams Street.

Instead, we suggest the Fund's £110m commitment for 2025 is split in a way that supports the continued development of Central's programme:

- £80m firm commitment now — £65m to the 2025 primary sleeve and £15m to the 2025 co-investment sleeve (a modest allocation reflecting our cautious approach)
- £30m earmarked for potential allocation — £15m each to secondary and venture sleeves, subject to satisfactory findings from the due diligence (as referenced on p.13)

If one or both of the proposed sleeves — secondary and venture — do not proceed due to limited scale or uptake, we'd be comfortable holding off that portion of the allocation for now, with a view to revisiting the position in 12 months' time. This should be considered alongside how the Fund's 2026 commitment is best deployed.

Whilst we'd expect a similar split in terms of amount and broad areas to allocate to in 2026, whether that proves viable will depend on the structure and timing of Central's future products — which should become clearer over the coming year. In the interim, we recommend engaging with LGPS Central to ensure they are aware of the Fund's annual commitment needs, so these can be taken into account in Central's pacing plans and product pipeline.

Current expectation is that the 2025 vintage will have a first close in Q3 and a final close in Q4 2025, although this could shift depending on Partner Fund needs. We also note that Central is considering an 18-month product launch cycle. Should this go ahead, the Fund could allocate its 2026 commitment to a future vintage under that revised timeline. If no suitable product is available, the full 2026 commitment could be directed to the Adams Street 2026 Global Fund, although this would need to be discussed with LGPS Central given their increased role over decision-making post-31 March 2026.

Projected evolution of private equity portfolio

We expect the Fund's existing private equity investments, along with new commitments of around £110m per annum, to build a portfolio that broadly aligns with the Fund's private equity framework over time.

Geographically, the portfolio is currently within target ranges, though North America sits at the upper end (59%), offset by lower exposure to Asia Pacific (10%). This is expected to rebalance gradually, with most regions moving closer towards mid-range by 2032.

By lifestage, the Fund is currently underweight growth (3% vs. 10–30% target), but this is projected to increase to 21% by 2032, bringing the portfolio into better balance. Venture exposure is expected to moderate from the current high of 30%.

Origination channel exposures are already within target ranges, and forecasts suggest future allocations will remain broadly aligned.

Although the portfolio is expected to evolve naturally over time through existing commitments and new allocations, there will continue to be opportunities to fine-tune exposures. Regular review of the portfolio will allow the Fund to address any persistent under- or over-weights — either by adjusting allocations within the Central mandate or through selective commitments to Adams Street's specialist funds.

Projected allocation against target framework

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Projections assume £110m of new investments per year to LGPS Central, split as £65m to the primary sleeve, £15m each to the co-investment, secondary, and venture capital sleeves. This allocation split is likely to vary from year to year or with each review, so these projections should be seen as giving a general sense of direction rather than a precise forecast. More details on the assumptions applied are set out on page 24.

Thank you

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