



London Borough of Lewisham Pension Fund

UKCFF update

February 2015

A **PRUDENTIAL** Company



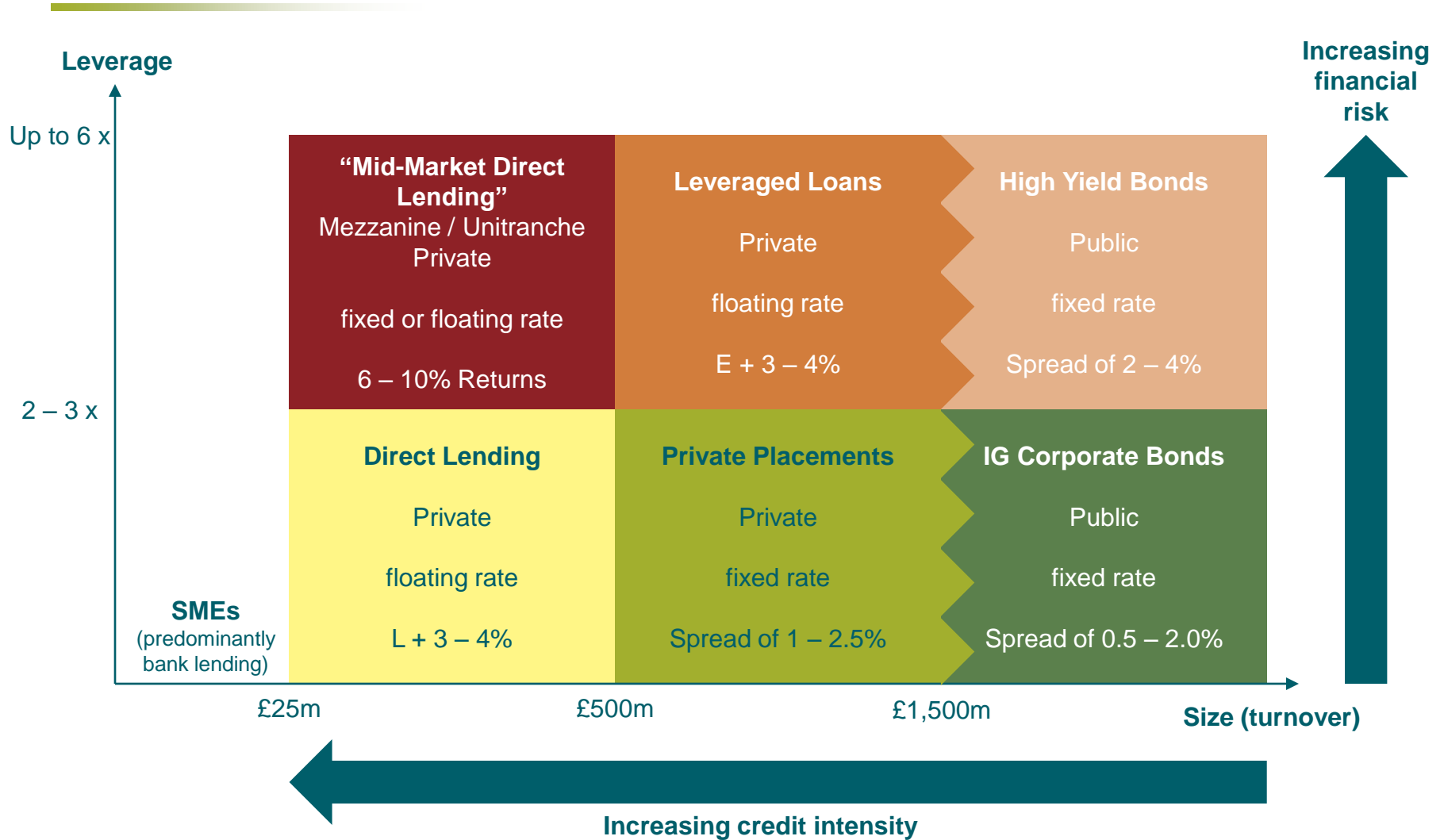
UK Companies Financing Fund

UK Companies Financing Fund

A reminder of the strategy

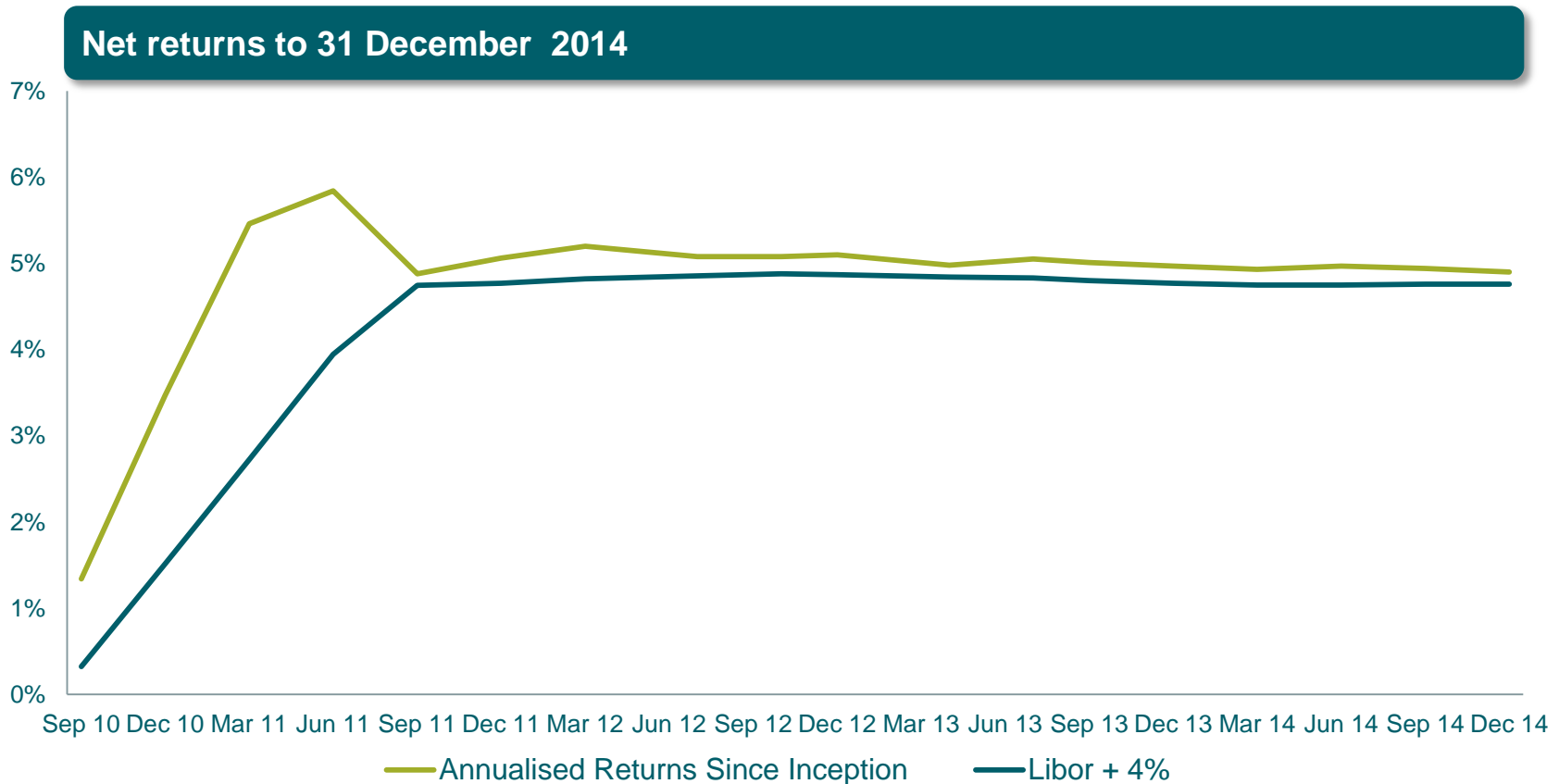
- UKCFF I was the first fund of its kind launched in 2009
- The fund was set up to provide medium to long term debt financing to mid-cap UK companies through bilateral senior loans
- The objective of the Fund is to create attractive levels of current income for investors, while maintaining relatively low volatility of Net Asset Value
- The fund made a total of £930m floating rate loans to mid-sized UK companies.

Non-bank corporate financing map



UK Companies Financing Fund I

Fund performance vs benchmark



- The weighted average spread is currently 430bps
- The annualised returns since inception are 4.90% and the portfolio has a weighted average life of 4.8 years



UK Companies Financing Fund I

Performance

Key performance metrics

The investment objective of the Prudential/M&G UK Companies Financing Fund LP is to seek to maximise returns, consistent with prudent investment management. The Fund aims to provide an absolute net return of Libor +4-6%

Valuation date	NAV (£)	Distributions	Quarterly return (%)	YTD (%)	Since inception (%)
30/09/2011	612,938,295	0	0.80%	3.50%	4.88%
30/12/2011	684,549,877	12,000,000	1.35%	4.94%	5.06%
31/03/2012	820,361,221	0	1.39%	1.39%	5.20%
02/07/2012	837,004,922	22,860,598	1.15%	2.56%	5.08%
01/10/2012	847,386,314	0	1.24%	3.83%	5.08%
31/12/2012	938,642,055	19,861,515	1.28%	5.16%	5.10%
02/04/2013	948,574,953	0	1.06%	1.06%	4.98%
01/07/2013	836,213,732	125,045,081	1.34%	2.41%	5.05%
30/09/2013	845,661,689	0	1.13%	3.57%	5.01%
31/12/2013	835,881,861	19,364,418	1.13%	4.75%	4.97%
31/03/2014	844,945,773	0	1.08%	1.08%	4.93%
30/06/2014	685,007,909	169,839,598	1.35%	2.43%	4.97%
30/09/2014	692,452,855	0	1.09%	3.56%	4.94%
31/12/2014	684,542,363	15,122,985	1.04%	3.46%	4.90%

Portfolio update

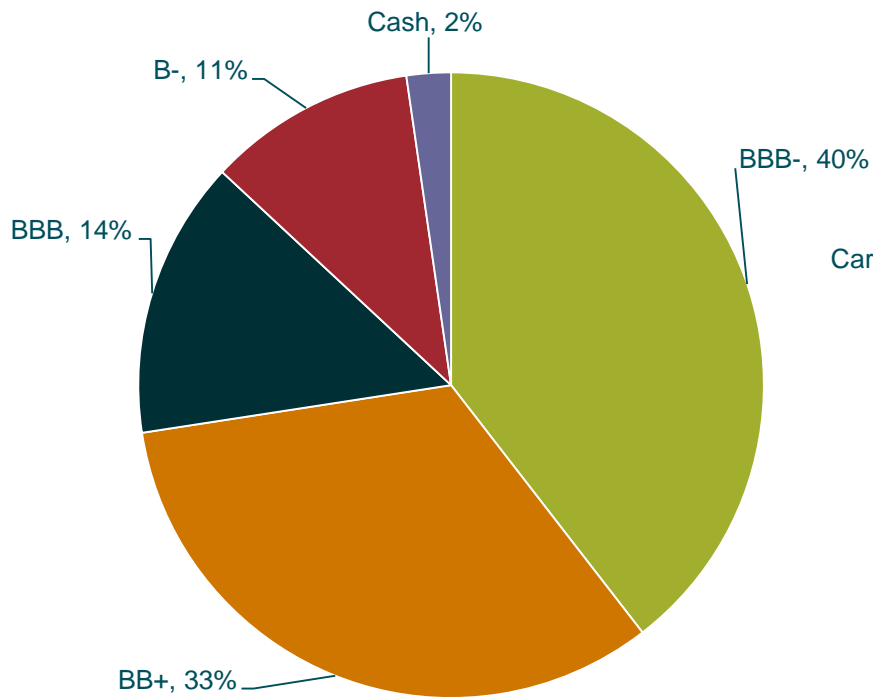
Portfolio continues to perform in line with expectations

- Weighted average spread on the portfolio is 437bps, weighted average life is 4.8 years and weighted average credit rating is BB+
- At the semi-annual review in June 2014, Hogg Robinson was upgraded from B to B+. This reflects improvements in operating margin, cash flow generation and net debt
- Barratt Developments and Taylor Wimpey were upgraded from BB+ to BBB- following improved LTVs and strong underlying operating performance
- There were no prepayments on any of the loans in the fourth quarter

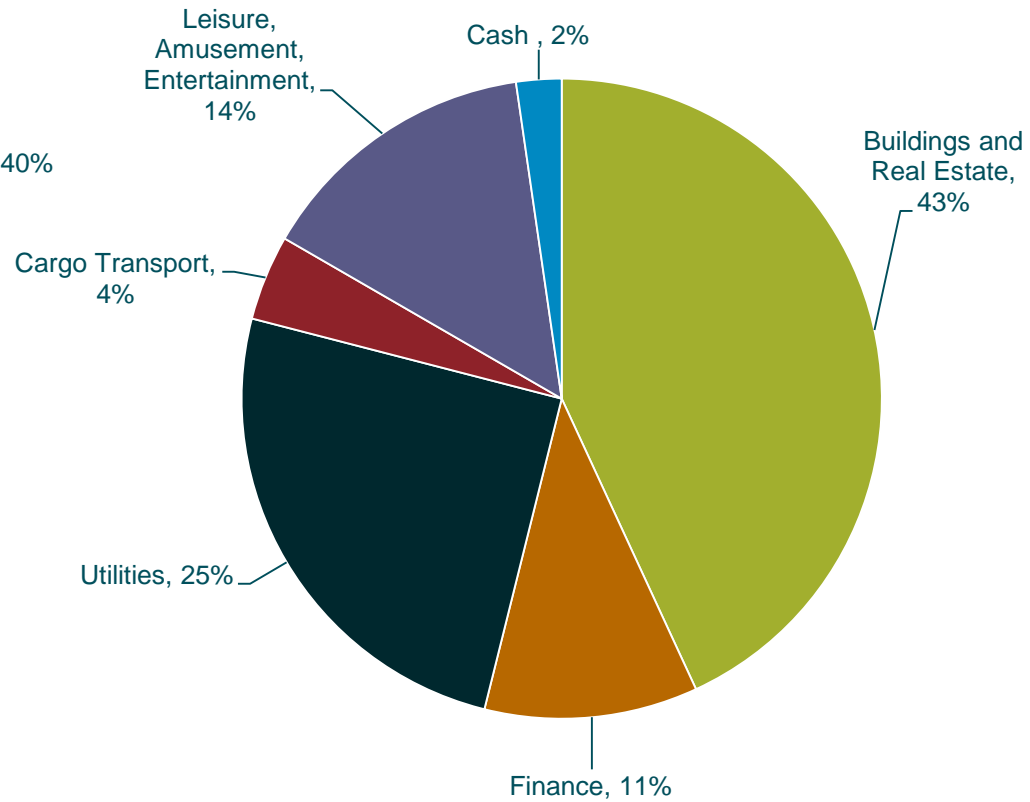
UK Companies Financing Fund I

Current portfolio

Credit ratings



Industry split



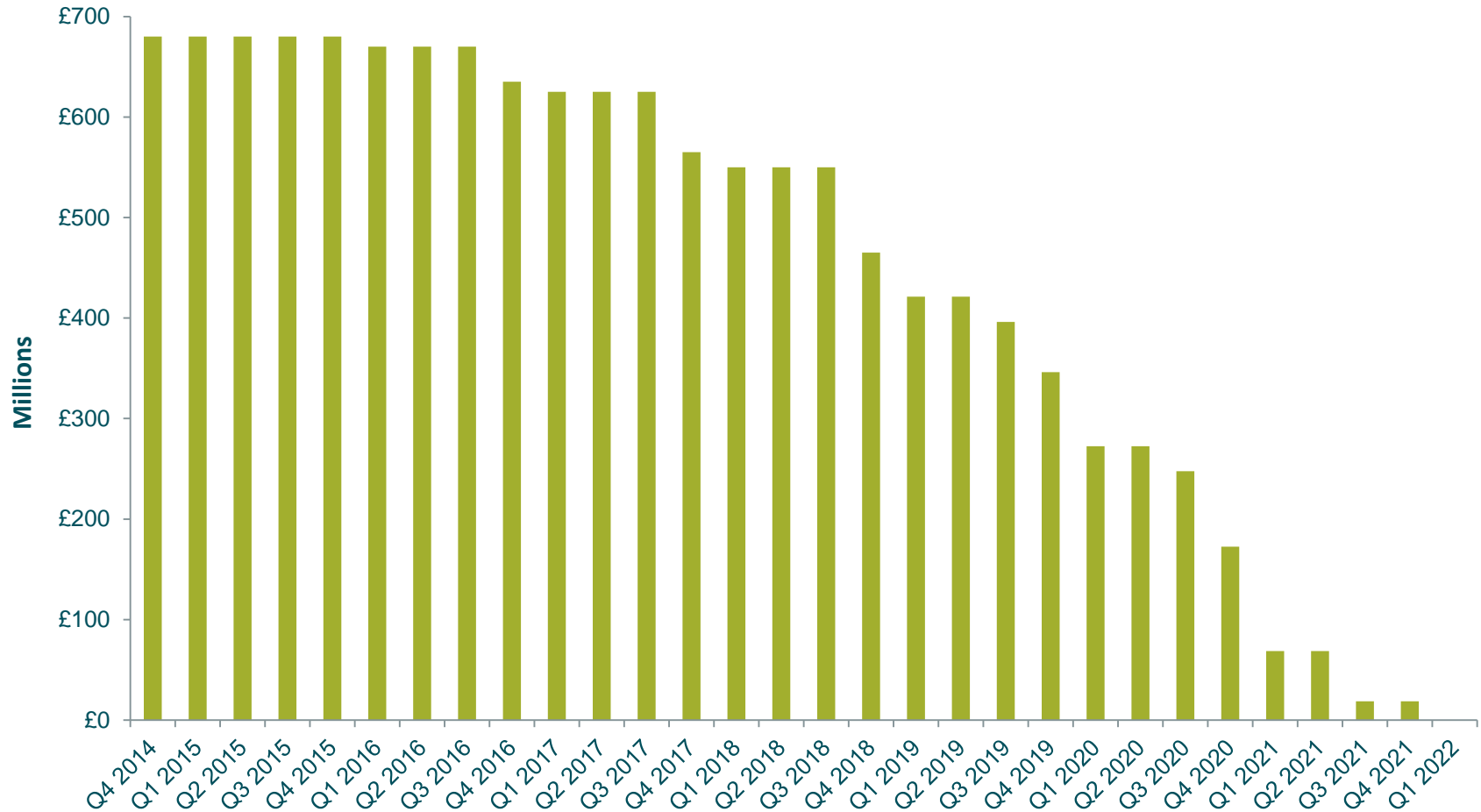
UK Companies Financing Fund I

Portfolio details

Issuer	Notional	Spread (bps)	Coupon (%)	Maturity	Average Life	Sector	Rating
Hogg Robinson Group Plc (SWAP)	30,000,000	426	4.9	22/11/2018	2.9	Leisure, Amusement, Entertainment	B+
Taylor Wimpey	100,000,000	400	4.9	18/11/2020	4.4	Buildings and Real Estate	BBB-
Provident Financial	100,000,000	450	5.1	31/01/2021	4.2	Finance	BBB
Grainger plc	100,000,000	400	4.6	07/03/2021	5.7	Buildings and Real Estate	BB+
Barratt Developments plc	100,000,000	400	4.6	01/07/2021	5.7	Buildings and Real Estate	BBB-
Intermediate Capital Group Plc	75,000,000	500	5.6	30/11/2018	2.9	Finance	BBB-
Wincanton plc	75,000,000	425	4.8	19/01/2022	5.6	Cargo Transport	B-
Drax Finance Limited	100,000,000	N/A	N/A	21/12/2020	5.2	Utilities	BB+

Portfolio amortisation

Outstanding fund amount based on contractual amortisation schedules



Conclusion

- UKCFF1 is continuing to provide stable floating rate interest income
- Portfolio is performing as expected
- Prepayment risk is key variable going forwards

Appendix

Fixed Income Investment Resources

183 investment professionals

Simon Pilcher
Chief Executive, Fixed Income

Insttutinal Clients Fund Management

David Lloyd (35)
Miles Tym (17)
Robert Burrows (10)
Gaurav Chatley (9)
David Fancourt (21)
Claire Bews (13)
Richard Ryan (20)
Jamie Hamilton (18)
Mark Ellis (10)
Clare Daly (7)
Michael Ah-Chung (1)
David Parsons (24)
Jonathan Lahraoui (4)
Anthony Robson (27)

Internal Clients Fund Management

Jeremy Richards (30)
Adam English (22)
Rob Whitten (28)
Chris Shipman (11)
Patrick Schoeb (18)
Morgan Stephens (11)

Retail Clients* Fund Management

Jim Leaviss (21)
Stefan Isaacs (13)
Luke Coah (16)
Ben Lord (11)
Richard Woolnough (28)
Mike Riddell (12)
James Tomlins (11)
Claudia Calich (21)
Gordon Harding (10)
Matthew Russell (10)
Anthony Doyle (10)
James Thompson (10)
Nicolò Carpaneda (10)
Ana Gil (5)
Anjullie Rusius (5)

Fund Directors

Bernard Abrahamson (26)
Jenny Williams (34)
Andrew Swan (32)
John Atkin (23)
Annabel Gillard (16)
Stefan Cornelissen (17)
Robert Heaney (17)
Billyana Kuncheva (17)
Luuk Veenstra (18)
Marcel De Bruijckere (23)
Christian Haas
Mike Thomas (30)
Georgina Clarke**13)
Maria Stott *(15)

ABS Management

James King (18)
Patrick Janssen (15)
Matthew Wardle (7)
Christine Ko (15)
Scott Ellerby (4)

Public Credit Research

Rob Marshall (17)
Edward Felstead (10)
Alex Giles (17)
Mark Robinson (6)
Tolani Benson (4)
Hannah Godwin (3)
Alexander Radon (3)
Elsa Dargent (4)
Jaimin Shah (8)
Anuj Babber (13)
Matthew O'Sullivan (9)
Claire Schoeman (14)
Josephine Meertens (13)
Tim Morris (6)
James O'Prey (10)
Michael Coady (6)
Othman El Iraki (6)
Eoin O'Shaughnessy (6)
Chris Saysell (21)
Simon Duff (16)
Rachita Patel (12)
Orlando Finzi (18)
Vladimir Jovkovich (10)
Stephen Wilson-Smith (22)
Michael Posnansky (13)
Lu Yu (6)
Chris Money (8)
Yin Wu (3)
Dominic Rose (1)
Miriam Hehir (14)
Saul Casadio (14)

Leveraged Finance

John Foy (35)
Fiona Hagdrup (24)
Andrew Boughen (21)
Daniel Gardner (27)
Iain Macdonald (23)
Adam Koller (13)
Catherine Ross (16)
Duncan Sherriffs (15)
Fabian Ansorg (8)
Cameron Low (11)
Catherine Lloyd (7)
Michael George (13)
Yuki Nakagawa (11)
Scarlett De Posson (9)
Nicola Poulloura (8)
Aditi Rao (2)
Alex Gee (1)

Project & Infrastructure Finance

Tim Huband (30)
Martin Walshe (38)
Ian Bigwood (22)
Andrew McCormick (6)
David Kemp (10)

PPM Managers

Simon Faure (14)
John Euers (14)
Scott Penwell (15)
Vivian Liu (10)
Ajay Patel (7)

Infrastructure Equity

Martin Lennon (20)
Mark Chladek (16)
Ed Clarke (25)
Stephen Nelson (24)
Mathieu Lief (14)
Joanne Horridge (18)
Bernd Schumacher (12)
Milton Fernandes (14)
Kenton Bradbury (17)
Rocio Oriol (9)
Max Helmore (7)
Georgina Dellacha (9)
Alberto Signori (12)
Ameer Hamza Khan (8)
Carolyn Pearce (10)
Ella Simmonds (6)
James Haraway (12)

Real Estate Finance

John Barakat (29)
Peter Foldvari (11)
Jamil Farooqi (16)
Dan Riches (14)
Paul Dittmann (24)
Lynn Gilbert (33)
Adam Willis (4)
Lexie Elliott (12)
Michael Dey (8)
Duncan Batty (7)
Andreas Schaefer (3)
Rosa Brand (2)
Ida Yazchidi (1)
Fiona Voon (9)
Michael Lee (1)
Stefano Tomaselli (1)

Alternative Credit Management

Mark Hutchinson (33)
William Nicoll (19)
Mike Nicholson (19)
Gary Parker (19)
Richard Sherry (17)
Joakim Sarnstedt (10)
Stephen Coghill (8)
Jo Waldron (13)
Jon Dawson (8)
James Newberry (1)

Private Placements and Direct Lending

Calum Macphail (20)
James Pearce (13)
Sala Fitt (20)
Dia Savant (16)
Simon Fretwell (22)
Oriane Auzanneau (7)
Luke Staddon (6)
David Sheppard-Burgess (9)

Real Estate Income

Ben Jones (21)
Stephen Chamberlain (27)
Peter Manners-Smith (6)
Lee McDowell
Holly Johnstone (3)
Will Shadbolt (4)
Charlotte Thompson (1)

Social Housing

Mark Davie (37)
Taniya Heyn** (13)

Fixed Income Dealers

David Walker (7)
Howard Lacy (26)
Warren Gethen (23)
Alex Dragut (11)
Chris Clemmow (2)

Fixed Income Restructuring

Paul Taylor (16)
Andrew Amos (13)
Mustafa van Hien (6)
Andy Bishop (6)
Rafael Cerezo (12)
Richard Booth (11)
Nick Karelis (12)
Biliana Sourlekova (1)

Analysts: average years of industry experience – 13 years

UK Companies Financing Fund investment process

Step	Participants	Outcome
1. Weekly pipeline meeting reviews potential investments	Direct Lending Team, Portfolio Manager, Head of Credit Research, Head of Alternative Credit	Deal team created if required
2. Initial analysis and Q&A meeting with management	Deal Team	Initial credit memo produced
3. Initial Investment Committee	Deal Team, Portfolio Manager, committee members	Recommendation to proceed, questions to resolve if applicable
4. Detailed due diligence, meeting with management and operations directors, documentation review / negotiation	Deal Team	Detailed Investment Committee paper produced
5. Investment Committee	Deal Team, Portfolio Manager, committee members	Investment decision and internal rating
6. Negotiation of legal documentation	Deal Team, external lawyers	Pre-completion memo produced
7. Deal closing and funding	Deal Team, external lawyers, administrative team	Addition to portfolio
8. Post deal monitoring	Deal Team, Portfolio Manager	Quarterly management meetings, covenant monitoring, semi-annual review

Problem Credit Committee (PCC)

Extra layers of governance for private debt

On watch list

- Maintained by individual private debt teams to enable pro-active identification of potential problem companies
- Aims to raise any issues BEFORE covenant breaches
- Circulated monthly within teams and to Minor PCC to identify names for PCC review

Minor PCC

- Chaired by head of workout group
- Attended by members of private debt teams
- Companies on watch lists discussed together with companies on Minor PCC to determine options for remedial action and correct pricing
- Most concerning cases referred to major PCC

Major PCC

- Chaired by head of alternative credit
- Attended by heads of private debt teams and head of workout group
- Discuss restructuring / remedial actions for all companies on Major PCC
- Establishes expected recovery levels / pricing
- Improving cases referred to minor PCC

Dynamic process as company performance evolves

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