GREATER MANCHESTER PENSION FUND - ALTERNATIVE INVESTMENTS WORKING GROUP

20 July 2017

Commenced: 9.00 am **Terminated:** 10.30 am

Present:	Councillors Cooney (Chair), Ricci, Ward, Barnes, Halliwell and Jabbar	
In Attendance:	Steven Taylor	Assistant Director of Pensions (Investments)
	Neil Cooper	Senior Investments Manager
	Nigel Frisby	Investments Manager
	Raymond Holdsworth	Investments Manager
	Nick Livingstone	Investments Manager
Apologies for Absence:	Mr Drury and Mr Thompson	

1. DECLARATIONS OF INTEREST

There were no declarations of interest.

2. MINUTES

The Minutes of the Alternative Investments Working Group meeting held on 13 April 2017 were approved as a correct record.

3. INFRASTRUCTURE FUNDS PORTFOLIO - REVIEW OF PERFORMANCE

The Assistant Director of Pensions (Investments) submitted a report updating the Working Group on the returns achieved by the Fund's infrastructure portfolio.

It was reported that the role of performance measurement was twofold:-

1. It provided information to stakeholders if the performance objectives had been met.

2. It provided an insight into how any over or under-performance had been achieved relative to appropriate comparators.

Long term measures, such as the internal rate of return and money multiple, were the most appropriate means of evaluating the performance of the infrastructure portfolio. The infrastructure report used since inception performance measures and only included infrastructure funds that were mature (i.e. more than four years old). The first infrastructure investment was made in 2001 with regular investing not commencing until 2004. The large majority (90%) of commitments had been made from 2010 onwards.

In conjunction with the 2016 review of strategy and implementation of the infrastructure funds portfolio (Minute 21 refers) the portfolio had been re-categorised, as follows:-

- Core and Long-Term Contracted
- Value Added
- Opportunistic

The Working Group were informed that 27 fund commitments had been made, 14 of which were mature – six in the Core and Long-Term Contracted category and eight in the Value Added category. There were no mature Opportunistic funds. The 14 mature funds represented 24% of total fund commitments. The 'since inception' return of the mature portfolio had increased to 10.8% as at 31 December 2016 (8.3% as at 31 December 2015).

It was noted that, unlike for Private Equity, there was no obvious, single, widely accepted metric to capture a Public Market Equivalent for private infrastructure, nor a "universe" of funds that could provide meaningful comparisons via a Portfolio Replication exercise. It was confirmed that Officers would continue to monitor developments in terms of benchmarking of infrastructure investments.

RECOMMENDED:
That the report be noted.

4. PRIVATE EQUITY PORTFOLIO - REVIEW OF PERFORMANCE

The Assistant Director of Pensions (Investments) submitted a report updating the Working Group on the returns achieved by the Fund's private equity portfolio versus equity markets and a number of private equity comparators.

It was reported that the role of performance measurement was twofold:-

1. It provided information to stakeholders if the performance objectives had been met.

2. It provided an insight into how any over or under-performance had been achieved relative to appropriate comparators.

Long term measures, such as the internal rate of return and money multiple, were the most appropriate means of evaluating the performance of the private equity portfolio. The Fund had adopted a vintage decade approach and only included private equity funds that were mature (i.e. more than four years old).

The Working Group was informed that 2016 had been another positive year for the performance of private equity assets. Economic growth in developed economies continued to be positive, interest rates remained at very low levels and credit markets were providing plentiful capital.

GMPF's private equity portfolio returns were presented for each of the vintage decades with detailed analysis of each decade outlined in the report alongside comparisons to public equity markets. Overall, since inception, the mature funds within GMPF's private equity programme had achieved a return of 17.0% per annum as at 31 December 2015 (16.9% per annum as at 31 December 2015), a return that was good in absolute terms and when compared to appropriate public and private market comparators.

RECOMMENDED:
That the report be noted.

5. PERMIRA

The Working Group welcomed Cheryl Potter and Rebecca Zimmerman of Permira, who attended the meeting to present an overview of their firm's investment activities and of the private equity industry generally.

The Working Group was informed that Permira was founded in 1985, under the Schroder Ventures brand, and raised its first pan-European fund in 1997. The firm had 240 people in 14 offices in Europe, North America and Asia and had a core private equity strategy and a private debt affiliated

manager. It had a well-developed approach to responsible investment and a strong commitment to ESG best practice.

It was reported that GMPF had been an investor with Permira for over 30 years and had committed a total of £51 million to two funds raised by the firm in 2014 and 2016.
The firm's recent strong investment pace was emphasised and performance statistics were highlighted including commitments by sector and region.

With regard to ESG, there had been substantial progress at Permira over the last 12 months through improved engagement, training and awareness and increased monitoring and reporting. A comprehensive report, detailing ESG activity throughout 2016, was under construction and a holistic training module had been developed, which had been completed by all Permira's investment professionals. The value of ESG had been promoted to external companies, the firm had become a signatory to Principles for Responsible Investment and had shared knowledge through attendance at international forums. Ms Potter was pleased to report that Permira had recently won two awards for its ESG practices.

Two case studies relating to Dr. Martens and Magento were outlined and discussed with the Working Group.

RECOMMENDED:
That the information provided be noted.

6. SPECIAL OPPORTUNITIES PORTFOLIO: APPROVAL OF AN INVESTMENT TYPE

The Assistant Director of Pensions (Investments) submitted a report seeking approval for a new type of investment for the Fund's Special Opportunities Portfolio.

It was reported that the 2017/18 Investment Strategy report suggested that Factor Based Investing could be an appropriate investment for the Special Opportunities Portfolio given that it would offer a means to achieve the key twin aims of both increasing diversification and achieving enhanced long term returns for the Fund.

Officers had recommended that support from a minimum of three of the four advisors was needed for any new type of investment for the Fund's Special Opportunities Portfolio. The report had been circulated to the four Advisors for comment and to seek their support for the new investment type approval. Support had now been received from all four Advisors. In addition to the Advisors support, Hymans Robertson, Investec and L&G were also supportive of a Factor Based Investing approach in their responses to the Investment Strategy consultation process.

It was explained that Factor Based Investing was a 'catch-all' phrase for funds that used techniques developed by passive index funds to make active attempts to beat market returns. It cost less than active management but it involved higher trading costs than traditional passive management and could provide the Fund with superior long-term performance at a lower cost. The following key risks/issues would be considered prior to any commitment being made to a Factor Based Investing fund:-

(i) Factor Based Investing indices could significantly underperform capitalisation weighted indices for considerable periods;

(ii) The legal structure and governance arrangements of the fund within which GMPF may participate; and

(iii) Management fees and other charges that would be charged to investors in the fund.

Members were reminded that on 17 April 2015 the Working Group agreed that the value any single investment within the Special Opportunities Portfolio would be around 0.25% to 0.5% of Main Fund assets (around £52 million to £105 million). However, to reflect the nature and scale of the perceived opportunity this request for type approval was for an investment size which, whilst within the original design envelope of the Special Opportunities Portfolio, was somewhat higher than the current norm. Such an approach, involving an investment size of between 0.5% and 1% of Main Fund (currently between £105 million and £210 million), would allow a relatively rapid path to achieving a significant initial exposure to a 'factor' based strategy and would provide an opportunity to scale up the exposure should the initial experience prove to be positive.

RECOMMENDED:

(i) That the report be noted;

(ii) That the support of a minimum of three of the four Advisors would constitute 'Advisor support' for any new type of investment for the Fund's 'Special Opportunities Portfolio'; and

(iii) That approval be given for a new type of investment for the Fund's 'Special Opportunities Portfolio' (Factor Based Investing), with an investment size of between 0.5% and 1% of Main Fund.

7. URGENT ITEMS

There were no urgent items.