

REPORT OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES		
Private Lending Performance Update	Classification PUBLIC	Enclosures One
	Ward(s) affected ALL	AGENDA ITEM NO. 11
Pensions Committee 15th March 2021		

1. INTRODUCTION

- 1.1. This report presents the Committee with an update on the two private lending mandates that it agreed to invest in via Churchill and Premira
- 1.2. It includes an overview of private lending in general and then goes on to look in more detail as to the actual performance to date of both fund managers and the associated mandates.

2. RECOMMENDATIONS

- 2.1. The Committee is recommended to:
 - Note the presentation provided by our investment consultants from Hymans Robertson.

3. RELATED DECISIONS

- Pensions Committee 12 December 2018 - Alternative Credit Strategy Decision

4. COMMENTS OF THE GROUP DIRECTOR, FINANCE AND CORPORATE RESOURCES

- 4.1. This report provides an update on the performance of the two private lending mandates that the Committee agreed to invest in at its meeting on 12 December 2018, including progress on the deployment to date versus the commitment made, an analysis of defaults and borrower stress and the best/worst performers in each mandate.
- 4.2. It is pleasing to note that at this stage both managers appear to be performing broadly as expected and that even over the last year, impacted by the Covid19 pandemic, there have been no defaults from borrowers within either mandate. This is a crucial measure of the success of a private lending manager.
- 4.3. There are no direct financial implications arising from this report.

5. COMMENTS OF THE DIRECTOR OF LEGAL AND GOVERNANCE

- 5.1. The Committee has responsibility for the prudent and effective stewardship of the Pension Fund and a clear fiduciary duty in the performance of its functions. Reviewing the Fund's Investment Strategy following the 2019 actuarial valuation helped to ensure that the Strategy remains appropriate given the funding position and assists the Committee in fulfilling this duty. This review of two of the mandates in which the fund is invested form part of that review and help to inform the Committee's fiduciary duty, ensuring its chosen investments remain relevant to the Fund.
- 5.2. This paper helps demonstrate that the Committee is investing in line with regulations and that it is actively monitoring performance of its chosen fund managers and strategies.

6. PRIVATE LENDING MANDATES

- 6.1. The presentation at Appendix 1 provides an update on the early life performance of the two private lending mandates held by the Fund following its agreement to invest in the US focused Churchill Middle Market Senior Loan Fund II and the European focused Permira Credit Solutions IV Senior Fund.
- 6.2. The presentation includes details of the characteristics of the private lending and then provides specific details regarding the two mandates including funds drawn to date, details of how each manager rates the risk of their borrowers, borrower stress or defaults and the best and worst performers to date within each mandate..
- 6.3. In total, the Committee agreed to commit £170m of fund assets (c10%) to these mandates, although it was noted that final drawdown to these maximum amounts might take upto 3 years. To date, of the £65m committed to the Churchill mandate, c74% of the funds have been drawn down and of the £95m committed to Permira, c54% has been drawn down
- 6.4. Whilst these mandates are still in their early years and not yet fully drawn, it is difficult to provide traditional measures of performance, however those summarised above are good early indicators of performance against expectations.
- 6.5. The conclusion from Hymans is that based on performance so far, both managers are performing as expected, although the deployment of the funds by Permira appears a little slower than might have been expected.
- 6.6. Our investment advisers will be in attendance at the Committee in order to go through the detail of the presentation at Appendix 1 and of course to respond to any queries arising.

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Appendices

EXEMPT Appendix 1 - Private Lending Performance Considerations

By Virtue of Paragraph(s) 3, Part 1 of schedule 12A of the Local Government Act 1972 this appendix is exempt because it contains information relating to the financial or business affairs of any particular person (including the authority holding the information) and it is considered that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.