

**FALKIRK COUNCIL**

**Subject: PRIVATE EQUITY AND ALTERNATIVES UPDATE**  
**Meeting: JOINT MEETING OF THE PENSIONS COMMITTEE AND PENSION BOARD**  
**Date: 24 SEPTEMBER 2015**  
**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 30 June 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 |
| Lothian Co-Investments     | - UK Focused 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.

**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 €3.207m was returned from ESP 2004, 2006 and 2008 Funds with the largest distribution from ESP 2006 (€1.6m). Funds drawdown amounted to £1.243m (including €0.837m for ESP 2008). There were no transactions for ESF 1. SL have now drawn down 77% of the total commitment of €102m.

### **3. WILSHIRE ASSOCIATES**

3.1 Over the period The Fund has made various commitments to Wilshire Associates as follows:

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

3.2 90% of the Euro funds and 75% of the dollar funds have been drawndown.

3.3 During the quarter Wilshire distributed €0.081m and \$2.7m (mainly from Fund VII US and Fund VIII US). \$0.97m was called (mainly from Fund VIII US and Fund IX).

### **4. GROSVENOR CAPITAL**

4.1 The Fund's global infrastructure investments are made via a commitment of \$80m to the Customised Infrastructure Strategies (CIS) Fund managed by the Grosvenor Capital Customised Fund Investment Group (CFIG).

4.2 The CIS Fund seeks to generate attractive risk-adjusted returns by investing in a diversified range of infrastructure funds, co-investments and secondaries.

4.3 During the quarter \$7,987 m was returned and \$0.238m called. Distributions were made from transactional activity in Energy Capital Partners II (EquiPower Co-Invest).

4.4 As previously outlined, Grosvenor Capital is fund raising for a second global infrastructure fund. Further reference is made to this in the Strategy Review report.

### **5. M&G UK COMPANIES FINANCING FUNDS**

5.1 The M&G UK Companies Financing Funds provide the Fund with exposure to UK credit markets. The Funds play a valuable role in providing debt financing to UK companies facing refinancing obstacles. The aim of the Funds is to create attractive levels of income for investors – an absolute return of LIBOR plus 3%-6% - with a low 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.

5.3 For Fund 1, the portfolio consists of 8 loans with an average repayment period of 4.3 years and average credit ratings of BB+. Loans have been made to companies such as Barrett, Taylor Wimpey, Wincanton and Provident Financial. Since inception the return was 4.88%

5.4 For Fund II, the portfolio consists of 9 loans but with an average repayment period of 5.7 years. This includes loans to Caffè Nero, Holidaybreak Limited and Workplace Group plc and added in this quarter Nando's UK. Distribution yield for the past year to June was 3.47%

5.5 All loans continue to be paid in accordance with their covenants.

## **6. SOCIAL AND AFFORDABLE HOUSING**

- 6.1 The Committee has agreed to make 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%. In order to deliver the new units in Scotland, Hearthstone is working in partnership with Castle Rock Edinvar, the Edinburgh based Housing Association.
- 6.2 A programme of 195 units in sites at Bellsdyke (62 units), Overton (34 units), Durieshill (60 units) and Alloa (39 units) has been identified by Places for People and confirmed with local authorities and Scottish Government, who are providing an element of central grant to supplement local grant allocations.
- 6.3 Hearthstone identified £2m investment in a new build location in Dalkeith, acquiring the section 75 affordable housing units associated with a Cruden Homes development in the town. Places for People have agreed to operate the units once built and also taken on the development risk, leaving the fund acquiring these units for approximately £106,000 per unit. This compares with an approximate market value in the area for open-market housing of £120,000 per unit. A S75 modification has been agreed in principle with planners such that when the fund wishes to exit the investment at the end of a 10 year period it can sell the homes into the open-market should this be financially beneficial.

## **7. LOTHIAN PENSION FUND CO-INVESTMENTS**

- 7.1 The 5 June 2014 Pension Committee approved the extension of the Fund's collaboration with Lothian Pension Fund to include the sourcing, analysing and proposal of potential infrastructure deals primarily located in the UK/Scotland.
- 7.2 During the quarter the first deals from this agreement were finalised. £1.8m was called in relation to a co-investment with Ancala Partners LLP in an expanding portfolio of small scale hydroelectric plants in the Scottish Highlands.
- 7.3 A second co-investment was finalised in Q2, with £3m called by FIM Wind Energy LP to finance construction of 22 wind turbines near the Scottish Pentlands.
- 7.4 Lothian has indicated that a strong pipeline of deals has been identified, with the potential for further deals to be completed in the coming months.

## **8. CONCLUSION**

- 8.1 The portfolio returned 0.75% over Q2 and outperformed the FTSE 7-Day LIBID Index by +66bps on a relative basis. The portfolio continues to outperform its cash benchmark by comfortable margins across all longer reported performance horizons.

**9. RECOMMENDATIONS**

- 9.1 The Committee and Board are asked to note the progress of the Fund's Alternatives investments as at 30 June 2015 and invited to comment as appropriate.**

pp **Director of Corporate & Housing Services**

**Date: 15 September 2015**

**Contact Officer: Bryan Smail/Justyna Korszen-Bennett**

**LIST OF BACKGROUND PAPERS**

NIL

## Appendix A

### Falkirk Council Pension Fund Alternative Markets Update - 30/06/15

#### 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
<b>Private Equity</b>											
SL Capital Partners	European Strategic Partners 2004	€ 30,000	€ 3,169	€ 26,831	€ 13,447	€ 9,421	€ 12,257	€ 35,125	1.31	5.9%	
SL Capital Partners	European Strategic Partners 2006	30,000	3,361	26,639	10,217	5,183	19,469	34,869	1.31	3.7%	
SL Capital Partners	European Strategic Partners 2008	27,000	7,870	19,130	3,098	934	19,743	23,775	1.24	0.9%	
SL Capital Partners	European Smaller Funds I	15,000	9,129	5,871	0	0	5,357	5,357	0.91	-36.9%	
<b>SL Capital Partners Total</b>		<b>€102,000</b>	<b>€23,529</b>	<b>€78,471</b>	<b>€26,762</b>	<b>€15,538</b>	<b>€56,826</b>	<b>€99,126</b>			23.1%
Wilshire Associates	Fund VI - Europe	€ 3,600	€ 223	€ 3,377	€ 2,106	€ 1,336	€ 1,425	€ 4,867	1.44	7.0%	
Wilshire Associates	Fund VII - Europe	3,600	175	3,425	1,277	710	2,398	4,385	1.28	-0.6%	
Wilshire Associates	Fund VIII - Europe	3,700	616	3,084	799	657	2,840	4,296	1.39	30.1%	
<b>Wilshire Associates Europe Total</b>		<b>€10,900</b>	<b>€1,014</b>	<b>€9,886</b>	<b>€4,182</b>	<b>€2,703</b>	<b>€6,663</b>	<b>€13,548</b>			9.3%
Wilshire Associates	Fund VI - US	\$14,000	\$751	\$13,249	\$5,592	\$5,526	\$7,788	\$18,906	1.43	6.3%	
Wilshire Associates	Fund VII - US	11,500	553	10,947	3,805	4,169	8,340	16,314	1.49	7.2%	
Wilshire Associates	Fund VIII - US	12,700	898	11,802	4,096	2,979	10,081	17,156	1.45	11.4%	
Wilshire Associates	Fund VII - Asia	1,800	144	1,656	938	666	799	2,403	1.45	8.9%	
Wilshire Associates	Fund VIII - Asia	2,000	1,116	884	328	148	771	1,247	1.41	-10.6%	
Wilshire Associates	Opportunities Fund II-B	15,000	12,922	2,078	0	0	2,020	2,020	0.97	11.5%	
Wilshire Associates	Fund IX	15,000	12,842	2,158	0	0	2,270	2,270			
<b>Wilshire Associates US and Asia Total</b>		<b>\$72,000</b>	<b>\$29,226</b>	<b>\$42,774</b>	<b>\$14,759</b>	<b>\$13,488</b>	<b>\$32,069</b>	<b>\$60,316</b>			40.6%
<b>Infrastructure</b>											
Grosvenor Capital	Customised Infrastructure Strategies	\$80,000	\$11,024	\$68,976	\$13,887	\$11,208	\$67,303	\$92,398	1.34	9.0%	
<b>Grosvenor Capital Total</b>		<b>\$80,000</b>	<b>\$11,024</b>	<b>\$68,976</b>	<b>\$13,887</b>	<b>\$11,208</b>	<b>\$67,303</b>	<b>\$92,398</b>			13.8%
<b>Credit Markets</b>											
Prudential/M&G	UK Companies Financing Fund	£11,835	£0	£11,835	£4,943	£0	£8,721	£13,664	1.15	4.5%	
Prudential/M&G	UK Companies Financing Fund II	10,000	6,034	3,966	249	89	3,838	4,176	1.05	3.5%	
<b>Credit Market Total</b>		<b>£21,835</b>	<b>£6,034</b>	<b>£15,801</b>	<b>£5,192</b>	<b>£89</b>	<b>£12,559</b>	<b>£17,840</b>			27.6%
<b>Social / Affordable Housing</b>											
Hearthstone plc	Housing Fund for Scotland	£30,000	£8,450	£21,550	£0	£0	£21,550	£21,550			
<b>Social/Affordable Housing Total</b>		<b>£30,000</b>	<b>£8,450</b>	<b>£21,550</b>	<b>£0</b>	<b>£0</b>	<b>£21,550</b>	<b>£21,550</b>			28.2%
<b>UK Infrastructure</b>											
Ancala	Ancala Renewables LP	£2,750	£917	£1,833	0	0	£1,833	£1,833			
FIM Harburnhead	FIM Harburnhead LP	£3,038	£0	£3,038	0	0	£3,038	£3,038			
		<b>£5,788</b>	<b>£917</b>	<b>£4,871</b>	<b>£0</b>	<b>£0</b>	<b>£4,871</b>	<b>£4,871</b>			15.8%

## Appendix B

### Falkirk Council Pension Fund Alternative Markets Update - 30/06/15

Exchange Rates	
\$	1.5502
€	1.3656

### Alternative Assets Summary - Sterling

Manager	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.
SL Capital Partners	74,692	17,230	57,463	19,597	11,378	41,612	72,588	1.26
Wilshire Associates	54,427	19,596	34,832	12,583	10,680	25,566	48,829	1.40
Grosvenor Capital	51,606	7,111	44,495	8,958	7,230	43,416	59,604	1.34
M & G	21,835	6,034	15,801	5,192	89	12,559	17,840	1.13
Hearthstone plc	30,000	8,450	21,550	0	0	21,550	21,550	1.00
Ancala	2,750	917	1,833	0	0	1,833	1,833	
FIM Harburnhead	3,038	0	3,038	0	0	3,038	3,038	
	<b>£238,348</b>	<b>£59,338</b>	<b>£179,012</b>	<b>£46,330</b>	<b>£29,377</b>	<b>£149,574</b>	<b>£225,282</b>	

Allocation to Private Equity  
(based on unfunded commitment plus market value) 6.1%

Allocation to Private Equity  
(based on market value only) 4.0%

Allocation to Infrastructure  
(based on unfunded commitment plus market value) 3.3%

Allocation to Infrastructure  
(based on market value only) 2.8%