GREATER MANCHESTER PENSION FUND - POLICY AND DEVELOPMENT WORKING GROUP

8 September 2022

Commenced: 11:00am **Terminated: 12.50pm**

IN ATTENDANCE

Councillor Cooney (Chair)	
Councillor Ryan	
Councillor North	
Petula Herbert	**MoJ**
John Pantall	**Fund Observer**
Cllr John Taylor	**Fund Observer**
Mark Powers	**Advisor to the Fund**
Peter Moizer	**Advisor to the Fund**
Ronnie Bowie	**Advisor to the Fund**
Sandra Stewart	**Director of Pensions**
Tom Harrington	**Assistant Director of Pensions (Investments)**
Paddy Dowdall	**Assistant Director of Pensions (Local Investments and Property)**
Euan Miller	**Assistant Director of Pensions (Funding & Business Development)**
Steven Taylor	**Assistant Director of Pensions (Special Projects)**
Neil Cooper	**Head of Pension Investment (Private Markets)**
Kevin Etchells	**Senior Investment Manager (Local Investments)**
Dan Hobson	**Head of Real Assets**
Michael Ashworth	**Senior Investments Manager (Public Markets**
Andrew Hall	**Investment Manager (Local Investments)**
Abdul Bashir	**Investment Manager (Pubic Markets)**
Mushfiqur Rahman	**Investments Manager (Public Markets)**
Alex Jones	**Investment Officer (Local Investments)**
Reka Todor	**Investment Officer (Property)**
Shauna Moreland	**Senior Accountancy Assistant**

Apologies for absence: **John Thompson (UNITE)**

20. DECLARATIONS OF INTEREST

There were no declarations of interest.

21. MINUTES

The minutes of the meeting of the Policy and Development Working Group held on the 23 June 2022, were approved as a correct record.

22. REPORT OF THE MANAGER

Willem van-Bruegel, Head of Global Sovereign Markets, Steve Magill, Head of European Value and Jonathan Davies, Senior Portfolio Manager, UBS, attended before Members and gave a presentation reviewing their performance up to 30 June 2022 and outlined a proposal for a pilot of a Global (Developed) Equity Value allocation, for consideration by Members.

Mr Davies began by reporting on asset allocation and performance contributors over the past year. He explained that an underweighting to UK Government Bonds was a significant contribution to the portfolio's performance.

Mr Davies added that valuation dispersion within stock markets remained high and stocks with value characteristics had scope for an unusually large degree of out-performance versus non-value stocks over the next few years.

Mr Magill gave a detailed account of UK and European ex UK equity performance, including the market return, overall, to pre-covid levels. He further commented on opportunities for future investment. The contribution of individual stocks to fund performance was also explored.

Mr Magill then outlined the proposal for a Global (Developed) Equity Value allocation and further details were provided in an appendix to the report.

Discussion ensued with regard to the presentation and the proposal put forward. Members and Advisors broadly supported the proposal for a Global (Developed) Equity Value allocation in principle, however, sought further clarity on a number of issues. These issues included the role of analysts, the UBS process and resources available to source value opportunities in all regions (including Asia Pacific) and the level of the initial suggested allocation. Officers were requested to carry out further due diligence, in respect of the issues raised and the initial allocation with a view to a stepped increment over a period of time.

RECOMMENDED

(i) That the content of the report and presentation be noted; and

(ii) That Members approve a pilot of a Global (Developed) Equity Value allocation within the UBS mandate, subject to satisfactory completion of additional due diligence, to be submitted to the next meeting of the Working Group.

23. UPDATE ON PERFORMANCE MEASUREMENT

Consideration was given to the report of the Director of Pensions, which updated the Working Group on the proposed enhancements to the reporting of performance for the internally managed portfolios.

It was explained that the next proposed phase in the development of enhanced performance reporting involved a focus on the internally managed portfolios of non-public market assets.

In considering the proposed enhancement of performance reporting, a number of aims and objectives were to be considered.

It was further explained that the Assistant Director of Pensions (Investments) would take a lead in the development of enhancements consistent with the above aims and objectives and report back to future meetings.

RECOMMENDED

That the content of the report be noted.

24. PRIVATE EQUITY PERFORMANCE – REVIEW OF PERFORMANCE

Consideration was given to a report of the Assistant Director of Pensions Investments, which updated the Working Group on the returns achieved by GMPF's Private Equity portfolio to the end of 2021.

Members of the Working Group were presented with GMPF's Private Equity Portfolio returns.

It was explained that 2021 saw a continuation of the trends that emerged from the financial depths of the COVID-19 pandemic with business software and services, healthcare and online consumer businesses all benefitting from an apparent acceleration in supportive trends in the manner and extent to which business and consumer behaviour was digitising.

Those sectors that bore the brunt of social distancing measures, such as traditional retail, hospitality, leisure and transport showed, in most cases, a trend towards much increased levels of activity, though full recovery of pre-COVID levels of profitability appeared to remain some way off.

Transactional volumes in the private equity market exceeded all records. Acquisition valuations continued to be rich compared to history and on any reasonable measure ended the year at, or around, all-time highs.

Clearly, though, the macroeconomic and financial environments had changed materially through 2022 with many of the tailwinds that had driven outsized returns from private equity investing having gone into reverse and the invasion of Ukraine by Russia causing a significant rethink regarding international political relations, including those with China. Debt was less readily available and more expensive. Listed markets had fallen, especially so in the technology sector. Profits were being reduced by inflation in raw material and labour markets. Growth estimates were being greatly reduced. The near-term outlook appeared to be quite challenging, to say the least.

Members were advised that GMPF's private equity programme continued to compare well against any reasonable set of objectives. It had delivered returns that were good in absolute terms and that were also good when compared to appropriate public and private market comparators.

The investment team continued to seek to achieve such returns going forward and this formed the basis for pursuing the strategy presented to the June 2022 meeting of the Policy & Development Working Group and approved by the July 2022 Management Panel.

RECOMMENDED
That the content of the report be noted.

25. PRIVATE DEBT PORTFOLIO – REVIEW OF PERFORMANCE

The Assistant Director of Pensions Investments submitted a report, which updated the Working Group on the returns achieved by GMPF's Private Debt portfolio to the end of 2021.

Members were presented with the GMPF Private Debt portfolio returns.

It was explained that, like much of the preceding decade, 2021 was kind for lenders with defaults low and refinancing options widely available for almost all businesses. Government support schemes, such as furlough, and lender forbearance (believing the impact to be temporary) saw most businesses survive the impact of social distancing measures. This played out well through 2021 as impacted businesses saw profitability recover, lender patience justified, and loans marked back to par in most cases.

Lending volumes were high reflecting the busy transactional market. In Europe and the US, direct lenders continued to take share from banks and, depending on market dynamics, the high yield bond market, expanding the addressable market. Loan documentation standards were pressured in 2021 by competition in the market and high volumes with some sectors, especially software, exploring new, higher, levels of leverage supported by high levels of cash profit and high purchase values. Some of these explorations may turn out to have been ill advised.

It was further explained that the Private Debt portfolio was created through the "promotion" of the senior, secured element of the Private Debt Type Approval from the Special Opportunities Portfolio to a Main Fund strategic allocation in 2018. As at December 2021, investment commitments amounting to £1,800m had been made in recent years. Whilst Private Debt funds matured faster than Private Equity funds, officers believed that three years was an appropriate cut off for the definition of “maturity”. As a result, the majority of recent investments fell into the “immature” category, albeit this would change relatively quickly.

To date, GMPF’s debt portfolio, as at 31 December 2021, had not faced any material or noteworthy performance issues. Deployment had been roughly in line with officers’ expectations.

In summary, Members were advised that it was too early to make any meaningful conclusions regarding the performance of the investment commitments that had been made in recent years leading up to and following the creation of the Private Debt strategic allocation within the Main Fund. Deployment had been consistent with expectations in terms of target returns.

RECOMMENDED
That the content of the report be noted.

26. INFRASTRUCTURE FUNDS PORTFOLIO – REVIEW OF PERFORMANCE

Consideration was given to a report of the Assistant Director of Pensions Investments updating the Working Group on the returns achieved by the GMPF’s Infrastructure Funds portfolio to the end of 2021.

It was explained that 2021 was a year of recovery for the parts of the infrastructure market that had exposure to COVID related lockdown measures or price and/or volume exposure to energy markets.

Transport volumes recovered strongly as measures to restrict the movement of people were lifted and manufacturing volumes increased. Similarly, airports saw freight and passenger numbers recover sharply. Whilst there were still obstacles to overcome in the airport sector, trends remain positive.

Oil and gas related assets continued to see lessened investment demand as asset owners debated their attractiveness in a world where net-zero carbon targets were more commonplace. Energy markets recovered spectacularly through 2021, whilst Russia’s invasion of Ukraine in early 2022 may be a cause for a re-evaluation of energy security needs even within the context of a transition to an energy supply base dominated by renewables.

There remained strong appetite across the rest of the infrastructure market with particularly strong demand for assets focussed on renewable power generation, energy transition and telecoms.

Members were advised that the investments within the mature portfolio had delivered returns consistent with the middle of the range of the programme’s target and ahead of the benchmark return of RPI+4% per annum.

It was further explained that during 2020, GMPF was invited to participate in the CEM Global Leaders Programme, a benchmarking service for an elite peer group of large asset owners, which undertook specific research studies. The 2021/22 study focussed on Infrastructure. GMPF took part in the study, and the report, using combined GMPF Infrastructure funds and GLIL data to December 2020, was attached as an appendix to the report.

RECOMMENDED
That the content of the report be noted.

27. SPECIAL OPPORTUNITIES PORTFOLIO – REVIEW OF PERFORMANCE

A report was submitted by the Assistant Director of Pensions Investments updating the Working Group on the returns achieved by GMPF’s Special Opportunities Portfolio to the end of 2021.

RECOMMENDED
That the content of the report be noted.

28. UK AND INTERNATIONAL PROPERTY – REVIEW OF PERFORMANCE

Consideration was given to a report of the Assistant Director, Local Investments and Property and a presentation by Ed White of MSCI, providing an update on the financial returns achieved by the portfolio.

Members were advised that the UK Total Property Portfolio had registered an under performance compared to the benchmark over a 1- and 3-year period which was led by the drag within the Specialist Funds Portfolio and the UK Direct Property Portfolio. More positively, the strategy to deploy further capital into balanced funds had been accretive over each time period.

Whole Property performance over 1 and 3 years was below the blended benchmark due to the underperformance registered at the Specialist Funds and UK Direct Property portfolios.

Going forward, officers expected UK Direct Property performance to stabilise following the split of the portfolio and new investment managers appointed for each respective portfolio. The Specialist Funds portfolio would mature over the coming 2-3 years as legacy funds were liquidated and the J-curve effect of new investments tapered off.

Members thanked Mr White for his presentation and the Advisors commented on the respectable returns to date.

RECOMMENDED
That the content of the report be noted.

29. IMPACT AND INVEST FOR GROWTH PORTFOLIOS – REVIEW OF PERFORMANCE

Consideration was given to a report of the Assistant Director of Pensions, Local Investments and Property, which provided an update on the financial returns by the growth portfolios.

It was explained that the “dashboard” information provided at Appendix 1 to the report, showed a detailed breakdown of the investments made to date for both the Impact and Invest for Growth portfolios and the performance of these portfolios as at 31 December 2021. It was worth noting that the Impact Portfolio was still in its infancy and therefore performance data at this early stage was less meaningful.

The level of commitments at 31 December 21, against the allocation for both the Impact Portfolio and Invest for Growth Portfolios was £553 million, with £254 million of funds drawn to date. This was a net increase in commitments of £102m from the position previously reported, as at 31 December 20. The level of drawdowns in the year was £41m, being double that of the previous year and in line with the level of drawdowns in 2019. This was due to fund managers’ investment activity returning to more “normal” levels and pursuing further new opportunities, as the impacts of the pandemic eased.

The IRR position for the current Impact portfolio was 6.0%, with the total value of investments being £242m as at 31 December 2021. The Invest for Growth portfolio had an IRR of 8.6% and a total value of £51m as at 31 December 21.

Due diligence on potential further investments was on-going, for opportunities of suitable quality which met the aims of the Impact Portfolio. It was not anticipated that the effects from Covid 19 would require any changes to the long-term programme for impact investment.

The report summarised that the Impact Portfolio remained relatively immature and therefore performance measures should be treated with caution. The IRR of 6.3% was now in line with the benchmark, partly driven by the outperformance of the equity funds within the portfolio. The portfolio was impacted by the J-curve effect, common to many private market investments, and the poor performance from a couple of the earlier commitments. The returns from the more mature Invest for Growth portfolio, which had a current IRR of 8.6%, supported the belief that benchmark returns would be achieved in the long term.

RECOMMENDED
That the content of the report be noted.

30. GREATER MANCHESTER PROPERTY VENTURE FUND

A report of the Assistant Director of Pensions, Local Investments and Property was submitted, providing an update on the returns achieved by the GMPFVF portfolio to the end of 2021.

Members received a detailed breakdown of the performance of the portfolio and sub-portfolios to 31 December 2021. The portfolio consisted of 41 investments, 25 were current and on-going with the 16 exited investments (property/sites now sold or loans fully repaid) generating a cash return in excess of cost of £56m. The 25 current investments represented cash drawn of £328m, being 39% of the allocation to GMPVF.

It was reported that the annualised return of the total portfolio at 6.2%, was slightly lower than the strategic benchmark of 6.8%, however it was believed that the portfolio was on track to achieve the strategic return objective over the medium to long-term.

The report summarised that the current GMPVF portfolio was relatively immature, with £161m of capital being deployed in the last three years. In that context, the current IRR of 6.2%, together with the positioning of the portfolio, progress on current developments and the returns achieved for the exited investments was strong evidence that the portfolio was on track to achieve the strategic return objective over the medium to long-term.

RECOMMENDED
That the content of the report be noted.

31. GLIL PERFORMANCE AND CEM GLOBAL LEADERS PROGRAMME

Consideration was given to a report of the Assistant Director, Local Investments and Property, providing details of GLIL's performance and the outcome of a CEM Global Leaders Programme report.
GLIL's performance highlights were detailed in an appendix to the report.

Members were advised that during 2020, GMPF was invited to participate in the CEM Global Leaders Programme, a benchmarking service for an elite peer group of large asset owners, which undertook specific research studies. The 2021/22 study focussed on Infrastructure. GMPF had taken part in the study, and the report, using GLIL data to December 2020, was appended to the report.

RECOMMENDED
That the content of the report be noted.

32. MANAGER MONITORING REGIME INCLUDING MONITORING ESCALATION

Consideration was given to a report of the Assistant Director of Pensions Investments, which summarised the results from the Monitoring Escalation Protocol as at 30 June 2022.

The Overall Status Levels and courses of action taken (or to be taken) in relation to the results from the most recent Monitoring Escalation Protocol were provided for each manager in an appendix to the report.

It was explained that the Manager Escalation Protocol included performance as the sole metric by which the Securities Managers were initially assessed. There were a number of less quantitative, softer dimensions, which could be used to form a view on the Manager's prospects of outperforming going forward. These included the quality of the staff and turnover of key personnel, a coherent and robust approach to linking the underlying philosophy of investing to the actual purchases and sales made and the underlying investment philosophy itself.

In addition, a traffic light approach (Green, Amber, Red) had been developed to provide a single overall indicator that summarised Officers' current subjective assessment of People, Process and Philosophy for each Manager. The respective traffic light should be viewed as providing additional context to supplement the codified Status Levels of the Monitoring Escalation Protocol.

RECOMMENDED
That the content of the report be noted.

33. DATE OF NEXT MEETING

It was noted that the next meeting of the Policy & Development Working Group was scheduled to take place on Thursday 24 November 2022.

CHAIR