

The background of the slide features a large, light blue watermark of the City of Vancouver's coat of arms. The crest includes a crown with four maple leaves, a shield divided into four quadrants (top-left: saltire, top-right: stag's head, bottom-left: sailing ship, bottom-right: eagle), and a banner at the bottom with the motto 'CITY OF VANCOUVER' in a stylized font.

# **Agenda Item**

**8**

## **Private Equity and Alternatives Update**

**Falkirk Council**

**Title:** Private Equity and Alternatives Update  
**Meeting:** Joint Meeting of Pensions Committee and Pension Board  
**Date:** 8 December 2016  
**Submitted By:** Director of Corporate and Housing Services

**1. Purpose of Report**

- 1.1 This report updates the Committee and Board on the progress and key events arising from the Fund's Private Equity and alternatives programme for the three months to 30 September 2016.

**2. Recommendation**

- 2.1 **The Committee and Board are asked to note the progress of the Fund's Private Equity and Alternatives programme for the quarter to 30 September 2016.**

**3. Background**

- 3.1 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

- 3.2 The strategic allocation to alternatives is 15% of fund assets, split 5% to private equity and 10% to infrastructure (incl. social and affordable housing). The longer term strategy is to run down the private equity allocation and replace it with other real income generating assets.
- 3.3 Appendices 1 and 2 give details of the current valuations and commitment levels in local currencies and in sterling. Appendix 3 shows the history of calls and distributions over the past 3 years.

**4. SL Capital**

- 4.1 SL Capital is a subsidiary of Standard Life Investments, who own 60% of the business. The remaining 40% is owned by 8 partners.

- 4.2 The Fund's 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. The most juvenile of the Funds – ESF 1 – will be in existence until 2027.
- 4.3 During the quarter (Q3) **€3.2m** was returned and **€1.6m** called, leaving the unfunded commitment at **€16m** (c.16% of the commitment).
- 4.4 Within the unrealised part of the portfolio, there were modest increases in valuations. All four funds outperformed the MSCI Europe index which decreased by 1.8%. Total value to paid-in capital remained at **1.28**.

## 5. Wilshire Associates

- 5.1 The Fund's commitments to Wilshire Associates is spread across 10 separate funds as follows:

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

- 5.2 **7%** of the Euro funds and **20%** of the dollar funds remain to be drawn
- 5.3 During the quarter, Wilshire distributed **€0.3m** and **\$1.3m**. There were no capital calls during the quarters. Total value to paid-in capital was stable at **1.47**.

## 6. Grosvenor Capital

- 6.1 The Fund's global infrastructure mandate comprises a \$160m commitment split equally between two Customised Infrastructure Strategies (CIS) Funds managed by Grosvenor Capital.
- 6.2 During the quarter, the Funds called **\$1.5m** and distributed **\$4m**. Total value to paid-in capital was **1.29**, increasing slightly from the previous quarter due to distributions paid out. The return remains above 10% p.a. Fund 1 is almost fully invested with only **6%** still to be drawn down.
- 6.3 There were generally steady increases in valuations across the portfolio. Highlights included value improvements in the Macquarie European Infrastructure Fund 4, Coriance, a French heating services provider and Eco-Site, a US wireless communications systems developer.
- 6.4 Grosvenor has been invited to present at this quarter's Board and Committee meeting.

## **7. M & G**

- 7.1 The M&G UK Companies Financing Funds provide debt finance to companies facing refinancing obstacles. The target return is LIBOR plus 3%-6% with low risk.
- 7.2 Falkirk's commitment to Fund I is **£111.8m** which has been fully drawn down. During Q3, the Fund distributed **£0.87m**. The Fund consists of 7 loans with an average repayment period of 3.3 years and average credit rating of BB+. The loans are spread across various sectors with companies such as Hogg Robinson, Barrett and Drax. Net annualised return is **4.5%**.
- 7.3 The revised commitment to Fund II is **£4m** all of which has been fully drawn down. There were no distributions in Q3. The Fund consists of 8 loans with an average repayment period of 4.6 years. Loans are spread across various sectors such as Finance, Leisure and Property. The net annualised return is **3.5%**.
- 7.4 Loans from both Funds continue to be paid in accordance with their covenants.

## **8. Hearthstone**

- 8.1 The Fund has made a £30m commitment to Hearthstone Investments to fund Social and Affordable Housing via their Housing Fund for Scotland. The return objective is RPI + 2%. Around **12.8%** of the commitment (i.e. **£3.8m**) remains to be drawn down.
- 8.2 The Fund's initial investment of £15m has facilitated a building programme of 195 units across the Forth Valley area which is being progressed by the Housing Association, Castle Rock Edinvar. Sites are at Bellsdyke, Shieldhill, Coalsnaughton and Raploch.
- 8.3 The £15m originally invested in support of the social housing programme is now being recycled to buy units of affordable housing with these being leased back to the Places for People Group. A capital call of **£3m** was made in the current quarter to secure properties in and around Edinburgh.

## **9. In-House – UK Infrastructure**

- 9.1 The Fund has a commitment of **£60m** to UK infrastructure through its collaboration with Lothian Pension Fund.
- 9.2 As at 30 September 2016, capital has been committed and drawn down for the undernoted six investments:

<b>Investment Partners/Project</b>	<b>Sector</b>	<b>Committed</b>	<b>Drawdown</b>
FIM Harburnhead Wind Farm in the Lothians	Renewables	£3.0m	£3.0m
Ancala Partners Scottish Highlands Hydro Electric	Renewables	£7.6m	£5.7m
Dalmore Capital Thames Tideway Tunnel	Sewerage	£7.5m	£3.9m
Ancala Partners Solar Assets in England	Renewables	£8.4m	£7.8m
Ancala Partners Gas Supply and Distribution Channel Islands and Isle of Man	Utilities	£7.5m	£7.4m

UBS Water & Sewerage Company	Utilities	£6.3m	£6.3m
<b>Totals</b>		<b>£40.3m</b>	<b>£34.1m</b>

- 9.3 During the current (uncompleted) quarter, a further £4.8m commitment has been made in a seventh project, leaving the unfunded commitment at around **£15m**. The new investment is in the pipeline bringing natural gas from around 25 gas fields in the North Sea to the St Fergus terminal in Aberdeenshire. The target return is 8% p.a. net.
- 9.4 A number of other projects with total commitment levels of around £20m are currently being considered or are at various stages of due diligence. A proposal to increase the allocation to infrastructure in collaboration with Lothian to £100m from the existing £60m has been covered in an earlier report at this meeting.

## **10. Conclusions**

- 10.1 The Fund's alternatives programme continues to evolve with private equity funds gradually maturing and infrastructure mandates building up.
- 10.2 Managers remain cautious about the outlook for the global economy being nervous about the ramifications of Brexit and the recent US election.

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## **Appendices**

Appendix 1 – Alternative Assets Summary – Local Currency

Appendix 2 – Alternative Assets Summary – Sterling

Appendix 3 – Calls and Distributions – Local Currency

## **List of Background Papers:**

None

## Appendix 1

### Falkirk Council Pension Fund Alternative Markets Update - 30/09/16

#### Alternative Assets Summary - Original Currency

Manager	Fund	Vintage Year	Currency	Commitment 000's	Unfunded 000's	(a) Cost 000's	(b) Distributions 000's	(c) Market Value 000's	(b + c) Total Value 000's	Total Value to Paid in Cap.	Inception Rate of Return	Percentage to be drawn down
<b>Private Equity</b>												
SL Capital Partners	European Strategic Partners 2004	2004	EUR	30,000	3,083	26,917	30,376	5,746	36,122	1.34	7.8%	
SL Capital Partners	European Strategic Partners 2006	2006	EUR	30,000	2,858	27,142	25,631	10,703	36,334	1.34	6.0%	
SL Capital Partners	European Strategic Partners 2008	2008	EUR	27,000	4,043	22,957	10,508	18,217	28,725	1.25	4.0%	
SL Capital Partners	European Smaller Funds I	2011	EUR	15,000	6,488	8,512	190	8,108	8,298	0.97	-25.1%	
<b>SL Capital Partners Total</b>				<b>€ 102,000</b>	<b>€ 16,472</b>	<b>€ 85,528</b>	<b>€ 66,705</b>	<b>€ 42,774</b>	<b>€ 109,479</b>			16.1%
Wilshire Associates	Fund VI - Europe	2005	EUR	3,600	223	3,377	3,925	1,049	4,974	1.47	8.3%	
Wilshire Associates	Fund VII - Europe	2006	EUR	3,600	153	3,447	2,728	1,812	4,540	1.32	3.6%	
Wilshire Associates	Fund VIII - Europe	2007	EUR	3,700	403	3,297	2,654	2,774	5,428	1.65	32.1%	
<b>Wilshire Associates Europe Total</b>				<b>€ 10,900</b>	<b>€ 779</b>	<b>€ 10,121</b>	<b>€ 9,307</b>	<b>€ 5,635</b>	<b>€ 14,942</b>			7.1%
Wilshire Associates	Fund VI - US	2006	USD	14,000	751	13,249	14,708	5,302	20,010	1.51	8.5%	
Wilshire Associates	Fund VII - US	2006	USD	11,500	482	11,018	10,252	6,106	16,358	1.48	8.9%	
Wilshire Associates	Fund VIII - US	2007	USD	12,700	546	12,154	9,063	9,815	18,878	1.55	13.4%	
Wilshire Associates	Fund VII - Asia	2006	USD	1,800	114	1,686	1,890	580	2,470	1.47	10.2%	
Wilshire Associates	Fund VIII - Asia	2007	USD	2,000	1,099	901	757	485	1,242	1.38	-6.9%	
Wilshire Associates	Opportunities Fund II-B	2008	USD	15,000	1,124	13,876	10,503	9,915	20,418	1.47	14.3%	
Wilshire Associates	Fund IX	2014	USD	15,000	10,086	4,914	458	5,084	5,542	1.13	20.9%	
<b>Wilshire Associates US and Asia Total</b>				<b>\$ 72,000</b>	<b>\$ 14,202</b>	<b>\$ 57,798</b>	<b>\$ 47,631</b>	<b>\$ 37,287</b>	<b>\$ 84,918</b>			19.7%
<b>Infrastructure</b>												
Grosvenor Capital	Customised Infrastructure Strategies	2011	USD	80,000	5,091	74,909	35,684	63,260	98,944	1.32	12.0%	
Grosvenor Capital	GCM Grosvenor CIS II	2016	USD	80,000	70,436	9,564	351	9,575	9,926	1.04	-5.5%	
<b>Grosvenor Capital Total</b>				<b>\$ 160,000</b>	<b>\$ 75,527</b>	<b>\$ 84,473</b>	<b>\$ 36,035</b>	<b>\$ 72,835</b>	<b>\$ 108,870</b>			47.2%
<b>Credit Markets</b>												
M&G	UK Companies Financing Fund	2010	GBP	11,835	-	11,835	7,370	6,904	14,274	1.21	4.5%	
M&G	UK Companies Financing Fund II	2012	GBP	3,966	-	3,966	2,044	2,294	4,338	1.09	3.5%	
<b>Credit Market Total</b>				<b>£ 15,801</b>	<b>£ -</b>	<b>£ 15,801</b>	<b>£ 9,414</b>	<b>£ 9,198</b>	<b>£ 18,612</b>			0.0%
<b>Social / Affordable Housing</b>												
Hearthstone plc	Housing Fund for Scotland	2014	GBP	30,000	3,850	26,150	-	25,454	25,454	0.97	n/a	
<b>Social/Affordable Housing Total</b>				<b>£ 30,000</b>	<b>£ 3,850</b>	<b>£ 26,150</b>	<b>£ -</b>	<b>£ 25,454</b>	<b>£ 25,454</b>			12.8%
<b>UK Infrastructure</b>												
	UK Infrastructure	from 2015	GBP	60,000	25,741	34,259	221	35,461	35,682	1.04	n/a	
<b>UK Infrastructure Total</b>				<b>£ 60,000</b>	<b>£ 25,741</b>	<b>£ 34,259</b>	<b>£ 221</b>	<b>£ 35,461</b>	<b>£ 35,682</b>			42.9%

## Appendix 2

### Falkirk Council Pension Fund Alternative Markets Update - 30/09/16

Exchange Rates	
\$	1.2990
€	1.1559

### Alternative Assets Summary - Sterling

Manager	Commitment £ 000's	Unfunded £ 000's	(a) Cost £ 000's	(b) Distributions £ 000's	(c) Market Value £ 000's	(b + c) Total Value £ 000's	Total Value to Paid in Cap.
SL Capital Partners	88,243	14,250	73,993	57,708	37,005	94,713	1.28
Wilshire Associates	64,857	11,607	53,250	44,719	33,579	78,299	1.47
Grosvenor Capital	123,172	58,142	65,029	27,741	56,070	83,811	1.29
M & G	15,801	0	15,801	9,414	9,198	18,612	1.18
Hearthstone plc	30,000	3,850	26,150	0	25,454	25,454	0.97
UK Infrastructure	60,000	25,741	34,259	221	35,461	35,682	1.04
	<b>£382,073</b>	<b>£113,590</b>	<b>£268,482</b>	<b>£139,803</b>	<b>£196,767</b>	<b>£336,571</b>	

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

Allocation to Private Equity  
(based on market value only) 3.4%

Allocation to Infrastructure  
(based on unfunded commitment plus market value) 8.5%

Allocation to Infrastructure  
(based on market value only) 4.4%



## Appendix 3

### Falkirk Council Pension Fund Alternative Markets Update - 30/09/16

#### Alternative Assets Calls and Distributions - Original Currency

			2014				
SL Capital	Currency	in '000	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

2016				
Q1	Q2	Q3	Q4	Total
(1,357)	(486)	(1,632)		(3,475)
7,066	3,246	3,233		13,545

			2014				
Wilshire Associates	Currency	in '000	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

2015				
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

2016				
Q1	Q2	Q3	Q4	Total
(93)	(93)	0		(186)
92	247	290		629
(1,277)	(949)	0		(2,226)
1,005	1,482	1,311		3,798

			2014				
Grosvenor	Currency	in '000	Q1	Q2	Q3	Q4	Total
	USD	Capital calls	(4,470)	(3,008)	(4,916)	(1,316)	(13,710)
	USD	Distributions				7,153	7,153

2015				
Q1	Q2	Q3	Q4	Total
(2,266)	(239)	(1,615)	(1,393)	(5,513)
920	7,653		4,403	12,976

2016				
Q1	Q2	Q3	Q4	Total
(582)	(9,791)	(1,552)		(11,925)
0	2,174	4,012		6,186

			2014				
M&G	Currency	in '000	Q1	Q2	Q3	Q4	Total
	GBP	Capital calls	(580)	(290)	(387)	(290)	(1,547)
	GBP	Distributions		2,220		312	2,532

2015				
Q1	Q2	Q3	Q4	Total
	(371)			(371)
	331		1,364	1,695

2016				
Q1	Q2	Q3	Q4	Total
0	0	0		0
1,259	442	870		2,571

			2,014				
UK Infrastructure	Currency	in '000	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

2016				
Q1	Q2	Q3	Q4	Total
(7,131)	(8,518)	(4,744)		(20,393)
49	0	0		49