FGGREATER MANCHESTER PENSION FUND - ALTERNATIVE INVESTMENTS WORKING GROUP

Friday, 21 October 2016

Commenced: 9.30 am **Terminated:** 11.00 am

Present: Councillors Cooney (Chair), Ward, Halliwell, Hamilton, Mr Drury and Mr Thompson

Apologies for Absence: Councillor Ricci

8. DECLARATIONS OF INTEREST

There were no declarations of interest.

9. MINUTES

The Minutes of the meeting of the Alternative Investments Working Group held on 22 July 2016 were approved as a correct record.

10. PRIVATE EQUITY INVESTING IN ASIA - PROPOSED CHANGE TO IMPLEMENTATION

The Assistant Executive Director of Pensions (Investments) submitted a report seeking the Working Group's approval for a change to the implementation of Greater Manchester Pension Fund's (GMPF) Asian Private Equity allocation to include direct fund commitments.

It was reported that the current approach consisted of the use of Fund of Funds (Fund of Funds), which GMPF had been committing to since 2010. A recent review of Strategy and Implementation recommended that "*officers continue to assess the viability of a direct approach giving due consideration to risk, diversification and resource availability*". This needed to be considered within the context of GMPF's pooling submission, which had identified reducing the use of Private Equity Fund of Funds as a source of cost savings.

The benefits of changing the approach were outlined and included, reducing fees and expenses, increased transparency, improved governance and increasing officer's knowledge of the Asian market. Various considerations had been taken into account such as security of GMPF's investment, diversification, level of access to managers and fund performance.

The Fund's current Asian Fund of Funds performance was highlighted. It was noted that it was difficult to draw conclusions as the investments were relatively immature and benchmark data was not of the highest quality due to a small sample size. For GMPF's three "mature" Fund of Funds investments, the net internal rate of return and the average benchmark internal rate of return were shown. Two of the three investments were currently underperforming the benchmark.

It was confirmed that there may be occasions when a particular Fund of Funds investment may be considered appropriate and it was proposed that this option remained open going forward.

RECOMMENDED:

(i) That the report be noted; and

(ii) That approval be given for a change to the implementation of GMPF's Asian Private Equity allocation to include direct fund commitments.

11. HALF YEARLY REVIEW OF GMPF'S PRIVATE EQUITY PORTFOLIO

Angela Willetts of Capital Dynamics Ltd attended the meeting to present the half yearly report of Greater Manchester Pension Fund's (GMPF) Private Equity portfolio for the half-year period ending 30 June 2016.

Ms Willetts gave a brief overview of developments at Capital Dynamics. The first half of 2016 had been a successful fund raising period.

The private equity environment during the period under review, fundraising levels, investment activity and exit activity in Europe, the US and Asia were detailed and discussed. It was summarised that the overall outlook remained positive for both US and European private equity, although market uncertainty was expected to impact on exit activity, especially in Asia.

It was reported that five new funds and two follow-on commitments, totalling £181 million, were added to GMPF's portfolio in the period to 30 June 2016. Portfolio value appreciated by 12.1% during the period under review and the annual return was 19.4%. The long term return remained stable at 16.7% per annum.

The Working Group heard that during the period £66.1 million of GMPF's commitments were drawn down and distributions totalling £51 million were received. Net asset value of the portfolio was 2.7% of the Main Fund as at 30 June 2016.

It was anticipated that valuations would increase further on receipt of further underlying fund reports and, whilst the portfolio would continue to deliver attractive long-term returns, the 2006-2008 vintage year funds would prove the most challenging.

RECOMMENDED:
That the report be noted.

12. HALF YEARLY REVIEW OF GMPF'S INFRASTRUCTURE PORTFOLIO

Mark Drugan of Capital Dynamics Ltd attended the meeting to present the half yearly review of Greater Manchester Pension Fund's (GMPF) Infrastructure Portfolio as at 30 June 2016.

Mr Drugan began by summarising the infrastructure market for the first half of 2016. Deal activity was strong with high levels of institutional capital from around the globe. Deal supply had been far less global, with mature regulated core infrastructure concentrated in Europe. North America's infrastructure deal flow continued to be dominated by transactions in the energy sector. Infrastructure investment opportunities in Asia remained limited but deal activity had increased since 2015.

The growth of GMPF's portfolio during the period under review was outlined and, with two new fund commitments totalling £86.8 million made, total fund commitments were over £581.8 million at the period end. It was reported that during the period under review, £52 million of GMPF's commitments were drawn down and distributions totalling £13.7 million were received.

The Working Group heard that the portfolio value appreciated by 12.4% during the period. The net asset value of the portfolio was £300.2 million as at 30 June 2016 and represented 1.7% of Main Fund assets, compared to 1.4% as at 30 June 2015. Work would continue to achieve the 5% target.

Overall the infrastructure portfolio internal rate of return was 10.5% net per annum and the net multiple was 1.29 times, as at 30 June 2016.

RECOMMENDED:
That the report be noted.

13. SPECIAL OPPORTUNITIES PORTFOLIO - REVIEW OF ACTIVITY AND PERFORMANCE

The Assistant Executive Director of Pensions (Investments) submitted a report providing the Working Group with a routine annual update on the activity and performance of Greater Manchester Pension Fund's (GMPF) Special Opportunities Portfolio.

The key features of the Special Opportunities Portfolio were outlined and included; the portfolio would be developed over time, would consist of "good ideas" that were capable of generating returns in excess of the retail price index plus 5% per annum, any investment would be undertaken by an externally managed pooled vehicle and new types of investment would be discussed with the advisors.

The approach to portfolio construction and investment activity for the last 12 months were also outlined to the Working Group. It was reported that, as at 30 June 2016, the valuation of the portfolio was £249 million. New commitments/investments totalling £155 million were made in-between 1 July 2015 to 30 June 2016. To date, GMPF had made commitments/investments totalling £559 million to eleven funds, ten of which were active.

As at the period end, the net asset value of the portfolio represented 1.4% of Main Fund assets. It was noted that this was a very young portfolio and it would take time to work towards the 5% target allocation.

Descriptions were given of each type approval that had been granted alongside the relevant commitments and a brief commentary regarding future plans. Distressed Debt was for funds that bought loans in the secondary market, often with the expectation of profiting from a restructuring of the financing structure. The investment activity to 30 June 2016 was provided and the net asset value was £47.4 million. Absolute Return was for funds which aimed to achieve an absolute return relative to cash by making active asset allocation decisions across a range of asset classes. The investments to date were outlined and the net asset value was £69.1 million.

Commodity Related Real Assets were investments in commodity producing assets such as farmland and timberland. The investment activity to 30 June 2016 was provided and the net asset value was £24.5 million. Private Debt consisted of investments in non-publically traded debt of corporate entities. The investments to date were outlined and the net asset value was £108.3 million.

A performance update for mature investments was provided. The initial portfolio level return was 8.3% per annum and it was anticipated that over time the target return set for the portfolio of retail price index plus 5% would be achieved. The Special Opportunities Portfolio continued to provide a useful vehicle for achieving the key twin aims of increasing diversification and achieving good returns.

It was reported that officers received a large number of approaches each year covering a diverse range of potential investment opportunities, such as insurance capital, shipping finance and structure credit. Officers would continue to keep an open mind regarding future possible investment types but expected that the majority of investments would sit within existing approvals.

RECOMMENDED:
That the report be noted.

14. PRESENTATION BY PALATINE PRIVATE EQUITY LLP

Gary Tipper and Ed Fazakerley of Palatine Private Equity LLP attended the meeting to present on their investment activities and private equity in general.

Mr Tipper began by informing the Working Group that Palatine Private Equity LLP was founded in 2005 and was an owner-managed business with an experienced team of 13 investment professionals operating out of offices in Manchester, London and Birmingham who managed a total of £470 million across three funds. Palatine were a regionally focused, UK lower middle market private equity investor with a partner led approach and clear value enhancement channels.

It was reported that the team had experience over a wide range of industries including Financial Services, IT and Telecoms, Hotels and Leisure, Food Manufacture, Healthcare and Pharmaceuticals, Retail and Consumer and Environmental Services.

Palatine raised its first fund in 2007 and invested in a range of transactions including management buyouts, shareholder restructurings and 'buy & build' strategies. A further two funds had been raised since 2007. Since 2007, the team had invested approximately £260 million in 23 companies and over 50 bolt-on acquisitions in the IT and Telecoms, Consumer and Retail, Support Services and Financial Services sector. To date, Palatine's eight exits had achieved an internal rate of return of 31% gross.

The Working Group heard that GMPF had committed a total of £30 million to the three funds raised by Palatine and as at 30 June 2016 in excess of £19 million had been drawdown and over £8 million distributed.

RECOMMENDED:
That the presentation be noted.

15. URGENT ITEMS

There were no urgent items.