Leicestershire County Council

LOCAL PENSION COMMITTEE – 3 JULY 2026

REPORT OF THE DIRECTOR OF CORPORATE RESOURCES

CASH MANAGEMENT POLICY AND FORECAST

Purpose of Report

1. The purpose of this report is to provide the Local Pension Committee (LPC) with details on how the Leicestershire County Council Pension Fund (Fund or the Fund) manages cash balances following questions from arising at the meeting of the LPC on 20 March 2026.

Background and prior approvals

2. Cash is one of the nine asset classes as defined by the Local Governance Pension Scheme (LGPS) “Fit for the Future” (FFTF) reforms requiring all LGPS administering authorities to standardise reporting and aid comparison between LGPS Funds. The full list of asset classes are:

    1. Listed equity,
    2. Private equity,
    3. Private credit,
    4. Property / real estate,
    5. Infrastructure,
    6. Other alternatives,
    7. Credit / fixed income
    8. UK government bonds
    9. Cash

3. The Fund updates its strategic asset allocation (SAA) annually, usually at the January meeting of the LPC. The proportion of the Fund allocated to each of the nine asset classes is proposed by the Fund’s investment advisor, which at the last meeting was Hymans Robertson. The link to the relevant papers are included within this report.

4. The SAA is included within the Investments Strategy Statement (ISS) which also contains the Fund’s cash management policy. The ISS was presented for approval to the LPC at the 20 March 2026 meeting of the LPC. It also contains the Fund’s Cash Management Strategy (CMS) which details how cash is invested whilst awaiting to be invested or if there is a strategic allocation to the cash asset class.

5. As part of the FFTF reforms the Fund’s investment manager LGPS Central (Central or the Pool) will in future manage excess investment cash that the Fund may have. The Administering Authority will retain a cash amount for working capital purposes, at a level to be confirmed (and agreed with Central) but likely to be minimal.

6. At the 20 March 2026 meeting of the LPC it was reported that the Fund held, £453million in cash at 31 December 2025, down from £561million from the previous quarter end date.

The Fund's CMS

7. The CMS is contained within ISS. The main points are summarised below:

    a. The Fund will utilise the experience of the Administering Authority regarding cash management and its external treasury advisor who advises on the administering authority's annual investment strategy.

    b. Risk will be managed by regard to security (of cash) first, liquidity and finally yield (return).

        i. The treasury management advisor will incorporate credit worthiness into selection of relevant counterparties to place cash with.

        ii. The treasury management advisor will take into account country limits with reference to country of domicile of counterparties.

8. The combination of the above produces a counterparty list that is then proactively managed with the use of changes in ratings from credit ratings agencies for example.

9. The final list of acceptable counterparties allows for cash to be placed with in variety of products and institutions.

The SAA (2026) target allocation

10. The current allocation is detailed below alongside the tolerance ranges.

Asset class	2025 current Strategic Asset Allocation	2026 proposed Strategic Asset Allocation (%)	2026 Tolerance range (±%)	2026 Local invs
Listed equity	41.00%	41.00%		
Other alternatives	5.75%	5.75%	+ / - 2.5%; 51.75% - 56.75%	
Private equity (including local invs)	7.50%	7.50%		
Property (including local invs)	7.50%	7.50%		1% across 4 asset classes
Infrastructure (including local invs)	12.50%	12.50%	+ / - 2.0%; 33.50% - 37.50%	
Private credit (including local invs)	9.50%	9.50%		
Credit liquid MAC (i)	9.00%	7.00%		
Credit IGC (i)	3.75%	3.75%		
UK Government bonds	3.50%	5.50%	+ / - 2.0%; 8.25% - 12.25%	
Investment cash	0.00%	0.00%		
	100.00%	100.00%		

11. The tolerance ranges at asset group level allows for the following:

    a. Taking into account transactional costs. Variability of individual asset valuations across the Fund may introduce transaction costs that could outweigh investment gains from rebalancing activity, for example, buying one quarter for a relatively small amount to then sell the next quarter.

b. Allows for a longer term view of asset valuations given not all asset classes reprice each quarter. For example, the underlying holdings in private equity are usually valued once or twice a year, as a result private equity valuations maybe in the process of being revised higher whilst listed equity prices might have already seen large increases. Without a tolerance range, additional private equity commitments would be needed if acting entirely mechanically. An appreciation of likely direction of private equity valuations based on comparatives including public markets can help in this instance.

c. Time to conduct additional due diligence if specific asset classes performance detach from others, and maintain a difference. At this point we could request the investment advisor to comment if adding more capital to the underweight position was appropriate.

d. Delaying capital allocation decisions at times of market stress that may be inappropriate, for example, rebalancing activity between private and public markets where valuations are updated less regularly for the private market portion of the portfolio.

12. The Fund's rebalancing to the SAA is the responsibility Fund officers during this 'readiness phase' for of the Fund's new investment advisor, LGPS Central. During this period officers and Central liaise frequently to assess the possible rebalancing that could take place.

13. The Fund recognises the that private markets contain an illiquidity premium (enhanced returns in return for locking up capital for a pre agreed period of time) and given the visibility of the Fund's liabilities it is an area that the Fund has is increasing an allocation to. However, the Fund must be aware of adding to any asset class should be gradual in order to avoid the pricing risk of adding material amounts of capital in a short period of time. If market pricing is high at the point of accelerated additions then future returns may be negatively impacted. Adding capital consistently year over year until the target is met is considered an appropriate way to mitigate this risk and is a method employed by the Fund with advice from the investment advisor.

14. One of the main differences between public and private market investments is the ability to invest (and divest) capital. Public market investments are liquid, meaning the ability to invest and divest is frequent (usually during open market times such as Monday to Friday 8am to 4.30pm for listed equity). Private markets on the other hand require committing capital to a manager in advance of them making investments in the future with the constraints of the investment management agreement made when the capital was committed.

15. Private markets comprises the following asset classes; private equity, property, infrastructure and private credit. When committing to these asset classes the time to invest the committed capital is largely known and can be measured in years. Because of the Fund's switch to private markets from public markets the Fund was able to sell investments from public markets on the advice of its investment advisor and hold cash whilst awaiting 'calls' for the commitments made to private market managers.

16. In 2023, at the January meeting of the LPC a reduction to public markets of 7% from listed equity (-4.5% of Fund assets) and other alternatives (-2.5% of Fund assets) was

approved. An increase of 4.5% to private markets, specifically private equity (+2.5%), infrastructure (+2.75%) was approved alongside a 2.5% increase to liquid credit.

17. The shift towards increased private markets allocations coincided with LGPS actuarial valuations showing many LGPS funds across England and Wales were now over 100% funded, including the Leicestershire County Council LGPS Fund which reported a 105% funding level as at the 31 March 2022 valuation point. The reduction to lower returning and arguably safer assets classes was seen across many LGPS Funds as their investment advisors started targeting lower investment returns given the improved funding status' of individual funds. For example, the Fund's private credit exposure reflects this change with a higher proportion of allocated towards safer loans to corporates where investor protections are stronger.

18. The strategic change to a higher private markets allocation should be implemented over a number of years to avoid investing large amounts into the market at the same time which would increase the risk to the Fund from conditions prevalent at the time of investing which is known as vintage risk.

19. The Fund did not immediately lower listed equity positions and held an overweight position for a number of years to avoid holding even more cash. In fact, the Fund still holds a 2.3% overweight position to listed equity as at 31 March 2026, a position that is in line with the cash management policy This overweight position will be reduced once cash balances are lower.

Current cash position

20. The cash position the Fund has held has been elevated compared to the SAA allocation of 0% for a number of years following the decision to move more of the Fund's allocation to private markets which would take a number of years to achieve for the reasons set out earlier in this paper.

21. The cash position as at the quarter end date 31 March 2026 was £505million. As a percentage of the total fund cash represents 7.4% now.

22. As at the latest available position before publication of this paper the Fund is expected to hold £320million in cash or 4.3% of total Fund assets. The Fund has made a number of investments that were approved as part of the January meeting of the LPC when investments to two investment products were approved totalling £195million.

23. The cash position is reflective of the £0.9billion of uncalled commitments.
Cash is held in a combination of money market funds (MMFs) and fixed term investments which offer a slightly higher interest rate owing to lower liquidity. At the time of writing the weighted average rate of interest is 3.99% which compares to the Bank of England base rate of 3.75%

Cash forecast to 31 March 2027

24. The larger than targeted cash position arose from a shift in investment strategy instigated a number of years ago when higher allocations were approved to private market investments from public market investments.

25. As at the cash position last reported to the LPC in March 2026 the following £195million of investments have been invested which has reduced the Fund's cash position considerably:

a. A £55million investment to the LGPS Central multi asset credit (MAC) fund in April 2026
b. A total investment of £140million to the Legal and General (LGIM) all stocks gilt index fund over three tranches during June 2026.

26. By the end of the financial year (31 March 2027) the Fund is forecast to hold c£235million. The table below shows the changes between the last update and the end of the financial year end. The forecast cashflows are dependent on distributions and calls from the underlying managers which are based on best estimates at the time of writing in collaboration with LGS Central.

	Quarter ending >	**31-Dec-25**	**31-Mar-26**	**30-Jun-26**	**30-Sep-26**	**31-Dec-26**	**31-Mar-27**
	Opening quarter cash balance		453	505	325	287	248
	LGPS Central MAC investments			-55			
	LGIM UK gilts fund investments			-140			
Net cashflows	**Other cashflows**		52	15			
	Private Equity				-3	-5	-5
	Infrastructure				-20	-25	-21
	Private Credit				-19	-19	0
	Property				3	10	11
	Closing quarter end forecast	**453**	**505**	**325**	**287**	**248**	**234**
	Forecast AUM	7,334	7,443	7,536	7,630	7,726	7,822
	Cash % of AUM	6.2%	7%	4%	4%	3%	3.0%

27. There could be market conditions when external investment managers decide to slow down private market investments for a number of reasons which could increase the cash held by the Fund in forecast provided above.

Increasing private market allocations

28. Increasing the allocation to private markets required the Fund to make increased commitments following due diligence to private market funds. The external due diligence calculated the size of the commitments based on a number of factors:

a. Time taken for the manager to ‘call’ the capital
b. Expected capital returned by existing private capital managers in that asset class
c. Expected growth of the Fund over the time of capital being called
d. Concentration risk from investing large amounts in small periods of time, also known as vintage risk.

29. At the time of writing the Fund has outstanding commitments of £0.9bn and a cash balance of £0.3bn. The apparent mismatch is by design which aims to reach the desired increased private market target allocation from,

a. funding capital calls from existing cash (taking into account the SAA and tolerance ranges),
b. returning capital from existing private market investments (over £1billion within the Fund) which have reached their capital return period and

c. sales from overweight public market positions
d. sales from public market positions which are at their target weight.

30. This approach allows for the Fund to maintain invested and within tolerance ranges whilst being cognisant of investment risk.

31. The current outstanding commitments are summarised below of which the majority will be called by Central pooled investment vehicles. Central are independently developing cashflow models for each of the asset classes by client. They have had the opportunity to consult on the cashflow forecast submitted here and are supportive given the outlook for investing committed capital.

	Commitment outstanding £m 23 June 2026
Private Equity	214
Property	18
Infrastructure	229
Private Credit	479
Total £m	**940**

32. LGPS Central are due to bring a new private credit vehicle to investors later this year and Central estimate the closing of the private credit and infrastructure underweight around 2028.

Leicestershire Pension Fund Conflict of Interest Policy

33. Whilst not a conflict of interest, it is worth noting that the County Council also invests funds with four managers with whom the Leicestershire County Council Pension Fund invests, namely Partners Group, JP Morgan, DTZ investors and Christofferson Robb and Company (CRC). Decisions on the County Council's investments were made after the Fund had made its own commitments.

Recommendation

34. The Local Pension Committee are recommended to note the report.

Environmental Implications

35. The Leicestershire LGPS has developed a Net Zero Climate Strategy (NZCS) for the Fund. 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

36. 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 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

37. 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 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

Local Pension Committee 30 January 2026, Overview of the Current Asset Strategy and Proposed 2026 Asset strategy – item 121:
https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=740&MId=8372&Ver=4

Local Pension Committee 20 March 2026, Pension Fund Policy Report – Item 138, appendix A - item 138.
https://democracy.leics.gov.uk/ieListDocuments.aspx?CId=740&MId=8373&Ver=4

Appendix

None

Officers to Contact

Declan Keegan, Director of Corporate Resources
Tel: 0116 305 7668 Email: Declan.Keegan@leics.gov.uk

Simone Hines, Assistant Director Finance, Strategic Property and Commissioning
Tel: 0116 305 7066 Email: Simone.Hines@leics.gov.uk

Bhulesh Kachra, Strategic Finance Manager - Investments
Tel: 0116 305 1449 Email: Bhulesh.Kachra@leics.gov.uk

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