

## Update on Private Markets Programmes

### Addressee

This note is addressed to the Officers and Pension Committee (“Committee”) of the East Sussex Pension Fund (“the Fund”). It reviews the Fund’s private market investments and discusses the requirement for further commitments over the next year.

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### Background

Despite the LGPS pooling exercise, it is important for the Committee to maintain the Fund’s private markets programme and to continue allocations to regular vintage year funds. Solutions for investing in private equity through the ACCESS Pool may not be available for a few years yet so the need for maintaining private market allocations remains for the Fund.

### Private equity

The Fund established the private equity programme in 2003 and has been committing assets in a gradual way since then. Adams Street and HarbourVest were selected to manage the Fund’s private equity investments in 2003 following an extensive search for suitable “gate keepers”. Private equity investment, given its illiquid, long-term nature, dictates that the Fund will need to maintain a lengthy relationship with these managers requiring extensive due diligence at the outset. We are pleased to report that both managers remain highly rated by our manager research team.

The Fund has an allocation of 5.5% to private equity in its strategic benchmark. As at 30 June 2016, the value invested in private equity amounted to 6.1% of total assets, broadly in line with the strategic benchmark allocation. The gradual investment cycles over which private equity funds tend to operate mean that any target allocation can only be maintained within a broad range.

The portfolio now includes investments in 41 private equity funds, including the specialist allocation to the Cleantech sector via the HarbourVest Cleantech and Cleantech II funds.

### Commitments to date

The table overleaf provides a breakdown of the Fund’s private equity portfolio. As at 31 March 2016, the Fund had committed £319m to these funds (of which approximately £233m has been drawn and invested). The amounts committed to each fund were fixed in either US dollar or Euro terms during the commitment phase of each fund. The committed amount (and the net asset values) will therefore fluctuate with the Sterling exchange rates in both currencies.

The net asset value of drawn down and invested assets was approximately £168m at 31 March 2016, equivalent to 6.1% of the Fund. The value of undrawn commitments was £87m at 31 March 2016. There have also been total distributions equivalent to £159m.

The Fund’s private equity portfolio, after 13 years of investment, has reached the point where its holdings in the more mature funds (vintage year 2003) have drawn down the vast majority of the committed sums and are now in the distribution phase of returning cash to investors. Table 1 shows this; the most mature funds are listed at the top of each section and are characterised by their higher percentage of capital drawn down (fourth column) and higher cash distributions (last column) relative to the initial commitment.

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The more mature funds represent a fairly significant proportion of the Fund's current exposure to private equity. To help counterbalance this expected reduction in exposure to these funds, the Fund has continued to commit to new funds which are more immature and are yet to draw down the majority of commitments.

Manager	Fund	Accounting valuations as at 31/03/2016				
		Commitment (millions)	Outstanding Commitment (millions) <sup>[1]</sup>	Capital Drawdown (millions) <sup>[1]</sup>	Market Value (millions) <sup>[2]</sup>	Cumulative Distributions (millions) <sup>[1]</sup>
Adams Street	2003 Non US Fund	\$32.00	\$1.44	\$30.560	£6.11	\$39.19
	2005 Non US Fund	\$11.00	\$0.54	\$10.456	£3.62	\$8.64
	2007 Non US Fund	\$13.50	\$1.09	\$12.407	£6.83	\$6.97
	2008 Non US Fund	\$11.50	\$2.35	\$9.148	£6.15	\$3.58
	2009 Non US Developed Markets Fund	\$6.75	\$1.84	\$4.914	£2.89	\$1.72
	2009 Non US Emerging Markets Fund	\$1.50	\$0.30	\$1.202	£0.97	\$0.07
	2010 Non US Developed Markets Fund	\$6.70	\$2.05	\$4.650	£2.74	\$1.46
	2010 Non US Emerging Markets Fund	\$1.70	\$0.48	\$1.222	£1.03	\$0.06
	2011 Non US Developed Markets Fund	\$6.00	\$2.12	\$3.876	£2.25	\$1.16
	2011 Non US Emerging Markets Fund	\$1.50	\$0.50	\$0.995	£0.82	\$0.09
	2013 Non US Developed Markets Fund	\$11.50	\$6.80	\$4.704	£3.06	\$0.49
	2013 Non US Emerging Markets Fund	\$2.90	\$1.82	\$1.077	£0.81	\$0.00
	2014 Global Fund	\$29.00	\$18.92	\$10.078	£6.68	\$0.89
	HarbourVest	HIPEP 4 Europe	9.00 €	0.32 €	8.685 €	£1.42
HIPEP 5 Europe		23.40 €	1.17 €	22.230 €	£9.80	21.12 €
HIPEP 6 Europe		22.00 €	5.28 €	16.720 €	£14.05	4.55 €
HIPEP 7 Europe		\$18.50	\$14.85	\$3.654	£2.49	\$0.27
<b>Sub-total non US</b>					<b>£71.74</b>	
Adams Street	2003 US Fund	\$32.00	\$1.60	\$30.400	£8.21	\$35.16
	2007 US Fund	\$11.50	\$0.82	\$10.684	£5.73	\$8.65
	2007 Direct Fund	\$2.00	\$0.11	\$1.887	£1.19	\$2.00
	2008 US Fund	\$9.50	\$1.27	\$8.234	£5.03	\$6.40
	2008 Direct Fund	\$2.00	\$0.13	\$1.871	£1.39	\$1.95
	2009 US Fund	\$6.75	\$1.45	\$5.295	£3.73	\$2.33
	2009 Direct Fund	\$0.75	\$0.05	\$0.701	£0.50	\$0.52
	2010 US Fund	\$8.40	\$2.54	\$5.863	£4.34	\$2.12
	2010 Direct Fund	\$3.40	\$0.27	\$3.135	£2.33	\$1.54
	2011 Direct Fund	\$3.00	\$0.40	\$2.601	£2.38	\$0.94
	2011 US Fund	\$7.50	\$3.12	\$4.376	£3.45	\$0.85
	2013 US Fund	\$14.40	\$8.04	\$6.365	£4.16	\$0.45
	Co-Investment Fund II	\$4.00	\$0.62	\$3.382	£2.18	\$3.68
	HarbourVest	HarbourVest Partners VII - Buyout	\$16.50	\$0.91	\$15.593	£3.90
HarbourVest Partners VII - Mezzanine		\$3.00	\$0.18	\$2.820	£0.59	\$3.02
HarbourVest Partners VII - Venture		\$8.50	\$0.19	\$8.309	£3.30	\$8.98
HarbourVest Partners VIII - Buyout		\$12.00	\$1.02	\$10.980	£4.72	\$9.75
HarbourVest Partners VIII - Mezzanine		\$1.90	\$0.10	\$1.796	£0.57	\$1.56
HarbourVest Partners VIII - Venture		\$4.60	\$0.12	\$4.485	£2.70	\$3.56
HarbourVest Partners IX - Venture		\$11.00	\$2.92	\$8.085	£6.30	\$1.76
HarbourVest Partners IX - Buyout		\$22.00	\$10.29	\$11.715	£7.64	\$2.80
HarbourVest Partners IX - Credit Opps		\$3.50	\$1.56	\$1.943	£1.17	\$0.61
HarbourVest CleanTech		\$23.00	\$1.84	\$21.160	£14.78	\$1.23
HarbourVest CleanTech II		\$32.00	\$22.72	\$9.280	£5.77	\$0.20
<b>Sub-total United States</b>					<b>£96.06</b>	
<b>Total</b>					<b>£167.79</b>	

<sup>[1]</sup> Figures are based on latest available manager's statements to Hymans Robertson and Northern Trust statements

<sup>[2]</sup> Northern Trust 31 March 2016 IFRS valuation figures (all in Sterling terms)

### Further commitments

We propose that the Fund continues to commit to new private equity funds in order to maintain the target allocation. Both Adams Street and HarbourVest launch suitable funds on a regular basis.

We would wish to confirm with the managers the level of commitments which are required – given their expectations of the rate of draw down and distributions from all of the current investments.

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**Adams Street**

The following Adams Street funds are available for investment within the next year.

Fund	Description	Timing	Comments
Global Fund 2016	Adams St's flagship fund of funds ('FoF') including all sub-strategies	2016 Global Fund will close in late November 2016. 2017 Global Fund will open in December 2016.	<b>This is equivalent to the core US / Non-US strategy that the Fund has invested in historically with Adams Street.</b>
US Small Market Buyout	FoF focused on US Small buyouts and co-investments	December 2016	Specialist sub-strategy.
Venture Innovation Fund	FoF focused on venture capital	October 2016	Specialist sub-strategy.
ASP Capital VI	Direct fund focused on venture/ growth equity investments in IT and healthcare	Summer 2017	Specialist sub-strategy
Private Credit Fund	Direct fund focused on diversified US mid-market sponsored transactions. Shorter time frame than other funds.	Second half of 2017	We may consider separately in relation to any allocation to private debt.
GSF 6 Secondaries	Direct secondary transactions.	Launches in 2017.	Specialist sub-strategy

Our preference at this stage is to consider a new commitment to the Global Fund as this is a convenient way of capturing exposure across a range of opportunity areas and is consistent with how the Fund has invested historically with Adams Street.

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### HarbourVest

The following HarbourVest funds are available for investment within the next year.

Fund	Description	Timing	Comments
Fund X Buyout and Venture	US focused. 80% primary investments with the balance secondary and direct co-investments. Targets of \$1.25bn and \$750m respectively.	Late 2016	<b>These are the manager's core US funds.</b>
HIPEP VIII	50% Europe, 35% Asia, 15% ROW. 80% primary investments with the balance secondary and direct co-investments. Target \$1bn	Launches in September 2016.	<b>This is the manager's core non-US fund.</b>
HCF IV – Direct Co-Investment Fund	Global fund, target of \$1.0bn.	March 2017	Specialist sub-strategy
HarbourVest Asia VIII	Asia only. 80% primary investments with the balance secondary and direct co-investments. Target \$400m.	Launches in September 2016. Due to close April 2017.	Specialist sub-strategy
Real Assets III	Global secondaries in real assets (energy, infrastructure agriculture, timber). Target \$500m	December 2016	Separate strategy for alternative assets.
Global Fund 2016	60% US, 30% Europe, 10% Asia. 50% primary, 35% secondary, 15% directs. Target \$400m.	December 2016	-

Our preference at this stage is to focus on the core vehicles – Fund X and HIPEP VIII. The ability to broaden the private equity exposure through more specialist funds might be pursued within asset pooling.

### Infrastructure

The Fund's Infrastructure investment program was established in early 2008. Infrastructure funds operate in much the same way as for a private equity fund in that any target exposure can only be achieved gradually.

The Fund's infrastructure portfolio is much simpler than for the Fund's private equity - it consists of allocations to two funds; the M&G Infracapital Fund and the UBS International Infrastructure Fund. As at 30 June 2016, the infrastructure portfolio formed 1.7% of the Fund's assets, marginally underweight to the Fund's target of 2.0%. Of

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the original £56m committed to the overall portfolio, around £3m is yet to be drawn down by the managers as at the 31 March 2016.

Unlike with private equity, the Fund has not appointed managers to provide a constant supply of eligible fund-of-fund vehicles. Both investments are in direct funds which own underlying infrastructure assets and were invested in on an opportunistic basis. Accessing infrastructure will change significantly once asset pooling is implemented. In the meantime, we will look to recommend any suitable direct funds which will help to maintain the Fund's allocation in the interim.

**Next steps**

We propose that the Committee review the progress of the private market programmes on an annual basis, looking at a summary of outstanding commitments, fund performance and the level of future commitments required (using data supplied by the managers).

We propose asking the managers to provide input on commitment requirements in the short term in order to inform a decision on commitments in 2016.

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August 2016

For and on behalf of Hymans Robertson LLP

**General Risk Warning**

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets.

Exchange rates may also affect the value of an overseas investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.