

**COMMITTEE:** PENSIONS COMMITTEE

**DATE:** 29 JUNE 2009

**TITLE OF REPORT:** PRIVATE EQUITY

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1. The Committee have agreed that around 5% of the Fund should be invested in private equity due to the fact that it gives the fund greater divergence of investments in an asset class which is not directly correlated to equities and which offers the opportunity for greater returns.
2. The Committee decided on a Fund of Funds approach, that is to say, rather than invest in a single private equity manager (which would have greater risk implications in terms of deciding upon one manager and getting access to the better funds), the Committee invests in a manager who allocates his funds amongst various private equity managers, thus spreading the risk.
3. In March 2007, the Committee appointed Partners Group as its private equity manager.
4. The Committee will also know that private equity is not an asset class which can easily be valued at any point in time.
5. The investment cycle is one whereby you decide to commit a sum of money; the manager draws down those funds as and when the opportunities arise; and over a period of time you pay fees to the fund manager. Whilst the Fund Manager will value the investment according to their own internal valuation processes, unlike quoted equities which can be sold on any day at a quoted price, you only know the true value of your private equity investment when individual parts are realised and money returned to the Council.

6. Whilst Hymans Robertson will report on the manager's estimate of current value of the investment, in truth we will only see the true value when the investment is fully realised - and even that period is uncertain.

### **Partners Group**

7. Gwynedd Council has committed 85m euro (c £72m) into 3 different Funds with the Group in order to try and get a 5% exposure to private equity. The largest allocation is to the 2006 Global value Fund where we have committed 50m euro . This is the main investment which invests in a range of Private Equity companies. It also invests in secondary investments (buying private equity stakes from those wishing to sell their holdings) and direct investments (where a Private Equity house is looking for a partner to co-finance a particular project and offers that opportunity to its investors). We have also invested directly into their Secondary Fund (15m euros) and their Direct Investment fund (20m euros).
8. As at 31 March 2009 of the £72m approximate commitment Partners Group had drawn down £35.5m.
9. In April two representatives from Partners Group met the Council's officers to discuss the current position of the Fund.
10. The 2006 Global Value Fund has around 98 investment elements and their representatives gave a summary of the current position as follows -

| <b>Partners Group Performance Assessment</b> | <b>%</b> |
|--|----------|
| Above expectation                            | 0.6      |
| As expected                                  | 47.6     |
| Too early to assess                          | 44.1     |
| Below expectations                           | 4.9      |
| Concern                                      | 2.8      |

11. Through the use of secondaries, 9% of the capital contributed has already been distributed to investors. They assess that the Fund is in its value development phase and due to the challenging environment, is currently slightly behind expectations.

12. The Direct Investment element is invested in around 53 individual elements and current assessment can be summarised as follows –

| <b>Partners Group Performance Assessment</b> | <b>%</b> |
|--|----------|
| Strong outperformance                        | 23.9     |
| Moderate outperformance                      | 30.2     |
| As expected                                  | 28.6     |
| Moderate underperformance                    | 11.6     |
| Strong underperformance                      | 5.7      |

13. There have been two early wins in this portfolio giving a 63% internal rate of return, however they assess that the Fund is also currently trading behind expectation.
14. The Secondary Fund has not yet closed. Partners Group expect to be able to take advantage of a shift from a sellers market to a buyers market in 2009 to add significant value to this element of the investment.
15. The above represents a summary of the current position. We will need to consider in future how best to monitor the activity in this field. In this respect I have already raised the issue with Hymans Robertson and we should be able to address the issue at our next investment monitoring meeting.