GREATER MANCHESTER PENSION FUND - ALTERNATIVE INVESTMENTS WORKING GROUP

6 July 2018

Commenced: 10.30 am **Terminated:** 11.30 am

Present:	Councillors Cooney (Chair), Ricci, Barnes, Halliwell and Mr Thompson	
In Attendance:	Sandra Stewart	Director of Pensions
	Tom Harrington	Assistant Director of Pensions (Investments)
	Neil Cooper	Senior Investments Manager
	Nick Livingstone	Investments Manager
Apologies for Absence:	Councillor Ward and Mr Drury	

1. DECLARATIONS OF INTEREST

There were no declarations of interest.

2. MINUTES

The Minutes of the meeting of the Alternative Investments Working Group held on 8 June 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 vast majority (95%) of commitments had been made from 2010 onwards.

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

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

The Working Group was informed that markets for private infrastructure assets and business remained strong during 2017 with a continued appetite amongst institutional investors. Prices for infrastructure assets continued to be high with plentiful demand and debt financing in good supply. Managers in the sector had responded to investor demand by raising larger funds and the definition of infrastructure had been expanded and it was not uncommon to find investments in care homes, healthcare facilities and media assets within infrastructure portfolios.

GMPF had made 33 fund commitments, 20 of which were mature – 7 in the Core and Long-Term Contracted category, 11 in the Value Added category and 2 in the Opportunistic category. The 20 mature funds represented 35% of total fund commitments. The 'since inception' return of the mature portfolio had exceeded the benchmark of RPI+4% per annum at 10.4% and remained towards the middle of the Fund's target range of 9-12%.

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 2017 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 continued to have significant capital. 2017 was the ninth successive year of positive performance.

GMPF's private equity portfolio returns were presented for each of the vintage decades alongside public equity markets comparators and private market comparators. Overall, since inception, the mature funds within GMPF's private equity programme had achieved a return of 16.9% per annum as at 31 December 2017, 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. THE CARLYLE GROUP

The Working Group welcomed Katherine Elmore-Jones of The Carlyle Group who attended the meeting to present an overview of the firm's investment activities and of private equity generally.

The Working Group was informed that The Carlyle Group was a large, global alternative asset manager that was founded in Washington in 1987. The firm had 1,575 professionals operating out of 31 offices in North America, South America, Europe, the Middle East, Africa, Asia and Australia.

The team managed over $200 billion of assets across a number of global funds. GMPF committed to Carlyle Asia Partners V and Carlyle Partners VII funds in November 2017 with investment expected from July 2018.

Carlyle had developed a thorough approach to Responsible Investment and a strong commitment to Environmental, Social and Corporate Governance best practice. The firm had created its own in-house Environmental, Social and Corporate Governance group to work closely with deal teams and portfolio companies.

Details of the Carlyle Partners VII fund were provided and a case study from a predecessor fund with the same strategy was outlined and discussed with the Working Group. An overview of the Carlyle Asia Partners V was also provided and a case study from this strategy was outlined and discussed with the Working Group.

Members enquired how the firm identified opportunities. It was confirmed that in the majority of cases deals presented themselves to the firm. Members asked if the firm sold the companies it bought and it was confirmed that the firm was in a cycle of buying, improving and selling businesses across the world.

RECOMMENDED:
That the information provided be noted.

6. URGENT ITEMS

There were no urgent items.