

SURREY COUNTY COUNCIL**PENSION FUND COMMITTEE****DATE: 16 DECEMBER 2022****LEAD OFFICER: ANNA D'ALESSANDRO, DIRECTOR CORPORATE FINANCIAL & COMMERCIAL****SUBJECT: ASSET CLASS FOCUS – PRIVATE MARKETS****SUMMARY OF ISSUE:**

As part of good governance, the Committee periodically reviews the performance of the Fund's investments. There is a further focused review of different asset classes each quarter. This quarter the paper concentrates on private markets.

RECOMMENDATIONS:

It is recommended that:

The Committee note the Fund's private market holdings and commitments, respective funds' investment performance and review from the Fund's independent investment adviser.

REASON FOR RECOMMENDATIONS:

A solid framework of review is required to benefit from this long-term asset category. This is consistent with Fund's strategic investment objectives.

DETAILS:**Background**

1. Private markets are investments made in assets not traded on a public exchange or stock market. This includes private equity, investments made in private companies, or private debt, where investors lend directly to borrowers when there is no market to trade that debt on. A sub-category of investments into infrastructure projects is also broken out.
2. Private markets have experienced rapid growth in recent years. PwC have estimated that assets under management in private markets will expand by between \$4.2-5.5 trillion between 2021 and 2025, to reach between \$13.7-15 trillion in total, to represent more than 10% of global assets under management. Asset owners invest in private markets for a variety of reasons, including targeting superior returns or looking for portfolio diversification. Private markets can offer exposures that are unavailable on listed markets and access to companies throughout their lifecycle. However, fees can be large and opaque and liquidity is significantly reduced.
3. The Fund's private markets exposure is derived through investments in Private Equity, Private Credit and Infrastructure. The latest commitment to the fund range offered by BCPP was £235m to the Climate Opportunities Fund, which is labelled as another sub-category within private markets.

4. The Fund's significant legacy managers are Darwin Alternative Investment Management, Goldman Sachs Asset Management, abrdn (Standard Life), Pantheon, Capital Dynamics and Glennmont.
5. The list of private market investments as at 31 March 2022, based on Fund Manager statements can be found in Annexe 2.
6. All the recent commitments have been made through BCPP. The total commitment to BCPP private markets as at 31 March 2022 was £650m. Since then, there have been further commitments to BCPP of £485m to private equity, credit, infrastructure and climate opportunities making a total sum of £1,135m without currency adjustment. The performance objective for private equity is 10%, for both infrastructure and climate opportunities 8%, and private credit 6%.
7. The target asset allocation of the Fund to private markets is 20%. As at 31 March 2022, the actual allocation was 10.5% (as of 30 September 2022 the actual allocation was 14.5%). The increase in weighting to private markets over the last six months is the result of committed capital being called and the fall in the value of other assets in the fund. Current commitments will move the allocation towards target. Future commitments will be necessary to offset future distributions.
8. Given the time lag between commitment and actual investment, an investment in the BCPP Listed Alternatives Fund was made in February 2022 to act as a proxy for private market exposure. As at 31 March 2022, this investment amounted to 7.6% of the Fund (as of 30 September 2022 the actual allocation was 7.1%). As capital is called and commitments are drawn down, this investment is used as a source of funds with the first redemption in November 2022. Short term funding of £40m was provided by UK Equity Alpha and LGIM Liquidity funds in August 2022.
9. Given the scale and timing of commitments, management of capital drawdowns is an increasingly significant focus regarding liquidity management.
10. The report by the Independent Advisor can be found in Annexe 1. This covers performance and positioning of the current private market investments.

CONSULTATION:

11. The Chair of the Pension Fund has been consulted on the report.

RISK MANAGEMENT AND IMPLICATIONS:

12. Risk related issues are contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

13. Financial and value for money implications are contained within the report.

DIRECTOR OF CORPORATE FINANCE & COMMERCIAL COMMENTARY

14. The Director of Corporate Finance & Commercial is satisfied that all material financial and business issues and possibility of risks have been considered,

and that private markets have been a good performing asset class for the pension fund.

LEGAL IMPLICATIONS – MONITORING OFFICER

15. There are no legal implications or legislative requirements associated with this report.

EQUALITIES AND DIVERSITY

16. The review of the Fund's investment programme will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

17. There are no potential implications for council priorities and policy areas.

WHAT HAPPENS NEXT

18. The following next steps are planned:
 - a. Cash flow analysis of upcoming capital calls and distributions to effectively manage cash
 - b. Continued monitoring of private market holdings with a performance review report to be brought to the committee on an annual basis

Contact Officer:

Lloyd Whitworth, Head of Investment & Stewardship

Consulted:

Pension Fund Committee Chair

Annexes:

1. Summary report from the Fund's Independent Investment Advisor – Annexe 1
2. List of private market investments as at 31 March 2022 – Annexe 2

Sources/background papers:

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