

## NORTH YORKSHIRE COUNTY COUNCIL

## PENSION FUND COMMITTEE

19 MAY 2016

## PRIVATE DEBT MANAGER APPOINTMENT

## Report of the Treasurer

**1.0 PURPOSE OF REPORT**

- 1.1 To update Members on the process of appointing a private debt manager.

**2.0 BACKGROUND AND RECENT EVENTS**

- 2.1 Following a series of workshops in May, July and September 2015, at the PFC meeting on 26 November 2015 Members agreed to launch a search for a private debt manager. During this meeting Members also approved bfinance's involvement in this procurement process. To remind Members, the banking sector has withdrawn to some extent from lending to SMEs. This has created a gap in the market place which a number of investment managers have stepped in to fill.
- 2.2 Officers met with bfinance on 6 April 2016 where they discussed the 23 managers that had submitted documentation following publication of the OJEU notice on 4 January 2016. To remind Members, the criteria of the search was as follows.

Strategy Focus:

- Corporate debt

Return Target:

- Net IRR of 9%+, regular income distributions of 6%+

Type of management:

- Buy-and-hold corporate private debt

Allocation:

- Open to most corporate debt types across senior, unitranche, subordinated and mezzanine investments

- Predominantly focused on northern European markets with limited exposure to southern European markets permitted (Spain, Italy, Portugal and similar)
- No specific requirements in terms of duration/maturity of the loans
- A preference to represent no more than 20% of Fund commitments

Portfolio Diversification:

- Broadly diversified by asset types and sectors, concentration limits relevant to specific type of private debt

During the meeting with bfinance this list was reduced down to 12 managers by analysing the information against predetermined selection criteria.

2.3 In April and May 2016 bfinance carried out more detailed due diligence on the remaining 12 managers. The analysis was discussed with officers on 9 May 2016 and a shortlist of managers was agreed as suitable for interview.

### 3.0 **NEXT STEPS**

3.1 The next stage is to interview the shortlisted managers. There will be 4 interviews and they will all be held on 15<sup>th</sup> July 2016.

3.2 Members may wish to discuss the composition of the evaluation panel but the proposal is that it will comprise a small group of Members, preferably no more than four. Given the nature of this procurement, it is expected that the evaluation panel would report back to the PFC.

3.3 Consideration was first given to this investment opportunity at a time when Government's intentions on pooling were much less clear. Although this report updates Members on the next steps in the procurement process, the fund is not committed to invest until an actual appointment is made. Members may therefore wish to discuss the process in light of pooling developments where arrangements will not be concluded until April 2018.

### 4.0 **RECOMMENDATION**

4.1 Members confirm that they wish the procurement process to continue.

4.2 Members consider the makeup of the evaluation panel.

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11 May 2016