

GREATER MANCHESTER PENSION FUND - ALTERNATIVE INVESTMENTS WORKING GROUP

15 April 2016

Commenced: 9.30 am

Terminated: 10.45 am

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

Apologies for Absence: Councillors Reid, Dennett, Ms Baines and Ken Drury

18. DECLARATIONS OF INTEREST

There were no declarations of interest.

19. MINUTES

The Minutes of the previous meeting held on 5 February 2016 were approved as a correct record.

20. CAPITAL DYNAMICS - ANNUAL REVIEW OF GMPF'S PRIVATE EQUITY PORTFOLIO

The Working Group welcomed John Gripton and 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 2015.

Mr Gripton began with an overview of developments at Capital Dynamics and then updated members on how the Private Equity environment had changed during the year. Global fundraising continued at a robust level, although aggregate volume declined, and exits were at a level near the record set in 2014.

With regard to GMPF's Private Equity portfolio, it was reported that 2015 had been a record year for GMPF, with commitments totalling £343.1 million made to 12 new funds and one follow-on investment. Two further commitments amounting to £76 million had been made post period end. The portfolio of over 20 active funds was diversified with exposure across geographies and experienced, well established managers.

It was reported that the portfolio return since inception had remained relatively stable, at 16.5% and, the prospects for long term Private Equity returns were considered to remain attractive.

RECOMMENDED:

That the report be noted.

21. PRIVATE EQUITY - REVIEW OF STRATEGY AND IMPLEMENTATION

The Executive Director of Pensions updated the Working Group on Private Equity activity, described the current Private Equity policy, described the current holdings position and briefly outlined the strategic position of the Private Equity portfolio and proposed changes to diversification and implementation targets. There was no backlog position to report in respect of new fund commitments.

The target allocation, effective since 1 July 2014, remained at 5% but officers had undertaken a comprehensive review of the appropriateness of GMPF's geographic and stage targets and proposed a modest change in geographic allocation targets for Europe and US.

It was also proposed that the 'Venture and Other' category be re-classified as 'Venture', and that an allocation of 5% to 15% be implemented.

It was recommended that the annual rate of new commitments should remain at £240 million and be implemented by way of typical commitment size of £30 million, which was expected to generate an average volume of 24 new fund commitments over a typical 3 year period.

RECOMMENDED:

That :-

- (a) the medium term strategic allocation for private equity remains at 5% by value of the total Main Fund assets,
- (b) the target geographical diversification of the private equity portfolio be amended to:-

| Geography | Percentage of portfolio Total Value* |
|----------------|--------------------------------------|
| EUROPE, inc UK | 40% to 50% |
| USA | 40% to 50% |
| ASIA | 10% to 15% |

* Total Value = Net Asset Value + Undrawn Commitments

- (c) the investment stage diversification of the private equity portfolio be amended to:-

| Geography | Stage as a percentage of Regional Total Value | | |
|----------------|---|-------------------|---------|
| | Large Buyout | Mid-Market Buyout | Venture |
| EUROPE, inc UK | 40% to 50% | 40% to 50% | 5-15% |
| USA | | 40% to 50% | |
| ASIA | | 40% to 50% | |

* Total Value = Net Asset Value + Undrawn Commitments

- (d) the scale of commitment to funds to be £240m pa, to work towards achievement of the strategy allocation over the next 5/6 years or so.
- (e) the Private Markets team continue to implement the private equity strategy via 3 year programmes of commitments but with the target number of commitments over that period increased from the current target of 20 funds to 24 funds. Each commitment to be of the average size of £30m, in the absence of exceptional factors.
- (f) commitments to European and US primary buyout funds to be made directly to partnership vehicles. Secondary investments, Asia and Venture Capital to be accessed via Fund of Funds but officers to continue to assess the viability of a direct approach giving due consideration to risk, diversification and resource availability.
- (g) it continues to be recognised that the portfolio may not fall within the target ranges at (b) and (c) above for a period of 5 – 10 years, because of transitioning from the previous target ranges.

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

The Working Group welcomed Victoria Gorman of Capital Dynamics Ltd, who attended the meeting to present the annual review of GMPF's infrastructure portfolio for the period ending 31 December 2015 and updated members on how the infrastructure environment had changed during the year.

It was reported that demand for infrastructure assets from institutional investors remained high in a low yield environment, that fundraising was robust and dealflow had slowed with competition driving assets prices higher.

With regard to GMPF's infrastructure portfolio, five new commitments totalling £170.9 million had been made during 2015, increasing total active commitments to £464.8 million at the year end. Two further fund commitments totalling £80 million had been made/approved since the period end. 2015 had been a strong year for both drawdowns and distributions.

It was reported that the portfolio return since inception had increased to 7.9% as at 31 December 2015, compared to 7.2% as at 31 December 2014.

RECOMMENDED:

That the report be noted.

23. INFRASTRUCTURE - REVIEW OF STRATEGY AND IMPLEMENTATION

The Executive Director of Pensions submitted a report summarising and reviewing the overall strategy regarding investment in infrastructure, including material change to the way the infrastructure portfolio was considered from a 'stage' perspective and changes to target geographic ranges. No changes were proposed to the strategy implementation.

The Working Group were updated on infrastructure portfolio activity during 2015 and advised that there was no backlog position to report in respect of new fund commitments. The target allocation, effective since 1 July 2014, remained at 4%.

In terms of geographic diversification, a reduction in the targeted exposure to North America (from 30%-40% to 20%-30%) with an offsetting increase in the allocation to Europe was proposed.

It was also proposed that, in response to key developments in the infrastructure market since GMPF's portfolio was established in 2001, that stage diversification within the portfolio be re-categorised to be consistent with the range and diversity of current and prospective infrastructure opportunities and also placing more meaningful diversification controls on the portfolio. Details and characteristics of the new categories were set out in the report, as were changes to target allocations within the new categorisations.

RECOMMENDED:

That :-

- (a) the medium term strategic allocation to infrastructure funds remains at 4% by value of total Main Fund assets,**
- (b) the target geographical diversification of the infrastructure portfolio be amended to:-**

| 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 be amended to:-**

| 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 to be £120m pa 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 pa (averaging 3 new funds pa).
- (f) Commitments to primary funds to be made directly to partnership vehicles.
- (g) It continues to be recognised that the portfolio may not fall within the target ranges at (b) and (c) above for a period of years, because of transitioning from the current portfolio composition.

24. URGENT ITEMS

There were no urgent items.

CHAIR