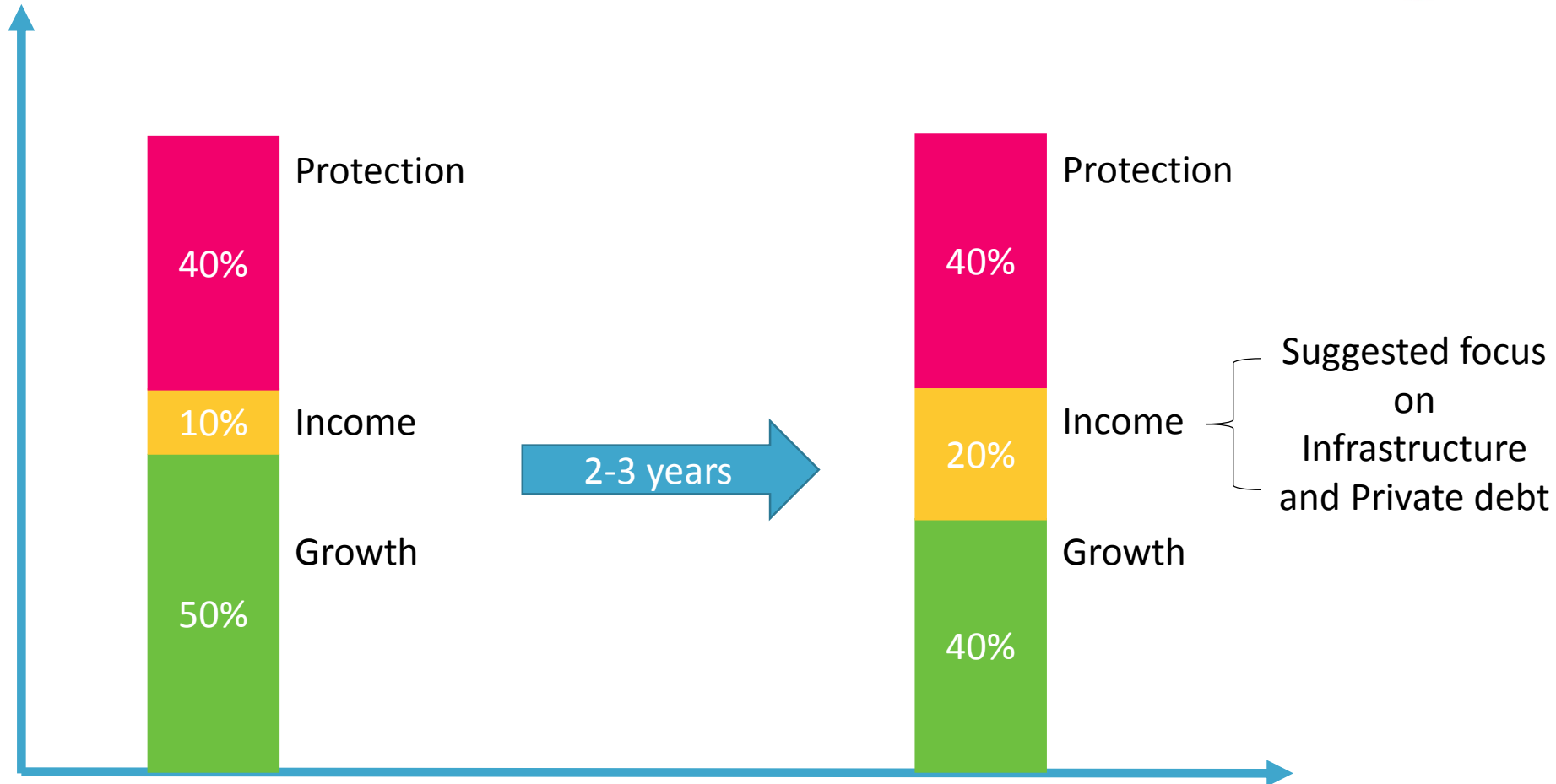


West Sussex County Council Pension Fund

Income asset considerations

- David Walker, Partner
- November 2018

Agreed Strategy



- Target contributions in line with cost of accrual (currently c18%)
- Re-risking trigger at funding level of 85%

What is infrastructure?

Infrastructure assets:

- Essential services
- High barriers to entry
- Assets with monopolistic characteristics
- Predictable, stable returns - less affected by the wider business cycle

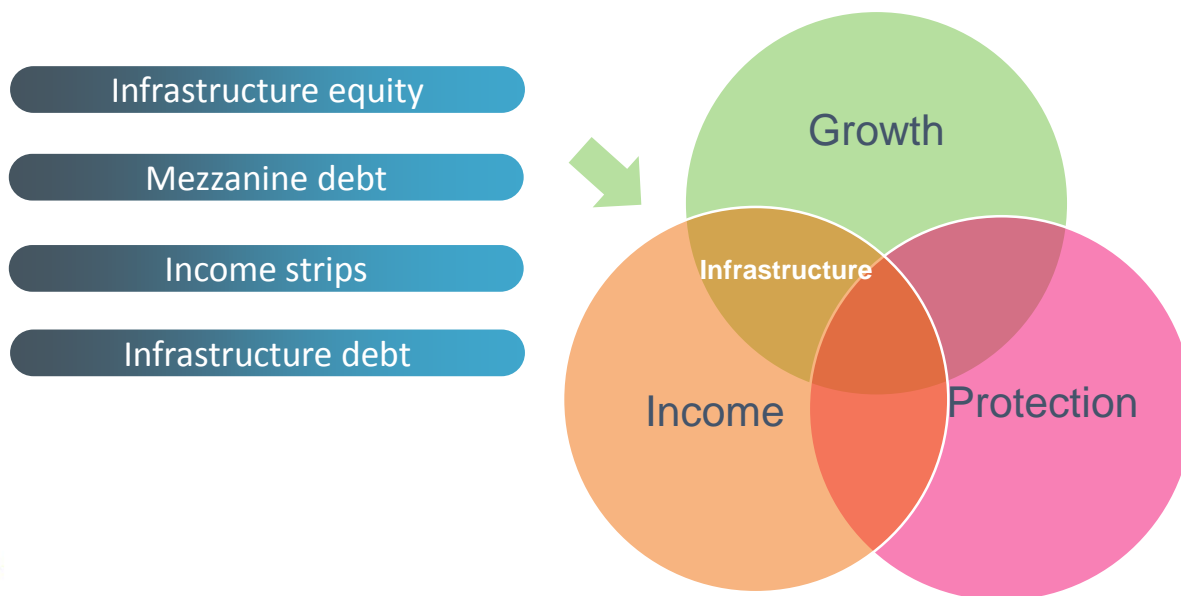
Infrastructure investing:

- Provision of capital to fund infrastructure
- In return for long-term, secure income
- Ideally inflation-linked

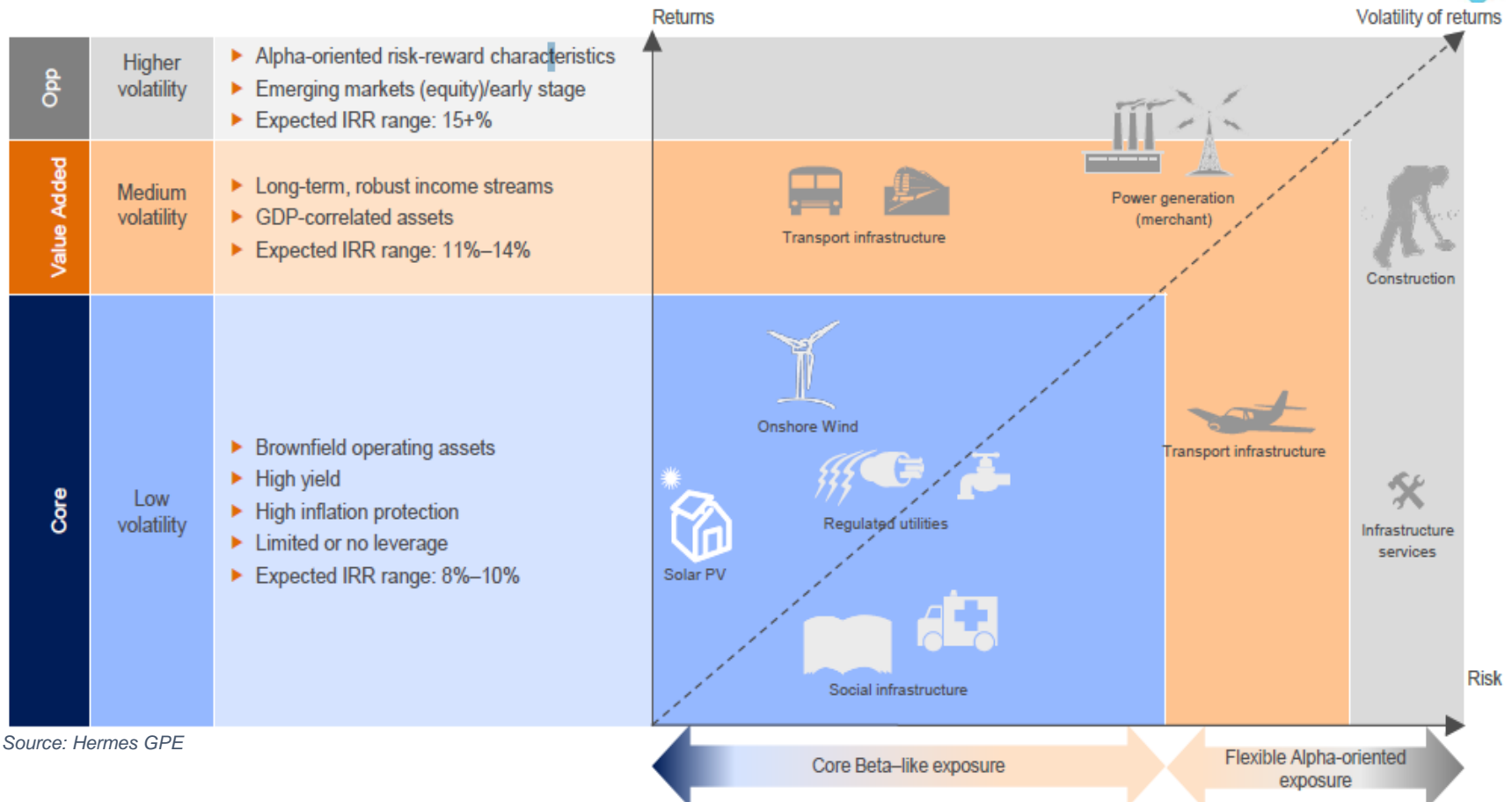
Sector		Examples	NOT Infrastructure
Economic	Energy	Power, pipelines	Gas suppliers
	Water	Water & Wastewater networks	Bottled water supplier
	Transport	Train lines, Toll Roads, Bridges, Ports	Train Operating companies
	Communications	Satellite Towers, Cable Networks	Mobile Phone Networks
Social		Schools, Hospitals	Cafe within hospital

Why invest in infrastructure?

Generate return	Delivers predictable income payments over a period of 10 to 25 years
Diversify/Generate return	Pension schemes are long-term investors and can tie up assets for years. They can therefore exploit illiquidity
Match liabilities	Capture liability-like characteristics within assets, such as inflation linkage



Risk and return



Infrastructure - Investment considerations

Options to consider

Allocation size – what size of allocation has a meaningful impact at Fund level?

Geography – Global or regional (UK) focus

Timescales to invest – what are the options to get money invested

Risk and return objectives/requirements

Investment solution – open or closed ended

Interaction with ACCESS funds and pool solution

What is Private Debt?

Issuer characteristics

- Privately negotiated senior secured lending to sub-investment grade companies, primarily US and European.
- Lending to midsized (£200m - £1bn) companies.
- Loans from c\$10m to \$300m (sometimes larger).

Capital structure

- Debt sits high in the priority ranking order (senior).
- Generally backed by assets (secured).

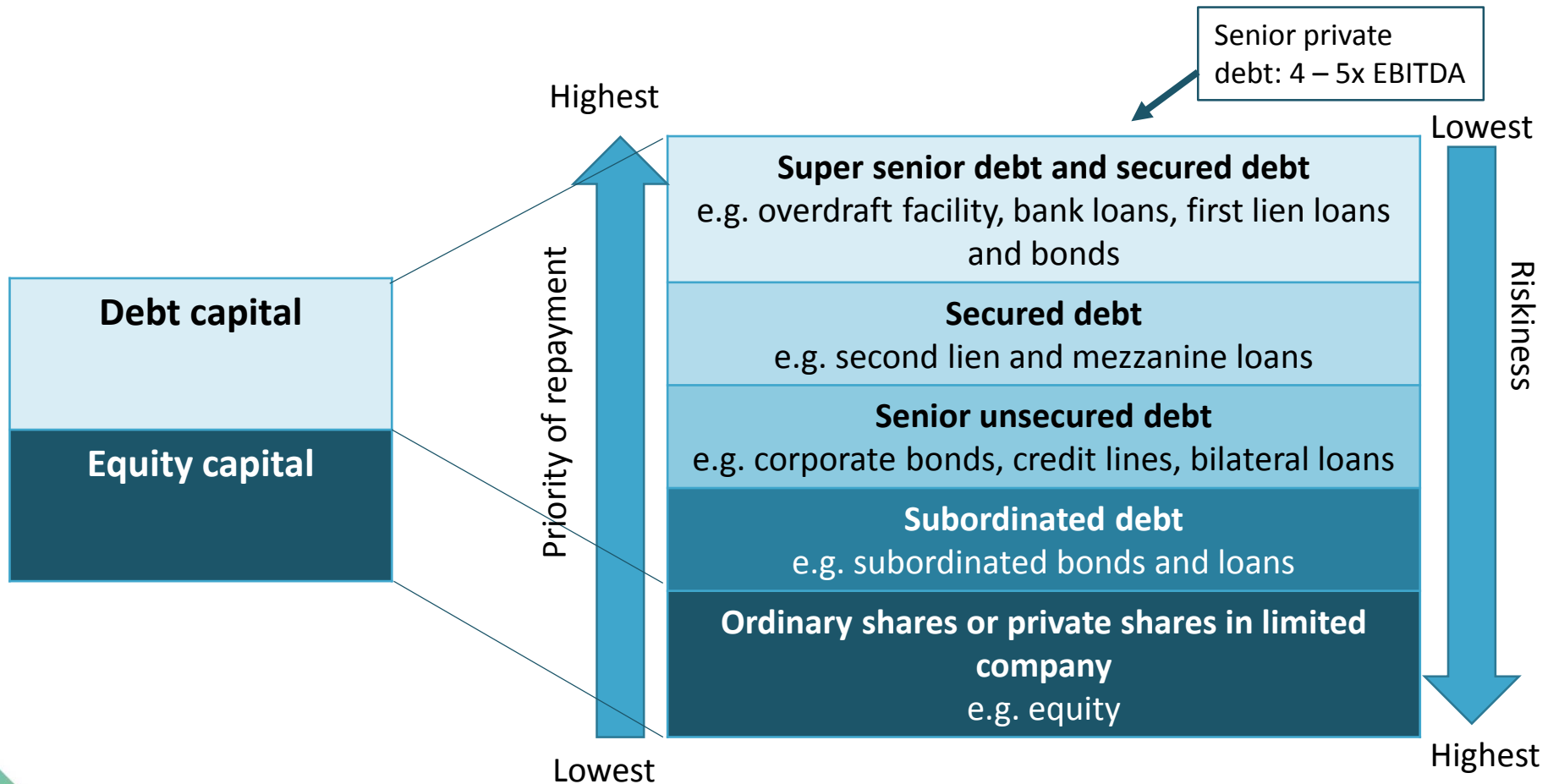
Liquidity/term

- No established secondary market.
- Investment made on a buy and hold basis.
- Term c.4 to 7 years (prepayment, average maturity c. 3 years).

Loan purpose

- Finance company growth, mergers and acquisitions (M&A) and private equity sponsored leveraged buy outs (LBOs).

Private debt: The structure



Private debt: Key features and risks



Characteristics	Risks	Risk mitigation
Private	Credit risk i.e. default	Strong credit underwriting, senior secured in capital structure, covenants, board access, and strong work-out capabilities
Short-medium dated (5 – 10 years)	Prepayment risk	Prepayment penalties
Minimum duration	Implementation risk / sourcing opportunities	Manager reputation, scale, and sourcing network
Illiquid	Liquidity risk	Direct lending is short to medium term and income generative

Enhanced security relative to traditional high yield debt

Private debt - Investment considerations

Options to consider

Allocation size – what size of allocation has a meaningful impact at Fund level?

Geography – Global or European focus

Timescales to invest – what are the options to get money invested

Risk and return objectives/requirements

Investment solution – number of funds, fund of funds, advisory mandate

Interaction with ACCESS funds and pool solution

Thank you

