

# **GREATER MANCHESTER PENSION FUND - ALTERNATIVE INVESTMENTS WORKING GROUP**

**8 June 2018**

**Commenced:** 9.30 am

**Terminated:** 10.45 am

**Present:** Councillors Cooney (Chair), Ricci and Halliwell

**In Attendance:**

Sandra Stewart	Director of Pensions
Steven Taylor	Assistant Director of Pensions (Special Projects)
Neil Cooper	Senior Investments Manager
Nigel Frisby	Investments Manager

**Apologies for Absence:** Councillor Ward and Mr Drury

## **20. DECLARATIONS OF INTEREST**

There were no declarations of interest.

## **21. MINUTES**

The Minutes of the meeting of the Alternative Investments Working Group held on 2 February 2017 were approved as a correct record.

## **22. CAPITAL DYNAMICS ANNUAL REVIEW OF GMPF'S PRIVATE EQUITY PORTFOLIO**

The Working Group welcomed Angela Willetts of Capital Dynamics Ltd, who attended the meeting to present the annual review of GMPF's Private Equity portfolio for the period ending 31 December 2017.

With regard to GMPF's Private Equity portfolio, it was reported that nine new funds and one follow on commitment had been made during 2017 totalling £325.9 million. Total cumulative commitments to Private Equity investments totalled £1,974 million as at 31 December 2017 and the Net Asset Value had increased to £775.6 million, representing 3.4% of Main Fund assets.

Tables detailing significant call activity and distribution activity in 2017 were outlined to the Group.

It was reported that the portfolio return since inception had remained very stable at 16.7% per annum and the prospects for long term Private Equity returns were considered to remain attractive. The portfolio was diversified with exposure spread across multiple geographies and experienced, well established managers.

**RECOMMENDED:**  
**That the report be noted.**

## **23. PRIVATE EQUITY - REVIEW OF STRATEGY AND IMPLEMENTATION**

The Assistant Director of Pensions (Investments) submitted a report, which summarised the activity and reviewed the overall strategy regarding investment in private equity including proposed changes

to diversification targets and a significant change in the implementation approach to be consistent with proposals developed for a Northern Pool Private Equity pooled vehicle.

It was reported that the target allocation remained at 5% of Main Fund value and that the average rate of new fund commitments would remain at £280 million per annum. During 2017 a total of £310 million of new commitments were made to nine new funds, taking the number of active funds in the Private Equity portfolio to 97. As at 31 December 2017 the Net Internal Rate of Return of the portfolio since inception was 16.7%. The value of GMPF's private equity portfolio was 3.4% of the total value of the Main Fund. Since 31 December 2016, the value of the portfolio had risen by 32% as a result of investment activity and valuation increases and the Main Fund had risen by 12.5%.

The Working Group were notified that the Private Markets team had reviewed the ongoing appropriateness of GMPF's overall allocation target and geographic and stage targets. However, a more significant development in relation to the setting of strategy targets had occurred in the creation of the Northern Private Equity Pool LP, which would be used by the three funds of the Northern Pool to deploy their respective private equity allocations. A "one-size-fits-all" strategy had been approved and it was proposed that GMPF's Private Equity strategy be aligned with that of the Northern Private Equity Pool.

The following changes were proposed to the geographic diversification targets:-

Geography	New Target	Current Target
Europe inc UK	35%-50%	40%-50%
USA	35%-50%	40%-50%
Asia & Other	10%-20%	10%-15%

The following changes were proposed for stage diversification targets:-

Stage	New Target	Current Target ex Venture	Current Target
Venture Capital	-	-	5%-15%
Lower Mid-Market & Growth	10%-20%	50%-60%	40%-50%
Mid-Market	45%-55%		
Large Buyout	30%-40%	40%-50%	40%-50%

## RECOMMENDED

That:-

- (a) The medium term strategic allocation for private equity remains at 5% value of the total Main Fund assets.
- (b) The target geographical diversification of the private equity portfolio be revised, in line with the Northern Private Equity Pool strategy to:-

Geography	
Europe inc UK	35% to 50%
USA	35% to 50%
Asia & Other	10% to 20%

- (c) The investment stage diversification of the private equity portfolio be revised, in line with the Northern Private Equity Pool strategy to:-

Stage	
Lower Mid-Market & Growth	10%-20%
Mid-Market	45%-55%
Large Buyout	30%-40%

- (d) The scale of commitment to funds be £280 million per annum, to work towards achievement of the strategy allocation over the next 2/3 years.
- (e) GMPF's private equity strategy is implemented through appropriately sized commitments to Northern Private Equity Pool such that the anticipated deployment be consistent with the above pacing recommendation.
- (f) To continue to recognise that the portfolio may not fall within the target ranges detailed at recommendations (b) and (c) from time to time to reflect portfolio repositioning.

## 24. CAPITAL DYNAMICS - ANNUAL REVIEW OF GMPF'S INFRASTRUCTURE PORTFOLIO

The Working Group welcomed Mauro Pfister of Capital Dynamics Ltd, who attended the meeting to present the annual review of GMPF's infrastructure portfolio for the period ending 31 December 2017.

Mr Pfister began by giving a market summary of infrastructure and explaining infrastructure deal flow by region and industry.

With regard to GMPF's infrastructure portfolio six new commitments totalling £398.3 million had been made during 2017, increasing total cumulative active commitments to £982.5 million as at year end. The Net Asset Value was £446.2 million representing 2% of Main Fund assets. It was reported that the portfolio value appreciated by 6.3% during 2017 and the overall infrastructure internal rate of return was 10.2% per annum as at 31 December 2017.

### RECOMMENDED:

**That the report be noted.**

## 25. INFRASTRUCTURE - REVIEW OF STRATEGY AND IMPLEMENTATION

The Assistant Director of Pensions (Investments) submitted a report summarising the activity and reviewing the overall strategy regarding investment in infrastructure funds.

It was reported that during 2017, six new fund commitments had been made totalling £396 million, taking the total number of active funds in the infrastructure portfolio to 28. The average rate of new commitments would remain at £210 million per annum.

As at 31 December 2017, the net internal rate of return of the infrastructure portfolio was 10.2% per annum. The estimated valuation of the portfolio was £446 million (2% of the total value of the Main Fund), with £537 million of undrawn commitments. It was noted that the portfolio was immature and would take time to build towards the 5% target.

The Working Group was informed that the Private Markets team had reviewed the ongoing appropriateness of GMPF's overall target allocation, geographic and stage targets and no changes were proposed.

The Chair extended thanks on behalf of the Panel to the officers in recognition of their hard work and commitment.

## RECOMMENDED

That:-

- (a) The medium term strategic allocation to Infrastructure funds remains at 5% value of total Main Fund assets.
- (b) The target geographical diversification of the infrastructure portfolio remains as:-

Geography	Target Range
EUROPE, inc UK	50% to 70%
N AMERICA	20% to 30%
ASIA-PACIFIC/OTHER	0% to 20%

- (c) The target stage diversification of the infrastructure portfolio remains as:-

Investment Stage	Relative Risk	Target Range
CORE & LT CONTRACTED	LOW	30% to 40%
VALUE ADDED	MEDIUM	40% to 60%
OPPORTUNISTIC	HIGH	0% to 20%

- (d) The scale of fund commitments remains at £210 million per annum to work towards achievement of the strategy over the coming years.
- (e) The Private Markets team continue to implement the Infrastructure strategy via 3 year programmes of commitments, across between 2 and 4 new funds per annum (averaging 3 new funds per annum).
- (f) Commitments to primary funds be made directly to partnership vehicles.
- (g) It is recognised that the portfolio may not fall within the target ranges at (b) and (c) from time to time to reflect portfolio repositioning.

## 26. URGENT ITEMS

There were no urgent items.