

WIRRAL COUNCIL

PENSIONS COMMITTEE

27 JUNE 2011

SUBJECT:	PRIVATE EQUITY : PORTFOLIO MONITORING
WARD/S AFFECTED:	ALL
REPORT OF:	DIRECTOR OF FINANCE
RESPONSIBLE PORTFOLIO HOLDER:	
KEY DECISION?	NO

1.0 EXECUTIVE SUMMARY

- 1.1 The purpose of this report is to inform Members of contractual arrangements for the monitoring of the overall Private Equity portfolio of MPF by Capital Dynamics.
- 1.2 The appendix to the report, a letter setting out the terms and conditions under which Capital Dynamics will monitor the overall private equity portfolio of MPF contains exempt information. This is by virtue of paragraph(s) 3 of Part 1 of Schedule 12A of the Local Government Act 1972, i.e. Information relating to the financial or business affairs of any particular person (including the authority holding that information).

2.0 RECOMMENDATION

- 2.1 That Members note the letter contained in the appendix to this report which sets out the contractual arrangements through which Capital Dynamics will conduct monitoring.
- 2.2 This is being implemented through an agreement between the independent trustees of the Capital Dynamics Merseyside Private Equity Fund, Capita Trust Company and Capital Dynamics who are the managers of this fund.

3.0 REASON FOR RECOMMENDATION

- 3.1 The purpose for this recommendation is to comply with Audit Commission recommendations from the 2009/10 Annual Governance report.

4.0 BACKGROUND AND KEY ISSUES

- 4.1. The letter included in the Exempt agenda sets out the agreement between Capita Trust Company and Capital under which Capital Dynamics will provide services to MPF as the sole owner of the Capital Dynamics Merseyside Private Equity Fund (CDMPEF).

4.2 Members will be aware that MPF has a long standing private equity programme and that Capital Dynamics play a major part in this programme, both as a key manager and as an adviser and providing key support services including valuations and performance analysis plus reconciliations of cash flows. There is a particular way in which this relationship is structured.

- Investments made by MPF into underlying Capital Dynamics funds are made through the vehicle Capital Dynamics Merseyside Private Equity Fund
- Capita Trust Company are the trustee for this vehicle and provide custody and administration services
- MPF is the owner of Capital Dynamics Merseyside Private Equity Fund. This represents approximately 40% of MPF's private equity investments.
- Capital Dynamics is the manager of Capital Dynamics Merseyside Private Equity Fund.
- Capital Dynamics provides MPF with portfolio monitoring services including reporting and advice on the CDMPEF and the portfolio as a whole and in particular how the two combine.

4.3 The following is an extract from the Audit Commission 2009/10 Annual Governance report.

- *The Pension Funds private equity valuation process relies on monitoring undertaken by Capital Dynamics Ltd under an arrangement dating back to 1991. Our review of the contract has identified that:*
- *The contract is with Crossroads Management UK Ltd - this is a predecessor*
- *It specifies an annual charge of £52,500 for the service provided - no such payment has been made for many years (probably 10 years+)*
- *The service to be provided relates to advising on strategy and investments, and monitoring progress.*
- *This monitoring was to be based on managers' reports and the Crossroads database there is no specific valuation service specified*
- *The Pension Fund has confirmed that the current arrangements are unchanged from those specified in the 1991 document.*
- *The service provided by Capital Dynamics Ltd is limited in terms of assurance for valuation of the portfolio and is inadequate, both because of the uncertain legal status of the contractual arrangements and the scope of the service provided.*

4.4 Following the audit the following recommendation was agreed.

- *The Pension Fund should review the contractual arrangements with Capital Dynamics Ltd if it continues to place reliance upon the valuation of the private equity portfolio.*

4.5 Discussions have taken place with Capital Dynamics to formalise the arrangements under which they provide certain services. Following negotiations it was agreed that the best way to implement this was through the letter in the exempt part of the agenda.

5.0 RELEVANT RISKS

5.1 There are risks of non compliance with best practice in the production of accounting information if arrangements with Capital Dynamics are not formalised.

6.0 OTHER OPTIONS CONSIDERED

6.1 Not relevant for this report.

7.0 CONSULTATION

7.1 Not relevant for this report.

8.0 IMPLICATIONS FOR VOLUNTARY, COMMUNITY AND FAITH GROUPS

8.1 There are no implications arising directly from this report.

9.0 RESOURCE IMPLICATIONS: FINANCIAL; IT; STAFFING; AND ASSETS

9.1 There are no implications arising directly from this report.

10.0 LEGAL IMPLICATIONS

10.1 There are no implications arising directly from this report.

11.0 EQUALITIES IMPLICATIONS

11.1 There are no implications arising directly from this report.

12.0 CARBON REDUCTION IMPLICATIONS

12.1 There are no implications arising directly from this report.

13.0 PLANNING AND COMMUNITY SAFETY IMPLICATIONS

13.1 There are no implications arising directly from this report.

REPORT AUTHOR: Paddy Dowdall
Investment Manager
telephone: (0151) 242 1310
email: paddydowdall@wirral.gov.uk

APPENDIX - Exempt Letter

REFERENCE MATERIAL

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
Pensions Committee Private Equity I	23 March 2011
Pensions Committee Audit Commission Annual Governance Report	13 September 2010
Pensions Committee Private Equity Investment	23 March 2010
Pensions Committee Private Equity	18 June 2009
Pensions Committee Private Equity Investment	24 June 2008