GREATER MANCHESTER PENSION FUND - POLICY AND DEVELOPMENT WORKING GROUP

3 September 2020

Commenced: 11:00 **Terminated:** 12:30

IN ATTENDANCE

Councillor Warrington (Chair)	
Councillor Cooney	
Councillor M Smith	
Councillor Pantall	**Fund Observer**
Councillor Ryan	**Fund Observer**
John Thompson	**Trade Union Representative (UNITE)**
Ronnie Bowie	**Advisor to the Fund**
Lyn Brown	**Advisor to the Fund**
Mark Powers	**Advisor to the Fund**
Sandra Stewart	**Director of Pensions**
Tom Harrington	**Assistant Director of Pensions (Investments)**
Paddy Dowdall	**Assistant Director of Pensions (Local Investments & Property)**
Steven Taylor	**Assistant director of Pensions (Special Projects)**
Neil Cooper	**Head of Pension Investment (Private Markets)**
Kevin Etchells	**Investment Manager (Local Investments)**
Andrew Hall	**Investment Manager (Local Investments)**
Dan Hobson	**Head of Real Assets**
Misodzi Dent	**Investment Officer**
Rachael Foster	**Investment Officer**

Apologies for Absence: Ms Herbert and Peter Moizer

15. DECLARATIONS OF INTEREST

There were no declarations of interest.

16. MINUTES

The minutes of the meeting on the 20 December 2019 were approved as a correct record.

17. REPORT OF THE MANAGER

Malcolm Gordon, Head of UK Institutional, Steve Magill, Head of European Value and Jonathan Davies, Senior Portfolio Manager Investment Solutions, UBS, attended before Members and gave a presentation detailing their performance up to 30 June 2020.

Mr Gordon began by explaining the very disappointing performance of the portfolio over the prior 12 months. Whilst the portfolio performance currently lagged the benchmark for short- and medium-term time horizons, the since inception relative return remained strongly ahead of benchmark.

Mr Magill gave a detailed account of UK and European ex UK equity performance, including the impact of COVID-19 on the value style of investing. While the underperformance in the portfolio had been substantial in the quarter and over the past year, it was believed this reflected extreme market conditions. This period had been used to buy companies at substantial discounts to Fair Value and this should lead to a strong recovery in performance as economies normalise.

Asset allocation was detailed including an overweighting in Japanese and Emerging Market equities and an underweighting in US equities. There was also an overweight to UK Corporate Bonds and underweight to UK Government Bonds.

An overview of the historical outperformance of stocks with value characteristics was provided, and it was explained that the last ten years had been an exception to this, coinciding with the bulge in pre-retirement baby boomers. It was explained that this boom had now peaked, and that the demand for assets with stable cash flows was no longer intensifying.

Wide ranging discussion ensued with regard to the content of the presentation, in particular as to whether economies were on the path to normalisation with regards to COVID-19.

RECOMMENDED
That the report be noted.

18. 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.

In the last few years the Fund had developed a performance measurement dashboard, and had worked with its independent performance measurement provider, Portfolio Evaluation, to incorporate high level analysis of performance on a single page within the dashboard, which was considered by the Management Panel quarterly. The purpose of this was to facilitate evaluation of the relative contributions of all portfolios to the overall performance of the Fund.

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 are to be considered. These would include:

In considering the proposed enhancement of performance reporting, a number of aims and objectives are to be considered. These would include:

- so far as possible, a *standardised* approach across all internally managed portfolios should facilitate evaluation of performance;
- where there was more than one portfolio within an asset class (e.g. infrastructure and property) a pragmatic holistic view of the asset class should facilitate evaluation of the different portfolios;
- portfolio managers should provide context and qualitative analysis of performance; and
- performance data should be calculated externally and independently of the portfolio

The Assistant Director of Pensions for Investments would take a lead in the development of enhancements consistent with the above aims and objectives and report back to future meetings with clarity that as with all our Fund Managers accountability would remain with the relevant investing officer.

Ronnie Bowie, advisor commented that this was a sensible and right direction to go in particularly given the increasing reliance upon diversification into alternatives away from public markets to provide the necessary income for the Fund to pay pensions, which required the Fund to have external independent assurance.

RECOMMENDED
That the report be noted.

19. PRIVATE EQUITY PORTFOLIO - REVIEW OF PERFORMANCE

Consideration was given to a report of the Director of Pensions / Assistant Director of Pensions for Investments, which updated the Working Group on the returns achieved by GMPF's Private Equity portfolio to the end of 2019.

Members of the Working Group were presented with GMPF's Private Equity Portfolio returns. It was explained that the first quarter of 2020 saw a significant widening in the gap between private and public equity performance with public market indices falling in excess of 20% but GMPF's PE portfolio only falling 7% when adjusted for cash flows and foreign currency moves. The second quarter of the year saw a dramatic recovery in public equity markets, particularly in the US which, in sterling terms, was showing a positive year to date return at the end of June. This was likely to close a large part of the incremental spread between private and public market returns that was established in the first quarter.

GMPF officers, and their Northern LGPS colleagues who contributed to implementation through Northern Private Equity Pool, continued to seek out and invest with managers that had sufficient human resource to enable an active approach to ownership to be taken. Diversification was also a key consideration, which the impact of COVID-19 had illustrated the importance of.

It was stated 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 forms the basis for pursuing the strategy presented to the June 2020 meeting of the Policy & Development Working Group and approved by the July 2020 Management Panel.

RECOMMENDED
That the report be noted.

20. PRIVATE DEBT PORTFOLIO - REVIEW OF PERFORMANCE

Consideration was given to a report of the Director of Pensions / Assistant Director of Pensions for Investment, which updated the Working Group on the returns achieved by GMPF's Private Debt portfolio to the end of 2019.

Members were presented with the GMPF Private Debt portfolio returns. It was explained that as at December 2019, investment commitments amounting to £925m 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, recent investments fell into the "immature" category.

GMPF's debt portfolio, as at 31 December 2019, had not faced any material or noteworthy performance issues. Deployment had been in line with officers' expectations.

With regards to 'Near Term Observations', the near term, senior loan funds, had shown themselves to be amongst the least affected asset classes in the face of COVID-19 induced turmoil across finance markets.

Members of the Working Group 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.

RECOMMENDED
That the report be noted.

21. INFRASTRUCTURE FUNDS PORTFOLIO - REVIEW OF PERFORMANCE

Consideration was given to a report of the Director of Pensions / Assistant Director of Pensions for Investments, which updated the Working Group on the returns achieved by the GMPF's Infrastructure Funds portfolio to the end of 2019.

Members were advised that Infrastructure was an asset class generally comprising assets and resources providing basic services essential for a functioning economy and society. Assets typically encompass energy, water, communication, social infrastructure and transport infrastructure and given the essential nature of and demand for use of infrastructure, the investments tended to have relatively low business risk, often in natural monopoly positions and with high barriers to entry.

It was reported that markets for private infrastructure assets and businesses remained reasonably buoyant during 2019. Unrealised gains were more muted than in recent years and activity levels within the GMPF portfolio had dipped a little, reflected in lower cash drawdown rates.

Of the 38 fund commitments made under the Infrastructure Funds programme, 25 were sufficiently old to be meaningfully reported upon. By value, the 25 mature funds now represented around 37% of total commitments made under the programme as at 31 December 2019.

The mature Infrastructure Funds portfolio had outpaced expectations and benchmark returns in the most recent decade. Returns in Value Add funds, in particular, had benefited from a rising valuation environment and foreign currency gains. These drivers argued against extrapolating the experience of the 2010s into the future. Officers expect more modest returns in the current decade.

RESCOMMENDED
That the report be noted.

22. SPECIAL OPPORTUNITIES PORTFOLIO - REVIEW OF PERFORMANCE

Consideration was given to a report of the Director of Pensions / Assistant Director of Pensions for Investments, which updated the Working Group on the returns achieved by GMPF's Special Opportunities Portfolio to the end of 2019.

RECOMMENDED
That the report be noted.

23. MANAGER MONITORING REGIME INCLUDING MONITORING ESCALATION

Consideration was given to a report of the Director of Pensions / Assistant Director for Investments, which summarised the results from the Monitoring Escalation Protocol as at 30 June 2020.

It was stated the Fund's approach to Securities Manager monitoring had been enhanced by the adoption of a codified and structured Monitoring Escalation Protocol. The Overall Status Levels and courses of action taken in relation to the results from the most recent Monitoring Escalation Protocol were provided for each manager appended to the report.

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 report be noted

24. IMPACT AND INVEST FOR GROWTH PORTFOLIOS

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

It was stated that the "dashboard" information, showed a 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 2019. The Impact Portfolio was still in its infancy and therefore performance data at this early stage was not meaningful.

It was reported that the level of commitments at 31 December 19, against the allocation for both the Impact Portfolio and Invest for Growth Portfolios was £437 million, with £207 million of funds drawn to date. This was an increase in commitments of £56m and an increase in funds drawn-down by £45m, from the position previously reported, as at 31 December 18.

The IRR position for the Impact portfolio is 3.3% with the total value of investments being £172.4m as at 31 December 2019. As mentioned above, this portfolio was relatively young and it was expected that returns would increase as investments mature. The Invest for Growth portfolio had an IRR of 7.5% and a total value of £44.7m as at 31 December 19.

It was explained that in the normal course of events these performance reports were focused on looking back on the previous calendar year. In the light of the unprecedented impact of Covid 19 it was vital to comment on the implications for the impact portfolio. So far, the effect on valuations had been less than might be expected at a downward movement of 2.0% as at 31 March 2020. This was due primarily to the usual lag in reporting and was expected to be more severe when figures were known.

The performance of both portfolios was monitored on a regular basis by the local investment team, with regular meetings taking place with fund managers to understand how the investment strategy was being implemented.

It was not anticipated that the effects of Covid 19 would require any changes to the long term programme for impact investment. Whilst valuations of existing holdings may be reduced in the near term, the rolling nature of the commitment programme to the impact portfolio largely through limited partnerships, gives the fund managers the ability to profit from opportunities as they arise. The programme controlled risk through diversification across different sectors and vintage. There was an argument that the crisis creates opportunities for impact investment to be effective both in its investment aims and impact objectives.

The Impact Portfolio was at an earlier stage of investment and was currently showing an IRR of 3.3%. It was expected that as it matures it will grow to achieve the local investments target of RPI plus 4%. The Invest for Growth portfolio was slightly more mature in nature and is delivering an IRR of 7.5%, this being in line with the target expectations for the portfolio. The economic conditions following C-19, would mean that particular care would be needed at both the portfolio and fund manager level when reviewing investment opportunities, to fully understand the investment risk being proposed.

RECOMMENDED
That the report be noted.

25. GREATER MANCHESTER PROPERTY VENTURE FUND - REVIEW OF PERFORMANCE

Consideration was given to a report of the Director of Pensions / Assistant Director of Pensions for Local Investments and Property, which provided an update to the Working Group on the returns achieved by the GMPFVF portfolio to the end of 2019.

Members of the Working Group received a detailed breakdown of the performance of the portfolio and sub-portfolios to 31 December. The portfolio consisted of 36 investments, 23 are current and on-going with the 13 exited investments generating a cash return in excess of cost of £52m. The 23 current investments represented cash drawn of £323m, being 45% of the allocation to GMPVF

It was reported that the annualised return of the total portfolio at 5.35% was lower than the strategic benchmark of 6.8%. It was believed that the portfolio was on track to achieve the strategic return objective over the medium to long-term and indeed, the performance had improved on that reported to December 2018.

The current GMPVF portfolio was relatively immature, with £172m of capital being deployed in the last two years. In that context, the current IRR of 5.4%, 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 report be noted.

26. OVERSEAS PROPERTY FUNDS PORTFOLIO - REVIEW OF PERFORMANCE

Consideration was given to a report of the Director for Pensions / Assistant Director of Pensions for Local Investments and Property, which updated the Working Group on the returns achieved by GMPF's Overseas Property portfolio to the end of 2019.

Members heard the background and market context to the performance of the Overseas Property Funds portfolio, featuring strong US growth in 2019, political uncertainty and the impact of Covid-19.

It was stated that the Overseas Property Portfolio was part of GMPF's wider allocation to Property, which was benchmarked against the UK IPD Index. With an IRR of 10.5% and a TWR of 11.0% the portfolio has comfortably exceeded the wider Property benchmark by more than 4.0%.

In recognition that the Overseas Property Portfolio was higher risk than the benchmark against which the wider allocation to Property was judged, the Overseas Property Portfolio had a portfolio specific benchmark. Since inception, the Overseas Property Portfolio had exceeded its specific benchmark by 1.4% on a TWR basis.

The performance of the Matching investments, which were amongst first that GMPF made, had been enhanced by currency gains. The Enhancing category had, as expected, delivered good returns in both fund currency and GBP returns, with not much divergence between the two.

It was explained that the Overseas Property Funds portfolio was still very immature, having only made its first investment in 2015. Notwithstanding, it had delivered returns in excess of the programme's target benchmark return of long running UK IPD+2% per annum

RECOMMENDED
That the report be noted.

27. GLIL UPDATE

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

It was reported the investment team had spent considerable resources and effort on working with management teams over the period to understand the impact on assets and prepare in areas that are more exposed. The portfolio had benefited from the diversification within our asset base as well as the underlying characteristics of these businesses, the essential nature of many of the assets has helped protect revenues during the crises.

GLIL implemented its Business Continuity Plan in mid-March and had adapted very well to working remotely; the collaborative nature of GLIL ensured that the platform was able to adapt quickly to the changing circumstances brought about by the crisis

Over the quarter GLIL closed on its acquisition of 49% of the Cubico UK renewable energy portfolio, taking GLIL to 69% deployed. Elsewhere in the portfolio Semperian continued to demonstrate strong operational performance and completed the acquisition of a 33% stake in the Aberdeen West Peripheral Route. Clyde Windfarm continued to display strong operational performance and whilst external factors such as wind resource, power prices and grid charges cannot be controlled, strategic planning, risks and day to day operations are exceptionally well managed. GLIL had generated a 6% IRR for investors since inception

RECOMMENDED
That the report be noted.

CHAIR