

**INVESTMENT SUBCOMMITTEE – 29<sup>TH</sup> APRIL 2015**

**REPORT OF THE DIRECTOR OF CORPORATE RESOURCES**

**RECOMMENDED INVESTMENT IN M & G DEBT OPPORTUNITIES FUND III**

**Purpose of the Report**

1. To provide information in respect of a recommended investment in the M & G Debt Opportunities Fund III (DOF III).

**Background**

2. As part of the Fund's 'Opportunity Pool' allocation, investments have been made into the two previous M & G Debt Opportunities Funds - £35m into the original fund and £40m into DOF II.
3. The intention was that the two existing DOF investments would total 2.5% of Fund assets and it was always thought probable that the original fund would start to return capital before DOF II had been fully drawn. At the time of agreeing the investment in DOF II the total commitment to the two funds was nearly 3% of Fund assets.
4. The original DOF fund became fully drawn in April 2014 (having started to draw capital in September 2012), and DOF II is currently 64% drawn (the first drawdown was July 2014) and is expected to be fully drawn within the next 3 – 4 months.
5. The first DOF fund is now at a stage of maturity that all of the capital and income that it generates is likely to be paid out to investors, and the first distribution (of nearly £5.5m) occurred in February 2015. M & G will provide a presentation to the Investment Subcommittee at today's meeting which will give details about the performance and activity within both of the existing DOF funds, and these have been sufficiently good to suggest that the investment rationale behind the opportunity has been sound and that the manager has the required skills to identify and realise the opportunities that exist. Investors committed to all three Funds are protected against undue risk concentration at a co-mingled level by risk concentration limits set and maintained by M & G.
6. The Debt Opportunity Fund III is almost identical in structure to the previous DOF funds. The investment manager is of the opinion that there remain ample opportunities available to raise another fund with a target return of 15% p.a. and the Pension Fund's investment advisors considers that it remains an attractive investment opportunity. A paper provided by Hymans Robertson is attached as an appendix to this report.

7. The Fund's investments in the previous DOF funds sit within the 'Opportunity Pool' allocation of the strategic asset allocation. Given the expectation that the first fund will be distributing significant sums back to investors over the next two years, and given the success of the strategy, it is considered sensible to commit to DOF III in order to maintain the Fund's intended 2.5% weighting to the strategy. A sum of £40m should be sufficient to maintain the weighting, and the new commitment should be considered as a 'recycling' of the capital being generated from the first fund. Based on the current fund size an investment of £40m is 1.3% of total assets.
8. The Fund's asset allocation to the opportunity pool has been agreed at 4% - 6%, so there is still significant scope to add other investments into the pool. The opportunity pool currently consists of the two DOF investments and a specialist property fund, and other opportunities that are considered attractive will be brought to the ISC when they are identified. The first source of funds for any new opportunities will be the residual c.£30m investment still held with Pictet, so further opportunities will not unduly impact onto the Fund's other portfolios and general cash flows remain sufficiently strong that these are likely to be of use in funding any further opportunity pool investments.
9. **Supplementary Information Informing the Recommendation to approve a £40m commitment to invest in the M & G Debt Opportunities Fund III**

An exempt presentation by M & G informing the proposed investment, which is of a sensitive nature, is included as item 10 on the agenda.

### **Recommendation**

10. The Investment Subcommittee is recommended to approve a £40m commitment to invest in the M & G Debt Opportunities Fund III.

### **Equal Opportunities Implications**

None specific

### **Background Papers**

Investment Subcommittee – 26 March 2014 – Recommended Investment in M & G Debt Opportunities Fund II

[http://politics.leics.gov.uk/Published/C00000919/M00004024/AI00037705/\\$Item6InvestmentinMGDebtOppsfinal.docA.ps.pdf](http://politics.leics.gov.uk/Published/C00000919/M00004024/AI00037705/$Item6InvestmentinMGDebtOppsfinal.docA.ps.pdf)

### **Appendix**

M&G Debt Opportunities Fund III

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