GREATER MANCHESTER PENSION FUND - POLICY AND DEVELOPMENT WORKING GROUP

7 September 2023

Commenced: 11:00am **Terminated: 13:00pm**

IN ATTENDANCE

Councillor Cooney (Chair)	
Councillor Fitzpatrick	
Councillor North	
Councillor O'Neill	
Councillor Sheikh	
John Thompson	**Trade Union Representative (UNITE)**
John Pantall	**Independent Observer**
Councillor John Taylor (Stockport)	**Observer**
Mark Powers	**Advisor to the Fund**
Peter Moizer	**Advisor to the Fund**
Sandra Stewart	**Director of Pensions**
Tom Harrington	**Assistant Director of Pensions (Investments)**
Steven Taylor	**Assistant Director of Pensions (Special Projects)**
Neil Cooper	**Head of Pension Investment (Private Markets)**
Kevin Etchells	**Senior Investment Manager (Local Investments)**
Michael Ashworth	**Senior Investments Manager (Public Markets**
Andrew Hall	**Investment Manager (Local Investments)**
Abdul Bashir	**Investment Manager (Public Markets)**
Mushfiqur Rahman	**Investments Manager (Public Markets)**
Alex Jones	**Investment Officer (Local Investments)**
Shauna Moreland	**Investment Officer (Local Investments)**

Apologies for absence: **Petula Herbert**

18. DECLARATIONS OF INTEREST

There were no declarations of interest.

19. MINUTES

The minutes of the meeting of the Policy and Development Working Group held on the 22 June 2023, were approved as a correct record.

20. 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 2023.

Mr Davies began by reporting on asset allocation and performance contributors over the past year. He explained that the two strongest contributors to performance over the past year were stock selection and Fixed Income asset allocation.

Mr Davies added that outlook for equities overall was fairly balanced and valuation dispersion within stock markets remained high. He further commented that valuation discrepancies between cheap sector and dearer sectors remained high, which implied that there was on going good return prospects from active stock selection.

Mr Magill gave a detailed market review and he further commented that a combination of slowing economic growth and excitement around Artificial Intelligence led to strong recovery in the Technology sector. The contribution of individual stocks to fund performance was also explored.

Wide ranging discussion ensued with regard to the content of the presentation, in particular as to whether the emergence of Artificial Intelligence in the Technology sector could be sustained in the long term.

RECOMMENDED
That the performance report be noted.

21. MANAGER MONITORING REGIME INCLUDING MONITORING ESCALTION

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 2023.

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.

22. PRESENTATION BY MSCI ON UK AND OVERSEAS PROPERTY PERFORMANCE

Ed White of MSCI attended before Members and gave a presentation, providing an update on UK and overseas property markets and relative performance of the various GMPF portfolios over periods up to 31 December 2022.

Members were advised that UK Direct Portfolio had outperformed in 2022 but fell marginally behind the index over 3 years. Industrial allocations had hindered performance in the balanced funds in 2022, as well as in the core portfolio, however it was explained that over the long term industrial allocations had significantly benefited performance. Mr White explained that it was the market expectation that industrials would rebound and form a core part of portfolios in the future.

The overseas portfolio had performed extremely well. Members were advised that it should however be noted that some parts of the global real estate market had not responded to the global headwinds the same as the UK and it was yet to be seen if they would.

Mr White reported that the Total Real Estate Portfolio significantly outperformed the requisite benchmark over 1 year and achieved -1.9% compared to -6.4%. Over three years the portfolio achieved 2.6% compared to 2.4% in the benchmark.

Detailed discussion ensued in respect to the presentation, in particular regarding high vacancy rates within the occupier market. Members also recognised the changing structure within the balanced funds portfolio due to the change in people's habits and the way they worked and interacted with the built environment. Members and Advisors thanked Mr White for his detailed presentation.

RECOMMENDED
That the performance report be noted

23. PRIVATE EQUITY PORTFOLIO - 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 at the end of 2022.

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

It was explained that 2022 marked the end of a period of elevated returns from private equity investments. A number of factors combined in 2022 suggested this, such as the market in growth equity investments into software businesses crashed. Many such companies saw their valuations fall by as much as 75% as funding conditions tightened, which raised concerns around how losses could be financed. Members were advised that before this sell off, this part of the market had delivered amongst the highest private equity returns throughout the 2010's. It was also noted that despite being largely absent from investment discussions for many years, inflation had made a comeback in 2022. Central banks had responded to re-emergence of inflation with a series of interest increases which had dramatically changed the funding costs for the leveraged finance sector.

It was reported that there were falls in valuations, albeit rather modest in comparison to listed company share prices. PME measures had shown increased outperformance against listed indices, although the widened gap could be explained as much by behavioural factors as by more objective real-world factors. It was recognised that as the cost of borrowing increased, private equity managers were unlikely to be able to pay the kinds of lofty valuations that have been a feature of the market for some time. This was expected to be reflected in the valuations of existing portfolio companies too. Members were advised that as market participants reflected on what the significant changes in the financing environment meant for their investment strategies and the price of target assets, market volumes had dropped substantially.

It was explained that the factors and consequences related to the end of elevated returns from private equity funds continued to be present through 2023, with no obvious reason why they should change the materiality in the near term if inflation remained an issue and interest rates remained at or around current levels.

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 sought to achieve such returns going forward and this formed the basis for pursuing the strategy presented to the June 2023 meeting of the Policy & Development Working Group and approved by the July 2023 Management Panel.

RECOMMENDED
That the content of the report be noted.

24. 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 2022.

Members were presented with the GMPF Private Debt portfolio returns.

It was reported that macroeconomic factors developed negatively throughout 2022 and suggested that defaults were likely to increase in the next few years after a decade which was kind for lenders with defaults low and refinancing options widely available for almost all businesses. Inflation had pressured operating margins in some cases, whilst an increase in interest rates had increased financing costs or would crimp cash flow when hedges roll off. Members were advised that interest cover worsened as a result and would bring some borrowers back to the negotiating table with lenders to see how best to work through issues, which would lead to covenant waivers, amendments and extensions and, ultimately, debt for equity restructurings.

Lending volumes (and hence deployment by managers) had dropped significantly from Summer 2022 when the full extent of the inflation shock and the extent of future interest rate increases became apparent. Direct lenders continued to take share from banks and, depending on market dynamics, the high yield bond market, although market volumes, overall, were very low as equity sponsors reflected on what the new financing environment meant for their investment strategies.

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.

To date, GMPF's debt portfolio, as at 31 December 2022, had not faced any material or noteworthy performance issues. Deployment had been roughly in line with officers' expectations until Summer 2022 when interest rate increases brought much of the market to a standstill.

In summary, Members were advised that it was too early to make any meaningful conclusions regarding the performance of the investment commitments that have 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. However, it remained to be seen the extent to which the deteriorating macroeconomic and financing environment detracted from contractual returns over the coming quarters and years.

RECOMMENDED
That the report be noted

25. 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 2022.

It was explained that 2022 saw further recovery in transport assets from the lasting effects of COVID restrictions on movement whilst oil and gas related assets (mainly pipelines) continued to benefit from stronger energy markets.

It was reported that the surge in inflation seen across many economies in 2022 had put the infrastructure sector's inflation hedging characteristic to the test. Whilst it was still relatively early days, the evidence to date was that the portfolio had managed to withstand rising input costs and, through contractual means, or otherwise, portfolio companies had been able to pass through price increases to maintain asset values. With inflation came a dramatic change in the interest rate environment with consequent changes in financing markets. This had slowed activity and may have further impacts on asset valuations as discount rates adjusted to the new financing environment.

There remained strong appetite for renewable energy investments and other assets would likely play a part in the transition away from fossil fuel sources of energy, though the capacity of markets to absorb capital profitably was the subject of debate.

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.

RECOMMENDED
That the content of the report be noted.

26. 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 2022.

Members were provided with return data for all vintage years since 2000 which was appended to the report. Offiicers summarized the data provided and terms of performance of mature fund and explained that returns to date had been good and had, in some cases, exceeded expectations.

RECOMMENDED
That the content of the report be noted.

27. 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 to the end of 2022.

It was explained that the number of impact focused fund managers and investment opportunities available to investors had grown significantly in recent years.

It was reported that overall performance had been affected by a handful of the earliest commitments. As a result of these experiences, officers had adapted the investment approach to focus on more experienced, national managers supplemented with NW focussed co-investments. Members were advised that the best performing funds within the portfolio continued to be private equity funds. Whilst 2022 saw a different market overall for private equity and a drop from the peak of 2021, the funds within the Impact Portfolio continued to have strong exits from portfolio companies returning many multiples of the original investments and distributing these returns back to investors.

The report summarised that the Impact Portfolio remained immature and therefore performance measures should be treated with caution. Members were provided with return data for all investments made within in Impact portfolio which was appended to the report.

RECOMMENDED
That the content of the report be noted.

28. GREATER MANCHESTER PROPERTY VENTURE FUND - REVIEW OF PERFORMANCE

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 2022.

Members received a detailed breakdown of the performance of the portfolio and sub-portfolios to 31 December 2022. The portfolio consisted of 46 investments, 25 were current and on-going with the 21 exited investments (property/sites now sold or loans fully repaid) which generated a cash return in excess of cost of £75m. The 25 current investments represented cash drawn of £462m, being 55% of the allocation to GMPVF

It was reported that the annualised return of the total portfolio at 5.2%, was slightly lower than the strategic benchmark of 7.2%, 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 £263m of capital being deployed in the last three years. In that context, the current IRR of 5.2%, 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.

29. GLIL PERFORMANCE UPDATE

Consideration was given to a report of the Assistant Director, Local Investments and Property, providing details of GLIL's performance at the end of 2022.

It was explained that whilst in many ways GLIL might be considered another line item in GMPF's private markets portfolio, it was also a vehicle that was managed directly by GMPF officers, together with officers from GMPF's Northern LGPS partners and employees of LPPI. Accordingly, it was appropriate to provide a more detailed level of reporting than would normally be the case for an individual, externally managed private market fund.

GLIL's performance highlights were detailed in an appendix to the report.

RECOMMENDED
That the content of the report be noted.

30. DATE OF NEXT MEETING

It was noted that the next meeting of the Policy & Development Working Group was scheduled to take place on Thursday 23 November 2023.

CHAIR