

London Borough of Hammersmith & Fulham

Report to: Pensions Board

Date: 13/01/2020

Subject: Diversified Private Credit Manager Selection

Report of: Matt Hopson

Summary

The Pensions Sub-Committee agreed at the meeting on 12 September 2019 to reallocate the Pension Fund's 5% allocation to diversified private credit. The current mandate with Partners Group is returning funds to investors and will have dissolved by the end of 2020.

After drawing up an initial longlist of managers that were capable of running such a mandate, this was reduced to a shortlist of two. The Sub-Committee met on 22 October 2019 to interview the two managers, Partners Group and Aberdeen Standard Investments (ASI), to determine their suitability for the mandate.

Both managers put forward compelling cases, and the Sub-Committee decided to appoint ASI to run the Pension Fund's £55m diversified private credit mandate for the reasons set out in this paper.

Recommendations

1. The Pensions Board is requested to note and comment on the report.
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Wards Affected: None

LBHF Priorities

Please state how the outcome will contribute to our priorities – delete those priorities which are not appropriate.

Our Priorities	Summary of how this report aligns to the LBHF Priorities
<ul style="list-style-type: none">• Being ruthlessly financially efficient	Although there are no immediate financial implications arising from this report, investment performance will have an impact on the Council's future employer

	contributions to the Pension Fund and this is achieved via a direct charge to the General Fund.
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Financial Impact

Although there are no immediate financial implications arising from this report, investment performance will have an impact on the Council's future employer contributions to the Pension Fund and this is achieved via a direct charge to the General Fund.

The investment manager fees payable are set out in Appendix 1 to this report.

Legal Implications

The Pensions Sub-Committee has the power to appoint investment managers under its terms of reference.

Units in a pooled investment Fund fall within the definition of securities and financial instruments under the EC Directive 2004/39/EC and Directive 2014/65/EU so as to fall within the exceptions under PCR Regulation 10(1)(e)(i) regarding requirement for an OJEU tender process.

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Background Papers Used in Preparing This Report

None

DETAILED ANALYSIS

1. Proposals and Analysis of Options

- 1.1. The Sub-Committee met with both ASI and Partners Group who presented their diversified credit offerings. Both provided credible options but, on balance, officers are recommending Aberdeen Standard Investments (ASI) for the reasons set in section 2.
- 1.2. The ASI product is the Multi Sector Private Credit Fund.

2. Reasons for Decision

- 2.1. Officers are recommending ASI for the following reasons:
 - The fee quoted is a substantially lower fee.
 - The lower risk lower return profile is more attractive, given the stage of the credit cycle.
 - The portfolio is more diversified across different types of credit, with more real estate and infrastructure debt as opposed to a corporate credit focus.
 - As a seed investor, the Pension Fund has been offered a seat on the Investment Advisory Board.
 - The evergreen nature of the product enables for a smoother long-term investment.

3. Equality Implications

- 3.1. None

4. Risk Management Implications

- 4.1. None

5. Other Implications

- 5.1. None

6. Consultation

- 6.1. None

List of Appendices:

Appendix 1: MAC Manager selection Paper (EXEMPT)

Appendix 2: MAC Shortlisting Paper (EXEMPT)