

GREATER MANCHESTER PENSION FUND - ALTERNATIVE INVESTMENTS WORKING GROUP

13 April 2017

Commenced: 9.30 am

Terminated: 10.55 am

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

In Attendance:

Sandra Stewart	Executive Director of Pensions
Steven Taylor	Assistant Executive Director of Pensions (Investments)
Neil Cooper	Senior Investments Manager
Nick Livingstone	Investments Manager
Mark Powers	Adviser to the Fund

Apologies for Absence: Mr Drury

21. DECLARATIONS OF INTEREST

There were no declarations of interest.

22. MINUTES

The Minutes of the meeting of the Alternative Investments Working Group held on 3 February 2017 were approved as a correct record.

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

The Working Group welcomed 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 2016.

The Working Group was provided with an overview of the Private Equity environment. With regard to GMPF's Private Equity portfolio, it was reported that eight new funds and two follow on commitments had been made during 2016 totalling £278 million, taking the total active commitment to £1.519 billion as at 31 December 2016. The portfolio was diversified with exposure spread across multiple geographies and experienced, well established managers.

It was reported that the portfolio return since inception had remained very stable at 16.8% per annum and the prospects for long term Private Equity returns were considered to remain attractive.

RECOMMENDED:

That the report be noted.

24. PRIVATE EQUITY - REVIEW OF STRATEGY AND IMPLEMENTATION

The Assistant Executive Director of Pensions (Investments) submitted a report, which summarised the activity and reviewed the overall strategy regarding investment in private equity.

It was reported that during 2016 the Private Markets team invested slightly more than the commitment target with a total of £247 million of new commitments to eight new funds, taking the number of active funds in the private equity portfolio to 93. There were two new managers added during the year and a new approach to implementation in Asia. No new fund-of-funds commitments were made and there was no backlog position to report at year end.

The target allocation remained at 5% of Main Fund value and as at 31 December 2016 the private equity portfolio was 2.9% of the total value of the Main Fund. Since 31 December 2015, the value of the portfolio had risen by almost 40% as a result of investment activity and valuation increases and the Main Fund had risen in value by 20%.

The Working Group was informed that no changes were proposed to the overall allocation, geographic and stage targets.

It was proposed that the rate of commitment be increased to £280 million per annum resulting in the 5% target being reached by approximately 2020. The Private Markets teams would continue to implement the private equity strategy via three year programmes of commitments, each with a revised average size of £35 million, resulting in a target number of 24 funds over the three year period.

The Executive Director of Pensions informed the Group that new appointments had been made within the broader Investments team and officers were exploring the possibility of a joint venture approach with Northern Pool partners.

RECOMMENDED

That:-

- (a) The medium term strategic allocation for private equity remains at 5% value of the total Main Fund assets.
- (b) The target geographical diversification of the private equity portfolio remains as:-

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 remains as:-

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 be £280 million per annum, to work towards achievement of the strategy allocation over the next 3/4 years.
- (e) The Private Markets team continue to implement the private equity strategy via 3 year programmes of commitments with a target number of commitments over that period of 24 funds. Each commitment to be of the average size of £35 million, in the absence of exceptional factors.

- (f) **Commitments to European, US and Asian primary buyout funds to be made directly to partnership vehicles. Secondary investments 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 from time to time to reflect portfolio repositioning.**

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

The Working Group welcomed Mark Drugan of Capital Dynamics Ltd, who attended the meeting to present the annual review of GMPF's infrastructure portfolio for the period ending 31 December 2016.

Mr Drugan began by giving a market summary of infrastructure and explaining infrastructure deal flow by region and industry. It was reported that 2016 had been a record fund raising year with 52 funds raising an aggregate of \$59 billion.

With regard to GMPF's infrastructure portfolio two new commitments totalling £90.7 million had been made during 2016, increasing total active commitments to £590.2 million at year end. The net asset value was £365.9 million representing 1.8% of Main Fund assets.

It was reported that the portfolio value appreciated by 21.2% during 2016 and the overall infrastructure internal rate of return since inception had increased to 11.2% per annum as at 31 December 2016.

RECOMMENDED:

That the report be noted.

26. INFRASTRUCTURE - REVIEW OF STRATEGY AND IMPLEMENTATION

The Assistant Executive Director of Pensions (Investments) submitted a report summarising the activity and reviewing the overall strategy regarding investment in infrastructure.

It was reported that during 2016, two new fund commitments had been made totalling £80 million, taking the total number of active funds in the infrastructure portfolio to 23. With effect from 1 July 2016 the average rate of new commitments had increased from £120 million per annum to £150 million per annum to reflect the increase in the target Main Fund allocation from 4% to 5%. The Privates Market team had invested less than the target of £135 million during the year resulting in a £55 million backlog, but were on target to invest this backlog during 2017 in addition to the current year deployment targets.

The value of the infrastructure portfolio as at 31 December 2016 was £366 million representing 1.8% of the total value of the Main Fund. It was noted that the portfolio was immature and would take time to build towards the 5% target.

The Working Group was informed that no changes were proposed to the overall allocation, geographic targets and stage diversification targets. Following the review of strategy and implementation it was proposed to increase the rate of commitment to £210 million per annum with an average of three new funds per annum with a commitment size of £70 million per fund.

RECOMMENDED**That:-**

- (a) The medium term strategic allocation to Infrastructure funds remains at 5% value of total Main Fund assets.
- (b) The target geographical diversification of the infrastructure portfolio remains as:-

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 remains as:-

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 be £210 million per annum 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 per annum (averaging 3 new funds per annum).
- (f) Commitments to primary funds be made directly to partnership vehicles.
- (g) It is recognised that the portfolio may not fall within the target ranges at (b) and (c) from time to time to reflect portfolio repositioning.

27. PROCUREMENT OF TAX ADVICE REGARDING US PRIVATE MARKET INVESTMENT

The Assistant Executive Director of Pensions (Investments) submitted a report, which advised the Working Group of plans to procure tax advice pertaining to the Fund's US private market investments.

The Group were advised that the Fund would procure a supplier of tax advice services in relation to certain aspects of private market investments. Provision for the tax advice would be made within the 2017/18 budget.

RECOMMENDED:**That the report be noted.**

28. URGENT ITEMS

There were no urgent items.