



City of Westminster

Committee Report

Decision Maker:	PENSION FUND COMMITTEE
Date:	10 March 2022
Classification:	General Release (Appendix 1 is exempt)
Title:	Private Debt Investment Manager Selection
Wards Affected:	All
Policy Context:	Effective control over council activities
Financial Summary:	There are no immediate financial implications arising from this report, although investment performance has an impact on the Council's employer contribution to the Pension Fund (the Fund) and this is a charge to the General Fund.
Report of:	Phil Triggs <i>Tri-Borough Director of Treasury and Pensions</i> ptrigs@westminster.gov.uk 020 7641 4136

1. EXECUTIVE SUMMARY

- 1.1 This paper summarises the approach taken for shortlisting appropriate Private Debt/Direct Lending managers for the Fund. Three suitable investment managers presented to the Pension Fund Committee on 10 March 2022, with the manager appointment decision to be agreed.

2. RECOMMENDATIONS

- 2.1 That the Pension Fund Committee decides and approves:
- The selection of a Private Debt Investment Manager to invest the Fund's 6% allocation.
 - Approve that Appendix 1 to this report is not for publication on the basis that it contains information relating to the financial or business affairs of any particular person (including the authority holding that information) as set out in paragraph 3 of Schedule 12A of the Local Government Act 1972 (as amended).

3. BACKGROUND

- 3.1 At the Pension Fund Committee meeting of 16 December 2021, it was decided to proceed with the selection of a Private Debt investment manager. The mandate will be designated a six percent (circa £112m) asset allocation to be funded from the existing fixed income allocation. The Committee agreed to split the fixed income allocation of 19% amongst LCIV's Multi Asset Credit, Insight's bond fund and the new private debt allocation.
- 3.2 Shortlisted managers have been invited to present to the Pension Fund Committee on 10 March 2022, with a final decision on selection to be taken.
- 3.3 There is a wide range of private debt opportunities available within the current market. These strategies provide loans direct to businesses requiring capital, typically mid-market companies who are unable to raise debt through bond markets. The returns typically consist of an upfront fee and floating rate interest payments, which are usually priced at the Sterling Overnight Index Average (SONIA) rate plus a margin. Private debt instruments usually offer higher yields than traditional fixed income investments. The asset class also provides additional diversification within the fixed income allocation, with returns displaying a low correlation to traditional markets.
- 3.4 Generally, direct lending can be either secured, unsecured or Unitranche.
- Secured debt is backed by an asset, whereby the lender takes ownership of the asset if a default occurs.
 - Unsecured debt is not asset backed and therefore, in the event of default, the lenders' recovery will depend on the debt seniority.
 - Unitranche debt combines a mix of both secured and unsecured debt into one single loan term.
- 3.5 Investing within a Private Debt mandate provides the following benefits to the Fund:
- Diversification from mainstream asset classes, with low correlation to global equity markets.
 - Access to higher yields compared to traditional asset classes.
 - Stable performance throughout market cycles, with a large proportion of returns generated through contractual income.

4. CONSIDERATIONS AND RECOMMENDATIONS

- 4.1 The Fund's investment advisor, Deloitte, has prepared a report on the managers shortlisted for interview, attached in Appendix 1. The purpose of this report is to provide a summary of the managers and strategies considered as part of the selection exercise.

4.2 The following considerations should be taken in regard to a new manager selection:

- **Organisation:** well established track record within asset class, with future commitments.
- **Team and Process:** the team and its experience within the asset class.
- **Credit and default risk:** strong risk management and internal controls, targeting the correct credit space.
- **Fees:** appropriate fees which reflect the quality and risk/return profile of the mandate.
- **Drawdowns:** a strong pipeline of opportunities, so drawdowns take place in a timely manner.
- **Fund restrictions:** restrictions on maximum exposure to certain regions, sectors or credit quality.
- **ESG:** assurances of the ESG credentials and processes within the organisation.

4.3 Under Regulation 10(e) of the Public Contracts Regulations 2015 (the Regulations), any fees or charges in relation to the arrangements or a financial professional service contract proposed the Council's chosen Private Debt Investment Manager is a specific exclusion in relation to financial services in connection with the issue, sale, purchase or transfer of securities or other financial instruments within the meaning of the Financial Services and Markets Act 2000. Therefore, procurement of such financial services is not subject to the rules of the Regulations.

4.4 The Committee is recommended to appoint a Private Debt Investment Manager, as presented at the meeting on 10 March 2022, to invest the Pension Fund's six percent allocation to Private Debt.

If you have any questions about this report, or wish to inspect one of the background papers, please contact the report author:

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BACKGROUND PAPERS: None

APPENDICES:

Appendix 1: Deloitte Private Debt Manager Selection (exempt)