

FALKIRK COUNCIL

Subject: PRIVATE EQUITY AND ALTERNATIVES UPDATE
Meeting: PENSIONS COMMITTEE
Date: 12 DECEMBER 2013
Author: CHIEF FINANCE OFFICER

1. INTRODUCTION

- 1.1 This report updates the Committee on the progress and key events arising from each Manager's investment programme for the three months to 30 September 2013.
- 1.2 The Fund's private equity and alternatives programme is managed as follows:
- | | | |
|----------------------------|---|-------------------------|
| SL Capital (Standard Life) | - | European Private Equity |
| Wilshire Associates | - | Global Private Equity |
| Grosvenor Capital | - | Global Infrastructure |
| M&G | - | Credit Markets |
- 1.3 The Fund's strategic allocation to private equity and alternatives (excluding the allocation to the Baillie Gifford Diversified Growth Fund) is set at 10% of total fund assets.
- 1.4 The attached schedule gives details of the current valuations and commitment levels.

2. SL CAPITAL PARTNERS

- 2.1 SL Capital is a subsidiary of Standard Life Investments, who in turn own 60% of the business. The remaining 40% is owned by 8 partners.
- 2.2 The Fund's overall commitment to SL Capital is €102m, spread across four European Investment Funds – ESP 2004, ESP 2006, ESP 2008 and ESF 1.
- 2.3 Improved macro-economic conditions are starting to create a more positive environment for European Private Equity. Debt availability has increased helping to fund a rising number of buy-outs. Ongoing challenges are however exemplified by the bankruptcy and write off of the Cengage Learning co-investment from ESP 2006.
- 2.4 Distributions from SL Capital remained solid at €1.8m and all funds showed a positive improvement in value over the quarter (except ESF 1 which is still subject to "J" Curve influences). This was against a MSCI Europe Index which fell by 3.2% in the same period.
- 2.5 There was an increase in investment activity with €2.6m called in (£1m in the previous quarter). The majority of this related to ESP 2008, where 3 new co-investments (Axis Well Technology, Sunrise Medical and Unifeeder) were unveiled.

3. WILSHIRE ASSOCIATES

- 3.1 The Fund has made various commitments to Wilshire Associates covering several geographical areas. €10.9m has been committed to European focused funds, \$53.2m to US and \$3.8m to Asia. This does not include the \$15m commitment to Fund IX agreed at the Pensions Committee of 6 June 2013. The first close date of Fund IX has been delayed to early 2014.
- 3.2 In their quarterly update, Wilshire, echoing the sentiments of SL Capital, noted a general upswing in private equity activity, especially in North America, citing increased pricing and greater availability of debt finance as evidence of this.
- 3.3 During the quarter, whilst there were modest deal flows across Wilshire's Euro Funds with only €224k called in and €220k distributed, the US Dollar Funds showed more activity with \$1.3m called in and \$1.9m distributed.

4. INFRASTRUCTURE

- 4.1 The Fund's infrastructure investments are made through an \$80m commitment to the Customised Infrastructure Strategies Fund managed by the Customised Fund Investment Group (CFIG).
- 4.2 CFIG have been active in the third quarter of the year calling in \$6.7m of funds, taking Falkirk's funded commitment to around 66% of its original \$80m commitment. The drawn down funds are to be used for co-investments in South Staffordshire Water and EquiPower .
- 4.3 The transfer of ownership of the CFIG business to Grosvenor Capital Management has had no discernible impact on the Fund's dealings or standards of service delivery from the CFIG team.

5. CREDIT MARKETS

- 5.1 The M&G UK Companies Financing Fund was established in 2009 to provide debt financing to UK companies facing refinancing difficulties. The target return is LIBOR plus 4%-6% (net of fees). The Falkirk Fund's commitment is £11.8m and this has been fully paid to M&G.
- 5.2 Companies receiving loans from the M&G UK Companies Financing Fund include the Stobart Group, Taylor Wimpey and Provident Financial.
- 5.3 Typically these companies do not have a public credit rating so require greater credit and legal analysis by the M&G team. The weighted average rating of the portfolio is BB+.
- 5.4 The Pensions Committee has agreed to invest £10m in the M&G UK Companies Financing Fund II. This Fund is part of the UK Government's Business Finance Partnership (BFP) initiative and has attracted seed capital from HM Treasury and Prudential (M&G's parent company). M&G aim to lend to around 20 companies and will be targeting returns of LIBOR plus 3% - 6%.

- 5.5 The Falkirk Fund has now completed the legal formalities relating to the £10m commitment to the M&G UK Companies Financing Fund II.

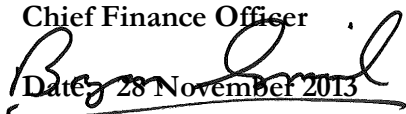
6. CONCLUSION

- 6.1 The investment experience of the Fund's private equity managers continues to indicate that there is greater activity within the US markets compared to Europe, however there are tentative signs that conditions in Europe are improving.
- 6.2 The final due diligence relating to the Fund's £10m commitment in the M&G UK Companies Financing Fund II has taken place and drawdowns are expected to commence shortly.

7. RECOMMENDATION

- 7.1 The Committee is asked to note the progress of the Private Equity, Infrastructure and Credit Markets Programmes as at 30 September 2013.

Chief Finance Officer


Date 28 November 2013

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LIST OF BACKGROUND PAPERS

NIL