

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

**Friday, 22 July 2016**

**Commenced:** 9.30 am

**Terminated:** 10.40 am

**Present:** Councillors Cooney (Chair), Ricci, Ward, Halliwell, Mr Drury and Mr Thompson

**Apologies for Absence:** Councillor Reid

## **1. DECLARATIONS OF INTEREST**

There were no declarations of interest.

## **2. MINUTES**

The Minutes of the meeting of Alternative Investments Working Group meeting held on 15 April 2016 were approved as a correct record.

## **3. PRIVATE EQUITY PORTFOLIO - REVIEW OF PERFORMANCE**

The Assistant Executive Director of Pensions (Investments) submitted a report updating the Working Group on the returns achieved by GMPF's Private Equity Portfolio on an absolute basis and when compared with public equity markets and private equity comparators.

It was reported that GMPF used long term measures such as the internal rate of return and money multiple as the most appropriate means of evaluating performance, a vintage decade approach had been adopted and, in calculating the performance, included only those funds that were considered to be mature (i.e. more than 4 years old).

A market background was provided and the Working Group was informed that 2015 had been a positive year for the performance of private equity assets, economic growth was modest and interest rates remained at very low levels. As a result of positive market conditions, asset realisations continued at high levels and fund raising was brisk for managers with good track records.

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 16.9% per annum as at 31 December 2015 (17% per annum as at 31 December 2014), a return that was good in absolute terms and when compared to appropriate public and private market comparators.

## **RECOMMENDED:**

**That the report be noted.**

#### **4. INFRASTRUCTURE PORTFOLIO - REVIEW OF PERFORMANCE**

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

It was reported that GMPF's infrastructure portfolio had been established in 2001 and had been maintained as a separate portfolio since 2010. Long term measures, such as the 'since inception' internal rate of return, were considered to be the most appropriate means of evaluating portfolio performance and comprised only 'mature' funds - those in excess of 4 years old.

The details and performance of individual infrastructure funds were highlighted, as per Appendix A of the report, as was the performance of each of the revised categories of 'core and long term contracted' funds, 'value added' funds and 'opportunistic' funds.

Overall each of the three categories of the infrastructure portfolio were reporting positive performance and the portfolio level return for all mature funds as at 31 December 2015 was 8.3% per annum (compared to 7.2% per annum as at 31 December 2014) which continued to show progress towards the target of 9 -12% per annum.

#### **RECOMMENDED:**

**That the report be noted.**

#### **5. WARBURG PINCUS**

The Working Group welcomed Jonas Agesand and Kanika Kumar of Warburg Pincus, who attended the meeting to present an overview of their firm's investment activities and of the private equity industry more generally.

Warburg Pincus was established in New York in 1966 and was one of the world's oldest private equity firms and one of the first to invest outside the US. The firm had over 500 employees including over 185 investment professionals based in investment offices around the world.

The firm had a global focus on thesis-driven growth investing in five core sectors; energy, financial services, healthcare and consumer, industrial and business services and technology media and communications. The firm had a strong track record and had invested in more than 760 portfolio companies.

The private equity track record of the firm was highlighted, including detailed analysis of the three funds raised by Warburg Pincus since 2006 and to which GMPF had made commitments, and a comprehensive case study was discussed.

#### **RECOMMENDED:**

**That the report be noted.**

#### **6. SPECIAL OPPORTUNITIES PORTFOLIO - APPROVAL OF AN INVESTMENT SUB-TYPE**

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

The key features of the portfolio were presented and it was reported that the proposed investment sub-type, "Leveraged Private Debt", would be a sub-type of the existing "Private Debt" type approval. The new sub-type approval would allow individual investments/commitments involving a number of those key features, thereby satisfying the minimum requirements of the "Special Opportunities Portfolio".

The report detailed Officers' definition of "Leveraged Private Debt" fund and the rationale for leveraging a private debt portfolio.

It was proposed that the "Leveraged Private Debt" type approval be applicable for investments up to one third of the Private Debt type approval based upon the projected Net Asset Value likely to be attained, as assessed at the time of making the commitment. Officers had spent 18 months tracking opportunities in the credit market and were satisfied that there was an attractive risk/return opportunity, with changes in the banking system having created an attractive market opportunity for alternative lenders to provide debt capital to companies.

GMPF's three external advisers had been consulted and had given their unanimous approval to the establishment of this investment sub-type.

**RECOMMENDED:**

**That approval be given for a new sub-type of investment by the Fund's "Special Opportunities Portfolio".**

**7. URGENT ITEMS**

There were no urgent items.

**CHAIR**