



AGENDA ITEM

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**PRIVATE EQUITY AND
ALTERNATIVES UPDATE**

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FALKIRK COUNCIL

Subject: PRIVATE EQUITY AND ALTERNATIVES UPDATE
Meeting: JOINT MEETING OF THE PENSIONS COMMITTEE AND PENSION BOARD
Date: 11 MARCH 2016
Author: DIRECTOR OF CORPORATE & HOUSING SERVICES

1. INTRODUCTION

- 1.1 This report updates the Pensions Committee and Board on the progress and key events arising from each Manager's investment programme for the three months to 31 December 2015.
- 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 |
| Hearthstone | - Social and Affordable Housing |
| In House/Lothian | - UK Infrastructure |
- 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. This is split 5% to private equity and 5% to infrastructure.
- 1.4 The attached schedules give details of the current valuations and commitment levels in both the original currencies and summarised in Sterling (Appendices A and B). Appendix C shows the level of calls and distributions over the past 2 years.

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 – all being fund of fund structures. The partnerships have been established for 14 years from the final close of each Fund.
- 2.3 During the quarter (Q4 2015), **€6.2m was returned** from Funds ESP 2004, 2006 and 2008 and **€2.9m was called** from ESP 2008 and ESF I, reducing the overall unfunded commitment to €19m.

- 2.4 Within the portfolio, primary funds again tended to outperform co-investments. Highlights were the sale of Solina (food processing) and the IPO for Attendo (Healthcare). However, the slump in oil and gas prices had an impact on the valuations of Expro and the Harding Group.

3. WILSHIRE ASSOCIATES

- 3.1 The Fund's commitments to Wilshire Associates are as follows:

European Funds	-	<u>€10.9m</u>
Dollar Funds		<u>\$72.0m</u>

- 3.2 Roughly 9% of the Euro funds and 23% of the dollar funds remain to be drawn down.
- 3.3 During the quarter, Wilshire distributed **€1m** (mainly from Euro Funds VII and VIII) and **\$1.7m** from US Funds VI, VII and VIII. Capital calls amounted to **\$0.8m** in respect of the Opportunities Fund and Fund IX. Total value to paid in capital increased marginally to 1.44 from 1.42 last quarter.

4. GROSVENOR CAPITAL

- 4.1 The Fund's global infrastructure mandate comprises a commitment of \$80m to the Customised Infrastructure Strategies (CIS) Fund managed by the Grosvenor Capital Customised Fund Investment Group (CFIG).
- 4.2 During the quarter, the Fund distributed **\$4.4m** and called **\$1.4m**. Total value to paid in capital was unchanged from the previous quarter. The mandate is almost fully invested with only 9% still to be drawn down.
- 4.3 The most significant valuation changes in the quarter related to the Macquarie Korea Growth Private Equity Fund and Macquarie European Infrastructure Fund 1. The latter's portfolio includes AGS Airports who own Glasgow, Aberdeen and Southampton Airports.
- 4.4 At the December meeting, the Pensions Committee agreed to make an \$80m commitment to Grosvenor's second global infrastructure fund ("CIS II"). The decision was taken following discussions at the investment sub group and on the advice of the investment adviser, Hymans Robertson. The partnership agreement relating to CIS II is currently being reviewed by the mutual legal teams.

5. M&G UK COMPANIES FINANCING FUNDS

- 5.1 The M&G UK Companies Financing Funds provide debt finance to companies facing refinancing obstacles. The Funds aim to deliver LIBOR plus 3%-6% with a minimal level of risk.
- 5.2 Falkirk's commitment to the M&G Funds is £11.8m to Fund I and £10m to Fund II. Fund I has been fully invested and Fund II is in the process of being drawn down with unfunded commitments of £6m. In the fourth quarter, the Funds distributed **£1.4m**, mainly from Fund 1. There were no calls within this quarter.

- 5.3 For Fund I, the portfolio consists of 7 loans with an average repayment period of 4 years and average credit ratings of BB+. The loans are spread across the building, utilities, financial and transport sectors. Loans still to be repaid include companies such as Barrett, Taylor Wimpey, Wincanton and Provident Financial. The net annualised return is 4.5%.
- 5.4 For Fund II, the portfolio consists of 8 loans with an average repayment period of 5 years. This includes loans to Caffè Nero, Holidaybreak Limited and Workplace Group plc. The net annualised return is 3.5%.
- 5.5 All loans continue to be paid in accordance with their covenants.

6. SOCIAL AND AFFORDABLE HOUSING

- 6.1 The Committee has made a £30m commitment to Hearthstone Investments to fund Social and Affordable Housing via their Housing Fund for Scotland. The Fund objective is to deliver returns of RPI + 2%.
- 6.2 The Fund's initial investment of £15m has facilitated a building programme of 195 units across the Forth Valley area. This is being supported by local authorities and the Scottish Government. All units are scheduled for completion by 2017.
- 6.3 A separate report has been tabled which considers options for the Hearthstone mandate.

7. IN HOUSE – UK INFRASTRUCTURE

- 7.1 Following the decision of the Pensions Committee at the December meeting, the Fund now has a total commitment to UK infrastructure of £60m through the collaboration with the Lothian Fund.
- 7.2 To date, four commitments have been made to the following projects:
- FIM Harburnhead - £3m towards the construction of a wind farm in the Pentland Hills
 - Ancala Renewables - £7.6m towards a series of small scale hydroelectric plants in the Highlands
 - Dalmore Capital - £7.5m towards construction of the Thames Tideway Tunnel (sewer)
 - Ancala Renewables - £4.6m towards purchase of a portfolio of solar assets across UK
- 7.3 During the recent quarter, two calls were made - **£0.3m** in respect of Ancala Renewables and **£0.5m** to Dalmore Capital. Also within the quarter, an additional commitment of £3.6m was made to the hydro project with Ancala, increasing the total commitment to £7.6m.

8. CONCLUSION

- 8.1 The alternatives portfolio returned 2.93% over Q4 and comfortably outperformed the cash benchmark by around 2.5%.
- 8.2 The alternatives programme continues to evolve across a broad range of diversified asset classes, including private equity, infrastructure and social/affordable housing.

9. RECOMMENDATION

- 9.1 The Pensions Committee and Pension Board are asked to note the progress of the Fund's Alternatives investments as at 31 December 2015 and invited to comment as appropriate.**

pp **Director of Corporate & Housing Services**

Date: 1 March 2016

Contact Officer: Alastair McGirr

LIST OF BACKGROUND PAPERS

NIL

Appendix 1

Falkirk Council Pension Fund Alternative Markets Update - 31/12/15

Alternative Assets Summary - Original Currency

Manager	Fund	Commitment 000's	Unfunded 000's	(a) Cost 000's	(b) Return of Cost 000's	(c) Distrbtn Gains 000's	(d) Market Value 000's	(b + c + d) Total Value 000's	Total Value to Paid in Cap.	Inception Rate of Return	Percentage to be drawn down
Private Equity											
SL Capital Partners	European Strategic Partners 2004	30,000	3,169	26,831	14,506	11,216	10,110	35,832	1.34	6.6%	
SL Capital Partners	European Strategic Partners 2006	30,000	3,078	26,922	12,248	7,727	15,488	35,463	1.32	4.1%	
SL Capital Partners	European Strategic Partners 2008	27,000	5,771	21,229	4,234	3,320	18,483	26,037	1.23	1.5%	
SL Capital Partners	European Smaller Funds I	15,000	7,254	7,746	561	-	6,834	7,395	0.95	-32.1%	
SL Capital Partners Total		€ 102,000	€ 19,272	€ 82,728	€ 31,549	€ 22,263	€ 50,915	€ 104,727			18.9%
Wilshire Associates	Fund VI - Europe	3,600	223	3,377	2,106	1,414	1,318	4,838	1.43	7.8%	
Wilshire Associates	Fund VII - Europe	3,600	170	3,430	1,580	975	1,996	4,551	1.33	2.1%	
Wilshire Associates	Fund VIII - Europe	3,700	610	3,090	1,078	1,105	2,487	4,670	1.51	31.1%	
Wilshire Associates Europe Total		€ 10,900	€ 1,003	€ 9,897	€ 4,764	€ 3,494	€ 5,801	€ 14,059			9.2%
Wilshire Associates	Fund VI - US	14,000	751	13,249	6,360	6,687	6,506	19,553	1.48	7.5%	
Wilshire Associates	Fund VII - US	11,500	523	10,977	4,036	4,697	7,450	16,183	1.47	8.3%	
Wilshire Associates	Fund VIII - US	12,700	603	12,097	4,317	3,569	10,073	17,959	1.48	12.2%	
Wilshire Associates	Fund VII - Asia	1,800	140	1,660	990	715	666	2,371	1.43	8.8%	
Wilshire Associates	Fund VIII - Asia	2,000	1,102	898	419	175	618	1,212	1.35	-8.4%	
Wilshire Associates	Opportunities Fund II-B	15,000	1,780	13,220	7,450	2,728	8,898	19,076	1.44	13.0%	
Wilshire Associates	Fund IX	15,000	11,758	3,242	-	-	3,519	3,519			
Wilshire Associates US and Asia Total		\$ 72,000	\$ 16,657	\$ 55,343	\$ 23,572	\$ 18,571	\$ 37,730	\$ 79,873			23.1%
Infrastructure											
Grosvenor Capital	Customised Infrastructure Strategies	80,000	7,912	72,088	15,071	14,427	62,636	92,134	1.28	9.5%	
Grosvenor Capital Total		\$ 80,000	\$ 7,912	\$ 72,088	\$ 15,071	\$ 14,427	\$ 62,636	\$ 92,134			9.9%
Credit Markets											
Prudential/M&G	UK Companies Financing Fund	11,835	-	11,835	6,184	-	7,669	13,853	1.17	4.5%	
Prudential/M&G	UK Companies Financing Fund II	10,000	6,034	3,966	372	89	3,780	4,241	1.07	3.5%	
Credit Market Total		£ 21,835	£ 6,034	£ 15,801	£ 6,556	£ 89	£ 11,449	£ 18,094			27.6%
Social / Affordable Housing											
Hearthstone plc	Housing Fund for Scotland	30,000	6,850	23,150	-	-	23,150	23,150	1.00		
Social/Affordable Housing Total		£ 30,000	£ 6,850	£ 23,150	£ -	£ -	£ 23,150	£ 23,150			22.8%
UK Infrastructure											
UK Infrastructure	UK Infrastructure	£ 30,000	£ 22,596	£ 7,404	-	-	£ 8,531	£ 8,531	1.15		
UK Infrastructure Total		£ 30,000	£ 22,596	£ 7,404	£ -	£ -	£ 8,531	£ 8,531			75.3%

Appendix 2

Falkirk Council Pension Fund Alternative Markets Update - 31/12/15

Exchange Rates	
\$	1.4339
€	1.2965

Alternative Assets Summary - Sterling

Manager	Commitment £ 000's	Unfunded £ 000's	(a) Cost £ 000's	(b) Return of Cost £ 000's	(c) Distribtn Gains £ 000's	(d) Market Value £ 000's	(b + c + d) Total Value £ 000's	Total Value to Paid in Cap.
SL Capital Partners	78,673	14,865	63,809	24,334	17,172	39,271	80,777	1.27
Wilshire Associates	58,620	12,390	46,230	20,114	15,646	30,787	66,547	1.44
Grosvenor Capital	55,792	5,518	50,274	10,510	10,061	43,682	64,254	1.28
M & G	21,835	6,034	15,801	6,556	89	11,449	18,094	1.15
Hearthstone plc	30,000	6,850	23,150	0	0	23,150	23,150	1.00
UK Infrastructure	30,000	22,596	7,404	0	0	8,531	8,531	1.15
	£274,920	£68,253	£206,668	£61,514	£42,968	£156,870	£261,353	

Allocation to Private Equity
(based on unfunded commitment plus market value) 5.7%

Allocation to Private Equity
(based on market value only) 4.1%

Allocation to Infrastructure
(based on unfunded commitment plus market value) 4.7%

Allocation to Infrastructure
(based on market value only) 3.1%

Appendix 3

Falkirk Council Pension Fund Alternative Markets Update - 31/12/15

Alternative Assets Calls and Distributions - Original Currency

SL Capital	Currency	in '000	2014				
			Q1	Q2	Q3	Q4	Total
	EUR	Capital calls	(2,036)	(1,418)	(1,454)	(3,267)	(8,175)
	EUR	Distributions	1,868	2,070	2,909	7,167	14,014

2015				
Q1	Q2	Q3	Q4	Total
(1,537)	(1,243)	(1,389)	(2,868)	(7,037)
2,426	3,207	5,313	6,198	17,144

Wilshire Associates	Currency	in '000	2,014				
			Q1	Q2	Q3	Q4	Total
	EUR	Capital calls	(36)		(182)	(221)	(439)
	EUR	Distributions	394	767	818	686	2,665
	USD	Capital calls	(546)	(2,172)	(703)	(1,504)	(4,925)
	USD	Distributions	1,505	2,521	2,993	2,095	9,114

2,015				
Q1	Q2	Q3	Q4	Total
(36)				(36)
188	244	342	1,032	1,806
(300)	(889)	(629)	(835)	(2,653)
1,509	2,687	2,763	1,707	8,666

Grosvenor	Currency	in '000	2,014				
			Q1	Q2	Q3	Q4	Total
	USD	Capital calls	(4,470)	(3,008)	(4,916)	(1,316)	(13,710)
	USD	Distributions				7,153	7,153

2,015				
Q1	Q2	Q3	Q4	Total
(2,266)	(239)	(1,615)	(1,393)	(5,513)
920	7,653		4,403	12,976

M&G	Currency	in '000	2,014				
			Q1	Q2	Q3	Q4	Total
	GBP	Capital calls	(580)	(290)	(387)	(290)	(1,547)
	GBP	Distributions		2,220		312	2,532

2,015				
Q1	Q2	Q3	Q4	Total
	(371)			(371)
	331		1,364	1,695

UK Infrastructure	Currency	in '000	2,014				
			Q1	Q2	Q3	Q4	Total
	GBP	Capital calls					0
	GBP	Distributions					0

2,015				
Q1	Q2	Q3	Q4	Total
(4,898)	(1,845)		(887)	(7,630)
		173		173