

**FALKIRK COUNCIL**

**Subject: PRIVATE EQUITY AND ALTERNATIVES UPDATE**  
**Meeting: PENSIONS COMMITTEE**  
**Date: 6 MARCH 2014**  
**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 31 December 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                  | - | 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 An improving macro-economic environment and signs of accelerating economic growth in northern Europe are creating a positive background for European private equity. However, while debt availability has improved significantly, a lack of mergers and acquisitions activity in Europe – in contrast to rising levels of activity in the US – has resulted in the total number of all private equity and buy-out transactions remaining at relative lows.
- 2.4 Whilst most of the four SL Capital Funds enjoyed an increase in value of 2% to 3% over the last quarter, this was substantially behind the 8% increase in the MSCI Europe Index over the same period.
- 2.5 A new co-investment – in the Harding Group - was made in ESP 2008 and an initial primary investment made in ESF 1 in the Synova Capital Fund II.

- 2.6 Investment activity over Q4 has remained consistent with that of Q3, with £2.3m called by SL Capital and £2.7m distributed. The majority of this related to ESF I, which has seen its deal flow benefit from the more benign market conditions.

### **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. In the period since the quarter end, the Fund has completed its legal due diligence and has met the 7<sup>th</sup> February first close deadline for Fund IX.
- 3.2 In their quarterly update, Wilshire, express cautious optimism about the global macroeconomic backdrop, and anticipate the continuation of a gradual, sustained recovery. They are concerned that some of the listed public markets – especially in the U.S – have become overvalued and that this could feed through into valuations in private markets.
- 3.3 During the quarter, there were increased deal flows across Wilshire's Euro Funds with €276k called in and €590k distributed. The US Dollar Funds remained much more active with \$382k called in and \$2.6m 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 Although CFIG's investment activity slowed in the fourth quarter of the 2013, calling in \$1.8m of funds. However, there was a marked increase in distributions, with the Fund receiving \$6.8m of which \$3m was recallable.
- 4.3 At the beginning of January, Grosvenor Capital Management completed the acquisition of the CFIG team from Credit Suisse. A healthy flow of distributions and capital calls would appear to be continuing despite the change of ownership.

### **5. CREDIT MARKETS**

- 5.1 The M&G UK Companies Financing Funds provides the Falkirk Fund with exposure to UK credit markets. The objective of these funds is to create attractive levels of income for investors - LIBOR plus 3%-6% - with minimal risk. The funds play a valuable economic role by providing debt finance to UK companies facing refinancing difficulties. 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+.
- 5.2 Falkirk's commitment to the M&G Fund I is £11.8m and this has now been fully invested. The more recently agreed commitment of £10m to Fund II is in the process of being drawn down.
- 5.3 Companies receiving loans from Fund I include the Stobart Group, Taylor Wimpey and Provident Financial. At this time, all loans are being repaid in accordance with their covenants.

- 5.4 In relation to Fund II, loans have recently been made to Caffè Nero, Betfred and Hall & Woodhouse Ltd. Collectively, these companies employ a total of 15,000 employees across the UK underlining the useful role played by the M&G Funds in helping sustain commercial activity.

## **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 During the quarter the Fund, paid its first instalment towards its commitment in the M&G UK Companies Financing Fund II.
- 6.3 Grosvenor Capital Management completed the acquisition of the CFG team from Credit Suisse with the sale taking effect on the 3<sup>rd</sup> January 2014.

## **7. RECOMMENDATION**

- 7.1 **The Committee is asked to note the progress of the Private Equity, Infrastructure and Credit Markets Programmes as at 31 December 2013.**

**Chief Finance Officer**

**Date: 10 February 2014**

**Contact Officer: Alastair McGirr**

### **LIST OF BACKGROUND PAPERS**

NIL