

NORTH YORKSHIRE COUNTY COUNCIL
PENSION FUND COMMITTEE
15 SEPTEMBER 2016
PRIVATE DEBT MANAGER APPOINTMENT
Report of the Treasurer

1.0 PURPOSE OF REPORT

- 1.1 To update Members on the procurement process for a private debt manager and to recommend the appointment of two managers.

2.0 BACKGROUND

- 2.1 At the PFC meeting on 26 November 2015 Members agreed to launch a search for one or two private debt managers to invest around 5% (£120m) of the Fund. 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 To remind Members, the banking sector has withdrawn to some extent from lending to SMEs.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

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 these 12 managers. The analysis was discussed with officers on 9 May 2016 and a shortlist of four managers was agreed as being the most suitable for interview.

3.0 **RECENT EVENTS**

- 3.1 At the PFC meeting on 19 May 2016 Members agreed that Private Debt Evaluation Panel would comprise Cllr John Weighell, Cllr Roger Harrison-Topham, Cllr John Blackie and Cllr Patrick Mulligan.
- 3.2 Interviews hosted by bfinance were held with the four Managers that most closely met the Fund's criteria on the 15 July 2016. The Interview Panel consisted of Councillor Roger Harrison-Topham as Chair and Councillor John Blackie. Cllr John Weighell and Cllr Patrick Mulligan were unable to attend. The Treasurer, officers of the Fund, the Investment Consultant and Independent Advisor also attended the interviews.
- 3.3 The interviews concluded with an evaluation session led by bfinance. This session included a review of whether it is the right time to invest in this asset class, a discussion on the high margins that are available compared to bank rates, and fund liquidity. In conclusion, there was consensus that an investment of 5% of the Fund into Private Debt should go ahead, split equally between 2 managers. A discussion followed on which managers from this very strong field should be selected but no decision was reached by the time the meeting concluded.

3.4 On 18 August 2016 the Interview Panel met again to review the characteristics of each manager and Fund in more detail, to determine which provide the best fit for the Fund. The decision was that Permira and BlueBay represent the best opportunities for the Fund from this very strong field, having contrasting strategies in terms of target company size and the structure of the loans. The Investment Panel therefore decided to recommend to the Committee an investment of 5% of the Fund be made, split equally between these two investment managers.

4.0 **NEXT STEPS**

4.1 Members may wish to discuss the recommendation to invest in Private Debt at the meeting.

4.2 If Members agree to go ahead with investment in Private Debt then funds will need to be found from elsewhere. Officers have discussed options with the Investment Consultant and will provide a verbal update to Members at the meeting.

5.0 **RECOMMENDATION**

5.1 That Members agree to an investment of 5% of the Fund into the Private Debt asset class, split equally between Permira and Bluebay.

5.3 Members to determine the approach to disinvestment from other managers of the Fund to facilitate this new investment.

GARY FIELDING
Treasurer
Central Services
County Hall
Northallerton

6 September 2016