

FALKIRK COUNCIL

Subject: UK INFRASTRUCTURE
Meeting: JOINT MEETING OF THE PENSIONS COMMITTEE AND PENSION BOARD
Date: 10 DECEMBER 2015
Author: DIRECTOR OF CORPORATE & HOUSING SERVICES

1. INTRODUCTION

- 1.1 This report provides the Board and Committee with information regarding the Fund's commitment to invest in UK infrastructure with Lothian Pension Fund. This includes an outline of the operating parameters as well as a summary of investments made to date.
- 1.2 The Fund's commitment is £30m, with it being envisaged that monies will be invested in approximately 5 or 6 separate projects to provide appropriate diversification across the portfolio.
- 1.3 Potential investment opportunities are sourced and analysed by the in-house investment team based in Edinburgh. The due diligence process includes preliminary and final investment review meetings to which officers of Falkirk Council are invited. As previously agreed by the Pensions Committee, the final investment decision is made by the Chief Finance Officer on a project by project basis. Whilst the investments are predominantly UK/Scottish, it is noted that some individual projects may contain a small element of continental European exposure.
- 1.4 Attention is drawn to other reports on this agenda which also deal with Infrastructure.

2. OPERATING GUIDELINES

- 2.1 The Fund's UK infrastructure portfolio is being deployed consistently in line with the agreed diversification guidelines as set out below:

Infrastructure risk type	Availability & Regulated	Demand & Market
<i>Examples</i>	<i>PFI schools, gas distribution</i>	<i>Toll roads, ferries</i>
<i>Inflation, price linkage</i>	<i>Contracted</i>	<i>Limited contracted</i>
- allocation range	75-100%	0-25%
Target gross returns	+6.5-12.5%	+11.5-17.5%
Target net real returns	+2.2-6.0%	+5.3-8.0%
Geographical	UK	Europe
- allocation range	80-100%	0-20%
Type of fund	Funds	Co-investments
- allocation range	67-100%	0-33%

Notes:

* Net real returns are estimated assuming inflation of 3% and after management fees and carry.

** Funds may include primary LP commitments, secondary LP fund commitments & listed funds.

An opportunistic investment strategy is to be adopted consistent with the above guidelines

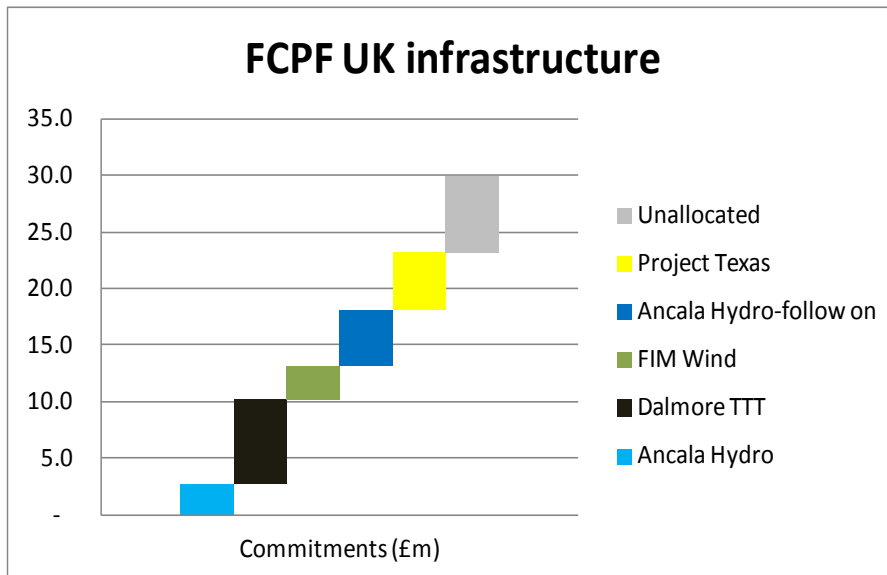
3. SUMMARY OF INVESTMENTS MADE

3.1 During 2015, approximately 150 infrastructure investment opportunities were entered into the deal pipeline, of which 40 were deemed suitable, meeting the Fund's investment strategy criteria. 27 of these opportunities were rejected, while 9 remain in the deal pipeline. 4 investments were completed in 3 new investments and 1 follow-on investment.

3.2 The 3 new investments were:

- all classified under the Availability and Regulated risk type;
- all involved assets in the UK (with 2 investments in Scotland);
- forecast to have target net returns of 7-9% per annum and partially correlated with inflation;
- structured as single asset funds;
- each led by different external specialist managers;
- progressed alongside Lothian Pension Fund

3.3 The build-out of the Fund's portfolio is illustrated below:



3.4 **Ancala Hydro** – relates to a portfolio of Scottish run-of-river projects managed by Perth-based Green Highland Renewables. The investment was sourced and is managed by Ancala Partners founded by Spence Clunie (ex Macquarie) in 2010. The follow-on funding was required to build-out other projects, inc. Eilde Mhor – a loch-sourced scheme near Kinlochleven.

3.5 **Dalmore TTT** – relates to the Thames Tideway Tunnel super-sewerage project currently under construction. The equity investment will be drawn down over a 3 year period. FCPF's commitment was made on the same commercial terms as other larger institutions investing via the Dalmore Fund. Dalmore was founded by Michael Ryan, Ali Ray and John McDonagh in 2009, and have offices based in London and Edinburgh.

- 3.6 **FIM Wind** – relates to a consented wind farm to be built in West Lothian. FIM appointed technical advisers Natural Power who have offices in Stirling. FIM were founded in 1979 by Richard Crosbie Dawson, who leads the firm and remains committed to investing in forestry and renewable energy plants across the UK, and particularly in Scotland. Recent governmental change in energy policy has delayed financial close by 3 months, but the project remains on track.

4. NEW INVESTMENT OPPORTUNITIES

- 4.1 The sourcing pipeline continues to focus on Availability & Regulated infrastructure risk-type investment opportunities, although Demand & Market risk-type infrastructure are still being appraised on their respective merits. The current pipeline of deals is illustrated below:

Opportunity name	Segment	Type	FX	Suitability	Status
Project Arizona	Infrastructure	Primary	£	+LBPF+FPF	Due diligence
Project Texas	Infrastructure	SAF	£	+LBPF+FPF	Due diligence
Project Seabird	Infrastructure	SAF	£	+LBPF+FPF	Early DD
Project Magpie	Infrastructure	Co-invest	£	+LBPF+FPF	Early DD
Project Crystal	Infrastructure	SAF	£	+LBPF+FPF	Idea devt
Project E4	Infrastructure	Primary	£	+LBPF+FPF	Idea devt
Project Moir	Infrastructure	Primary	£	+LBPF+FPF	Idea devt
Project IC6	Infrastructure	Secondary	€	+LBPF+FPF	Shelved
Project Pool	Infrastructure	SAF	£	+LBPF+FPF	Shelved
Project D3N	Infrastructure	Secondary	£	+LBPF+FPF	Shelved

- 4.2 Of note, the Project Arizona follow-on relates to Ancala Hydro, and while the first tranche of funding has completed, a second tranche is due to be funded shortly. Project Texas relates to a portfolio of operational solar projects sourced by Ancala which is targeted to complete by end 2015.

5. CONCLUSION

- 5.1 The portfolio build-out is progressing slightly ahead of plan. By end December 2015, it is projected that there will have been four commitments made amounting to £23.1m. Of this, £10.7m will have been funded and there will be £12.4m of unfunded commitments. There is currently a broad range of new opportunities available for consideration, sourced through existing managers and new prospective managers of UK and European Funds. In addition, there are likely to be opportunities to collaborate with Grosvenor Capital, the Fund's global infrastructure manager.

6. RECOMMENDATION

- 6.1 The Pensions Committee and Pension Board are invited to note the content of this report and comment as appropriate.**

pp **Director of Corporate & Housing Services**

Date: 30 November 2015

Contact Officer: Andrew Imrie, Alastair McGirr

LIST OF BACKGROUND PAPERS

NIL