

PENSIONS COMMITTEE – 20 JULY 2006

PRIVATE EQUITY AND HEDGE FUND MANAGERS - UPDATE

SUMMARY

This report updates Members with the latest position on the appointment of private equity and hedge fund managers.

REPORTED FOR INFORMATION

1. Introduction

At the November 2005 meeting of the Committee the results of the asset liability study were reported. Members agreed a new asset allocation which included 2.5% percent allocations to new investments in each of a fund of private equity funds and a fund of hedge funds. A Manager Appointment Sub-Committee was set up to select managers for the new asset classes from a short list drawn up by officers. The formal minutes of the two meetings of the Sub-Committee in April were presented to the annual meeting of this Committee in May.

2. Current Position

Private equity

Partners Group (UK) Ltd were appointed as fund of funds private equity investment manager. The UK firm is part of the Swiss parent company Partners Group.

The Fund will invest in the "Partners Group Global Value 2006, L.P." which is targeted at a good spread of investments over Europe, USA and Asia and over different stages and type of investment. Negotiations on the detailed legal documentation are at an advanced stage, and it is hoped that final documents will be signed very soon.

Hedge funds

The Sub-Committee decision was to appoint Quellos Europe Ltd as fund of hedge funds investment manager, but this was subject to negotiation on the level of fees and investigation of the costs of disinvestment. Subsequent discussions with Quellos were disappointing and resulted in no reduction to their fee proposals, which incorporated a high level of performance related fees. Officers reported this to each of the three members of the Sub-Committee, and they agreed that discussions should be entered into with the second placed firm RMF Investment Strategies Ltd. These discussions have resulted in a favourable fee offer and contract documentation is now being considered in detail. It is not envisaged that it will be long before this investment agreement can also be concluded.

The contract will be with Man Investments Ltd, a UK company regulated by the Financial Services Authority. The funds will be invested in "RMF Four Seasons Strategies" a fund run by RMF Investment Strategies Ltd, which is also a Swiss company, but is in turn part of the Man Group plc a FTSE 100 company. This

investment covers a wide spread of the different types of hedge fund investment in order to minimise risk.

It is suggested that a further meeting of this Committee is arranged for September to provide Members with more detail on the managers chosen and the products they are investing in on behalf of the fund.

3. Summary of Financial Implications

Investment managers' fees are met by the Pension Fund.

Local Government Act 1972 – section 100d

List of background documents

Bexley London Borough Pension Fund – Investment Strategy Review –
Mercer Investment Consulting - November 2005.

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