Item 8

Pension Fund Investment Sub-Committee

15 June 2015

Listed Infrastructure

Recommendation

That the Pension Fund Investment Sub-Committee approves an increase of £5m to the existing £55m commitment to private infrastructure.

Note: The information in **Appendix A** is not for publication because as it contains information classified as exempt under Schedule 12A of the Local Government Act in that it contains information relating to the business or financial affairs of any particular person (including the Authority holding the information).

1. Introduction

1.1 In March 2014, the Sub-Committee agreed to invest with two infrastructure managers, Standard Life Capital Partners (SLCP) and Partners Group (PG), following interviews with a short list of five managers. This decision was part of an overall objective to increase exposure to alternative assets. The target allocation represents 4% of total Fund assets, now equivalent to approximately £65m based on the Fund's current valuation.

1.2 Since March 2014, the Fund has committed £20m to SLCP, though the manager has not yet drawn down any of the commitment to fund investments. A further £35m commitment was planned for the next PG global programme, investing in infrastructure through primary funds, secondary investments and directly. PG had expected to launch its next fund in late 2014 but this was delayed as the investment programme for its previous fund (which had closed to commitments) was taking longer than anticipated. The documentation for the new PG fund has now been issued and new commitments can now be made.

1.3 However, the increase in value of the total Fund since March 2014 suggests that a larger commitment than £35m is now appropriate, and a commitment of £40m is recommended for the PG fund.

1.4 The Fund retains 2% of assets invested in the State Street UK equity index fund. As the infrastructure allocation is due to be built up at the expense of UK equities, Hymans Robertson have explored what options might exist for using these assets to accelerate the Fund's allocation to infrastructure.

2. Accessing the Asset Class Promptly

2.1 The delay in getting money invested in underlying infrastructure assets has been frustrating, though it is the nature of the investment that the timing of investment is delegated to a degree to the managers themselves. Many sectors of the infrastructure market place are competitive at the moment and managers should not be under pressure to overpay for assets by getting cash invested quickly.

2.2 If the Sub-committee wish to access infrastructure assets in the short term whilst the funds in 1.1 and 1.2 are accessed then there are two main options:

Option A) Consider investing in a third pooled infrastructure fund that can offer more immediate, diversified exposure by already being close to fully invested.

Option B) Consider investing in listed infrastructure securities.

2.3 In regard to Option A Hymans Robertson do not believe there are any attractive funds available at present which offer this option.

2.4 PG does have an alternative fund available that invests only in direct assets. However, there is likely to be significant overlap between the investments made for the direct fund and the direct investments included in their main Global fund in which investment is already planned. This fund is also in early stages and has a very high fee level. Therefore Hymans Robertson researched Option B.

3. Listed Infrastructure

3.1 Hymans Robertson considered using an exposure to listed infrastructure as the "parking allocation" while capital is called from closed-end funds and later, where capital is paid back from closed-ended funds as they disinvest of assets. An initial allocation of 2% could have been made using the assets currently with State Street. The holding would ultimately wind down in future years but might still be retained at a low level to handle cash flows.

3.2 There are four listed infrastructure options available to the Fund without introducing a new fund manager. It would be preferable to consider an existing manager since this would have to be a temporary arrangement. State Street (SSGA) have recently launched a passive vehicle, L&G offer 2 pooled fund options and PG manage an active fund separately from the more illiquid direct approach to which the Fund plans to commit now it is available. Each of these funds satisfied the initial criteria of daily dealing in underlying listed securities.

3.3 **Appendix A** details the four available funds within the existing manager structure along with recommendations from Hymans Robertson.

Background Papers

None

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