



**Pension Fund Sub Committee**  
30 November 2010

**Report from the Director of  
Finance and Corporate Services**

Wards Affected:  
ALL

**Fauchier Partners – proposal to join the Jubilee Special Situations Fund**

**1 Summary**

- 1.1 This report examines a proposal from Fauchier Partners that the Brent Pension Fund invests in the Jubilee Special Situations Fund.

**2 Recommendations**

- 2.1 Members are asked to agree to invest 2% of the Fund (£9m) in the Jubilee Special Situations Fund, taking the money from existing investment in the Jubilee Absolute Return Fund.

**3.0 Detail**

- 3.1 Currently, Brent has committed 10% of the Brent Pension Fund to the Jubilee Absolute Return Fund (JARF) managed by Fauchier Partners. The initial investment (£18m) was made in March 2005, with a further £16m in 2009. The investment is currently valued at £41m. Apart from September / October 2008, JARF has delivered steady returns of 2.3% above LIBOR – below the 4% target, but above equity returns in the same period. JARF invests in a number of strategies and managers (around 30).
- 3.2 The credit related crisis since 2007 has highlighted a number of investment opportunities where companies have defaulted on debt, or are in financial or operational difficulties, or are seeking new investment capital, or whose bonds are trading at distressed prices in the market. In these situations, specialist managers can work with management / other interested parties to realise value for investors. For example, managers can help companies go private, or facilitate takeovers or restructurings.
- 3.3 Such distressed credit opportunities have arisen in past cycles. For example, Fauchier report that in the 3 years following the WorldCom default in 2002, their specialist credit managers generated an average compound return of 19% per annum. Fauchier believe that there will be increasing opportunities over the next four years as leveraged and high yield loans mature and need to

be refinanced. Further, skilled managers can control the process by driving restructurings and being active shareholders. The more stringent rules surrounding bank trading (the Volcker rules in USA) may hamper banks from participating in the purchase of securities.

- 3.4 Fauchier have suggested that Brent invest in their Jubilee Special Situations Fund, both to improve returns and to increase diversification. The Fund will invest with 15 top quality managers chosen on the basis of their research, sourcing of opportunities, ability to identify undervalued situations, knowledge of processes and experience of driving change. The main opportunities are arising in USA and Asia, but not much in Europe. Fauchier have met all the managers, keep them under regular review (weekly information), and have known them for some time (at least 18 months). Within Fauchier, the process will be controlled by the Investment Committee and two experienced analysts. The processes within Fauchier should allow managers to benefit from opportunities while maintaining downside protection. The new Fund will be around \$220m, and Fauchier will commit \$30m of its own resources (including individual investments).
- 3.5 However, there are additional risks attached to investment in the Special Situations Fund. These include:-
- a) The Fund was originally launched in 2007, just before the credit crisis broke, and did badly. The investments made were more similar to private equity than hedge fund investments. The existing underperforming assets have been 'side-pocketed', so that they are allocated to existing investors rather than new investors. The restructured Fund will be more within the hedge fund area of competence.
  - b) The situations in which the Fund will exist are more risky and volatile than the average in JARF, which are spread across a number of different strategies. However, distressed debt investment is expected to be less volatile and less risky than equity investment – distressed debt has an annual volatility of around 7%, JARF below 6%, but equities around 15% per annum.
  - c) If required, there is a longer notice period to exit the Fund. There is a one year lock up period, thereafter investors can exit quarterly after giving 120 business days notice.
- 3.6 Fauchier are keen that Brent join the Special Situations Fund, and have agreed that Brent will pay a similar fee to that paid in the JARF. It is recommended that Brent invest 2% of the overall Brent Fund in the new Special Situations Fund (around £9m), taking the money from the existing JARF.

#### **4.0 Financial Implications**

- 4.1 These are outlined within the report.

#### **5.0 Staffing Implications**

- 5.1 There are no staffing implications.

## **6.0 Legal Implications**

6.1 There are no legal implications.

## **7.0 Diversity Implications**

7.1 The proposals in this report have been subject to screening and officers believe that there are no diversity implications.

## **8.0 Background Information**

Paper from Fauchier Partners on the Special Situations Fund – November 2010.

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