

# GREATER MANCHESTER PENSION FUND - INVESTMENT MONITORING AND ESG WORKING GROUP

28 September 2018

Commenced: 9.00 am

Terminated: 11.00 am

**Present:** Councillors Cooney (Chair), J Lane, Ricci, Taylor, Ward, Andrews, Ball, Barnes, O'Neill, Pantall, Mr Allsop and Mr Llewellyn

**In Attendance:**

Sandra Stewart	Director of Pensions
Tom Harrington	Assistant Director of Pensions (Investments)
Michael Ashworth	Investments Manager
Neil Cooper	Senior Investments Manager
Nigel Frisby	Investments Manager
Nicholas Livingstone	Investments Manager

**Apologies for Absence:** Councillors Halliwell, Mistry, Mitchell and Mr Drury

## 10. DECLARATIONS OF INTEREST

There were no declarations of interest.

## 11. MINUTES

The Minutes of the meeting of the Alternative Investments Working Group held on 6 July 2018 and the meeting of the Investment Monitoring and ESG Working Group held on 13 July 2018 were approved as a correct record.

## 12. UPDATE FROM PIRC

Alan MacDougall and Janice Hayward of PIRC Ltd attended the meeting to present the latest LAPFF report on Asset Managers and Stewardship, a copy of which was appended.

It was reported that LAPFF had conducted a survey of member's views of asset managers and Environmental, Social and Corporate Governance. The general view of respondents was that asset managers were performing well with some room for improvement. Members responded that asset managers were very responsiveness to specific requests but felt they did not mirror Environmental, Social and Corporate Governance priorities. One third of funds said they felt it was not easy to work with asset managers and over a third felt asset managers were not reporting well on progress that holdings were making in meeting Environmental, Social and Corporate Governance performance targets. The LAPFF report would be published and used when appropriate to form the basis on future engagements with asset managers on Environmental, Social and Corporate Governance issues.

### RECOMMENDED:

**That the report be noted.**

## 13. UNITED NATIONS PRINCIPLES FOR RESPONSIBLE INVESTMENT REPORTING FRAMEWORK

The Assistant Director of Pensions (Investments) submitted a report detailing the feedback the Fund had received on its responses to the United Nations Principles for Responsible Investment

Reporting Framework. The Fund received median or above median scores across all of its responses and an extract of the Principles for Responsible Investment assessment report was appended.

It was reported that the Fund's approach to socially responsible investment was set out in the Investment Strategy Statement and its approach to ethical investments and corporate governance was included on the website and also in the annual report. The Fund became a direct signatory to the Principles for Responsible Investment in late 2013 and were required to publicly report on its responsible investment activity through the Principles for Responsible Investment's reporting framework each year.

In July 2018, the Fund received feedback on its responses to the Principles for Responsible Investment's 'Reporting Framework' for 2017. The assessment results were broadly in line with the Fund's expectations, with scores matching or outperforming the Principles for Responsible Investment median scores in all areas where they were required to report. In particular the Fund outperformed the median score for the strategy and governance module.

**RECOMMENDED:**

**That the report be noted.**

#### **14. HALF YEARLY REVIEW OF GMPF'S PRIVATE EQUITY PORTFOLIO**

Angela Willets of Capital Dynamics Ltd attended the meeting to present the half yearly report of Greater Manchester Pension Fund's Private Equity portfolio for the period ending 30 June 2018.

Ms Willets gave a summary of the private equity market during the period under review including the continued strength of fundraising globally. This trend was expected to continue until year end with a decade high anticipated in the US.

With regard to the Fund's Private Equity portfolio, it was reported that three new fund commitments had been made during the first half of 2018 totalling £106.3 million. During the period under review, £101.1 million of commitments were drawn down and distributions totalling £91.3 million were received. The net asset value was 3.8% of Main Fund assets as at 30 June 2018 compared to 3.4% as at 31 December 2017.

It was reported that the portfolio since inception had remained very stable at 16.8% per annum and the prospects for long term Private Equity returns were considered to remain stable. The portfolio was moving in line with the pacing analysis designed to achieve the desired private equity exposure over the medium term.

**RECOMMENDED:**

**That the report be noted.**

#### **15. 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 Infrastructure Portfolio for the period ending 30 June 2018.

Mr Drugan began by summarising the infrastructure market for the first half of 2018 and explaining infrastructure deal flow by region and sector – energy and utilities dominated global infrastructure deal activity and renewable investing continued to grow. Despite strong returns in recent years there were concerns in the infrastructure industry that competition for assets was increasing prices and eroding returns and managers were increasingly considering hybrid infrastructure deals and entering new markets.

With regard to the Fund's Infrastructure portfolio, it was reported that one new fund commitment had been made during the first half of 2018 totalling £75.7million. During the period under review, £79.8 million of commitments were drawn down and distributions totalling £23.5 million were received. The net asset value of the portfolio increased by £27.9 million and, at £549.1 million as at 30 June 2018, represented 2.4% of total Main Fund assets and a multiple of 1.3 times cost.

It was reported that the overall net internal rate of return for the infrastructure fund portfolio was 11.3% per annum as at 30 June 2018.

**RECOMMENDED:**

**That the report be noted.**

## **16. INFRACAPITAL PARTNERS**

The Working Group welcomed Max Helmore and Elizabeth Pool of Infracapital Partners who attended the meeting to present an overview of the firm's investment activities and of infrastructure generally.

The Working Group was informed that Infracapital Partners was established in 2002 and was part of M&G Investment Management Limited, the European savings and investment business of Prudential Plc. Infracapital had raised and managed over £5 billion across 5 pools of capital since 2002 and focused on investing in essential infrastructure assets across the UK and, more recently Europe, to deliver regular cash flows and capital returns via two separate strategies – greenfield infrastructure and operational infrastructure.

The firm had a team of over 30 professionals based in London who worked closely with 8 specialist advisers to supplement deal sourcing and asset management capabilities. GMPF invested with Infracapital for the first time in 2008 and received over 1.8x the amount invested. A further commitment was made in 2017 and June 2018.

Infracapital had developed a thorough approach to Responsible Investment and a strong commitment to Environmental, Social and Corporate Governance best practice. The firm set strategic goals for the company and monitored performance against objectives, including Environmental, Social and Corporate Governance factors and closely monitored Environmental, Social and Corporate Governance performance.

Two case studies were outlined and discussed with the Working Group.

**RECOMMENDED:**

**That the information provided be noted.**

## **17. SPECIAL OPPORTUNITIES PORTFOLIO - REVIEW OF ACTIVITY AND PERFORMANCE**

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

The key features of the Special Opportunities Portfolio were outlined. In the 12 months to 30 June 2018, four new commitments / investments totalling £500 million were made and two further commitments totalling £200 million had been made post the period end. As at 30 June 2018 GMPF had made commitments / investments totalling £1.1 billion to 18 funds, of which 17 remained active. The portfolio had a value of £633 million and represented 2.8% of Main Fund assets.

Officers had significantly increased the rate of new fund commitments to increase the exposure to the granted type approvals and continued to have an active pipeline of opportunities for evaluation,

which, together with the drawdown of existing commitments, should see the net asset value continue to grow strongly.

Descriptions were given of each type approval that had been granted alongside the relevant commitments and a commentary regarding future plans and the large number of potential investment opportunities that Officers continued to receive / review. Officers were currently researching the Structured Credit market with a view to seeking a type approval as a potential source of an investment opportunity for the Fund.

It was reported that the pooled portfolio had achieved an internal rate of return of 8.9% per annum. The Special Opportunities Portfolio continued to provide a useful vehicle for achieving the key twin aims of increasing diversification and achieving good returns. The Chair extended thanks to the officers for the significant amount of work they had undertaken over the year.

**RECOMMENDED:**

**That the report be noted.**

## **18. UNDERWRITING, STOCKLENDING AND COMMISSION RECAPTURE**

The Assistant Director of Pensions (Investments) submitted a report advising Members of the activity and income generated on Underwriting, Stocklending and Commission Recapture during the quarter.

It was reported that the Fund did not participate in any sub-underwriting via UBS in the quarter ended June 2018. Stocklending income during the quarter was £275,394 compared to £313,767 in the same quarter of 2017, and Commission 'recaptured' was £1,690 compared to £21,218 in the same quarter of 2017. The value of securities on loan at the end of the quarter was £165.7 million (0.7% of GMPF assets) and collateral valued at £170.6 million was held against these loans.

The report outlined that income from these activities was very sensitive to market conditions, therefore the amounts generated were expected to vary from one quarter to another and from one year to another.

**RECOMMENDED:**

**That the report be noted.**

## **19. UPDATE ON ACTIVE PARTICIPATION IN CLASS ACTIONS**

The Assistant Director of Pensions (Investments) submitted a report, which provided Members with an update on litigation in which Greater Manchester Pension Fund sought to actively recover losses in the value of its shareholdings in various companies as a result of actions taken by those companies. A quarterly update explaining active Class Actions and Antitrust Litigations, which remain outstanding, was presented to Members, and recent developments relating to each action was provided.

**RECOMMENDED:**

**That the report be noted.**

## **20. URGENT ITEMS**

There were no urgent items.