

ITEM NO: 6(c)

GREATER MANCHESTER PENSION FUND ALTERNATIVE INVESTMENTS WORKING GROUP

24 July 2015

Commenced: 9.30am

Terminated: 10.40am

Present: Councillor Cooney (Chair)

Councillor Dean

Councillor Halliwell

Councillor Ricci

Councillor D Ward

Mr Drury

UNITE

Peter Morris

Executive Director of Pensions

Steven Taylor

Assistant Executive Director – Investments

Neil Cooper

Pension Fund Investments Team

Nigel Frisby

Pension Fund Investments Team

Daniel Hobson

Pension Fund Investments Team

Nick Livingstone

Pension Fund Investments Team

Apologies for absence: Councillor C Francis and Mr Thompson

1. DECLARATIONS OF INTEREST

There were no declarations of interest.

2. MINUTES

The Minutes of the proceedings of the Alternative Investments Working Group held on 17 April 2015 were approved as a correct record.

3. PRIVATE EQUITY – REVIEW OF PERFORMANCE

The Working Group welcomed John Gripton and Angela Willetts of Capital Dynamics Ltd who attended the meeting to update the Working Group on the returns achieved by Greater Manchester Pension Fund's (GMPF's) Private Equity portfolio versus equity markets and a number of private equity comparators.

Mr Gripton began with an overview of developments at Capital Dynamics and explained the twofold approach to performance measurement. GMPF's Private Equity portfolio had exhibited a strong overall return since inception relative to public equity markets which showed that private equity had been a worthwhile asset class with an all mature fund return as at 2014 year end of 16.7% compared to the public equity market equivalents of 14.8% and 11.2% (depending on the chosen method of calculation). Average out-performance of 1.9% per annum had been achieved compared to public markets with outperformance occurring from the 1990's onwards.

It was reported that in 2011 GMPF and Capital Dynamics adopted a joint approach of using two different private equity benchmarks, Thomson/Venture Economics and British Venture Capital Association. Thompson Reuters recently announced that they would no longer produce the Venture Economics benchmark, therefore following market examination benchmarking had been switched to the Cambridge Associates benchmark. It was important to ensure that the relative performance of the portfolio was fairly measured and captured a representative range of funds.

The Working Group heard that switching to a different benchmark had changed the perspective on the portfolio's relative performance, therefore a comprehensive review of benchmarks and possible alternatives would take place over the next 6-9 months which would be reported back to the Working Group.

It was explained that returns from mature investments made during the 2000s were not as strong, having been affected by specific issues within individual portfolio funds, however, relative performance was improving with an expectation that returns would improve over time as the fund of fund element matured and direct funds began to realise assets.

Mr Gripton and Ms Willetts were thanked for their attendance and presentation at the meeting.

RECOMMENDED

That the report be noted.

4. INFRASTRUCTURE – REVIEW OF PERFORMANCE

The Executive Director of Pensions submitted a report, copies of which had been circulated, updating the Working Group on the returns achieved by GMPF's infrastructure. The infrastructure portfolio had been established in 2001 and consisted of commitments made to a variety of funds that targeted investments in infrastructure projects or companies.

It was reported that since 2010 GMPF's infrastructure investments had been maintained as a separate portfolio and included matured funds as this was the most appropriate means of evaluating performance. Medium term measures were still an important diagnostic indicator as to whether long term performance was likely to be maintained by the current investment strategy, approach and management skill.

The three infrastructure investment classifications (primary funds, evergreen funds and secondary funds) were explained and detailed performance figures for each category were provided. It was highlighted that commitments were reported on an economic exposure basis whilst performance was reported based on the original investment objective of the fund.

RECOMMENDED

That the report be noted.

5. PRESENTATION BY GRAPHITE CAPITAL

The Working Group welcomed Stephen Cavell, Senior Partner at Graphite Capital, who attended the meeting to present their investment activities and general private equity. Graphite Capital was founded in 1981 and was a London based operation comprising a team of 20 investment professionals led by 8 senior partners. It was an independent, owner-managed private equity firm investing in UK headquartered mid-market companies.

It was reported that Graphite had a strong track record in partnering with management teams across many industry sectors and identifying strategies that drive revenue and long term profit growth. Graphite mainly invested in larger companies in addition to smaller businesses and had a

long term record of achieving high returns. The Working Group was informed that Graphite had identified a number of key growth areas in the UK economy which were outlined in detail.

The Working Group was notified that GMPF was a long term investor in Graphite funds and had committed £33 million to the three funds raised since 2001. The portfolio had been valued at 2.41 times cost of which 2.08 had been realised in cash; the forecast was to generate 2.8 times cost. The overall number of employees in the portfolio companies had risen by 76% and it was confirmed that these were UK based jobs.

It was explained that Graphite had recently raised its eighth private equity fund and four of the five most recent funds had performed well and were in the top quartile for their vintage; over £170 million had been invested to date. The Working Group heard that six companies had completed to date generating a multiple of 3 times cost.

The Working Group was provided with detailed information on some example investments. Explore Learning was an extra-curricular learning centre for English and Mathematics with centres in Greater Manchester and Hawksmoor had recently opened a restaurant in Manchester city centre.

Clarification was sought and provided on comparisons. It was confirmed that these are drawn against industry figures which allows for a measurable comparison on a like for like basis.

Mr Cavell was thanked for his attendance and presentation at the meeting.