

SURREY COUNTY COUNCIL**SURREY PENSION FUND COMMITTEE****DATE:** 15 DECEMBER 2023**LEAD OFFICER:** ANNA D'ALESSANDRO, DIRECTOR OF FINANCE - CORPORATE AND 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 and the Border to Coast Pensions Partnership (BCPP) Listed Alternatives Fund.

RECOMMENDATIONS:

It is recommended that:

1. The Committee note the Fund's private market holdings and commitments, respective funds' investment performance and review from the Fund's Independent Investment Adviser.
2. Note the Independent Investment Adviser's report on BCPP Listed Alternatives.

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 listed market to trade that debt on. The Fund may distinguish these investments by asset type, for example infrastructure and climate opportunities.
2. 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 significant legacy managers are Darwin Alternative Investment Management, Goldman Sachs Asset Management, abrdn (Standard Life), Pantheon, Capital Dynamics and Glennmont.

4. All the recent commitments have been made through BCPP. The total commitment to BCPP private markets as at 31 March 2023 is £1,185m, including the most recent commitments to Series 2B. The performance objective for private equity is 10%, for both infrastructure and climate opportunities 8%, and private credit 6%.
5. The target asset allocation of the Fund to private markets is 20%. As at 31 March 2023, the actual allocation was 15.1%. Current commitments will move the allocation toward 20%. Future commitments will be necessary to offset future distributions.
6. 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 capital is called and commitments are drawn down, this investment is used as a source of funds with the first redemption in December 2022. During the year to 31 March 2023, the Fund divested £110m from Listed Alternatives. There was also some funding from BCPP UK Listed Equity Alpha and LGIM Liquidity Fund. As at 31 March 2023, the investment in Listed Alternatives was 4.8% of the Fund.
7. Given the scale and timing of commitments, management of capital drawdowns is an increasingly significant focus regarding liquidity management.
8. The report on private markets by the Independent Investment Advisor can be found in Annexe 1.
9. The report on Listed Alternatives by the Independent Investment Advisor can be found in Annexe 2.
10. A table showing all the Fund's commitments, investments and returns as at 31 March 2023 can be found in Annexe 3.

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. 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 of private investment from the Fund's Independent Investment Advisor – Annexe 1
2. Summary report of Listed Alternatives from the Fund's Independent Investment Advisor – Annexe 2
3. Table of private market investments as at 31 March 2023 – Annexe 3

Sources/background papers:

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