GREATER MANCHESTER PENSION FUND - POLICY AND DEVELOPMENT WORKING GROUP

2 September 2021

Commenced: 11:00am **Terminated: 1.00pm**

IN ATTENDANCE

Councillor Warrington (Chair)	
Councillor Cooney	
Councillor M Smith (part meeting)	
John Thompson	**Trade Union Representative (UNITE)**
John Pantall	**Fund Observer**
Ronnie Bowie	**Advisor to the Fund**
Peter Moizer	**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)**
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	**Investment Manager (Local Investments)**
Dan Hobson	**Head of Real Assets**
Andrew Hall	**Investment Manager (Local Investments)**
Mushfiqur Rahman	**Investments Manager (Public Markets)**
Abdul Bashir	**Investments Manager (Public Markets)**
Alex Jones	**Investment Officer (Local Investments**

Apologies for absence: **Petula Herbert (MoJ)**

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 24 June 2020, were approved as a correct record.

20. 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 2021.

Mr Gordon began by reporting the strong performance of the portfolio over the past 12 months, both in absolute and relative terms. Key drivers of the outperformance were equities, in particular UK equities, which had outperformed significantly over the period. He added that performance over 3yrs remained challenged, however there was confidence in the value style and that performance would recover.

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 the opportunities which remained in some areas of the stock market. The contribution of individual stocks to fund performance was also explored.

Mr Magill made specific reference to Energy companies and their high profit and cash flow which was leading to very attractive shareholder returns, adding that valuations were low. He explained that UBS' valuation approach gave little value to future hydrocarbon developments, which meant that the potential cost and risk of stranded assets was contained from a financial perspective. He further explained how the Fund's holdings had shown a dramatic change in attitude to and strategies for climate transition and were believed to be part of the climate transition solution, with shareholders taking a role in responsibly managing down fossil fuel assets.

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

Wide ranging discussion ensued with regard to the content of the presentation, with particular emphasis on Energy companies and the need for persistent engagement to influence positive change and to avoid 'greenwashing'.

The Advisors also made reference to overvalued US equities and expressed their support for the Fund's current direction of travel away from listed equities and for greater diversification, as confirmed in the recent strategy review.

RECOMMENDED
That the content of the presentation be noted.

21. 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.

22. 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 to the end of 2020.

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

It was explained that despite the impact of COVID-19 and associated social distancing measures,

2020 was yet another strong year for the private equity industry. The coronavirus pandemic accelerated many of the existing trends and variations across market sectors, most notably the delivery of services through an online environment rather than through physical interaction. Some sectors of the market did incredibly well such as financial services, business software and services, healthcare and online consumer businesses. Traditional retail, hospitality, leisure, transport, energy and industrials faired much less well, but were supported through COVID lockdowns by government measures and patient lenders.

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 2021 meeting of the Policy & Development Working Group and approved by the July 2021 Management Panel.

RECOMMENDED
That the content of the report be noted.

23. 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 2020.

Members were presented with the GMPF Private Debt portfolio returns.

It was explained that the 2010s decade was very kind to direct lending managers. Defaults were low and recovery rates high meaning that credit losses were very modest. There had not been a true, widespread test of credit selection, loan underwriting and collateral (or asset) management capabilities since the Global Financial Crisis of 2007-2009 when the direct lending market was much smaller, especially in Europe, than it was today. The economic and social trauma caused by COVID-19 ought to have revised and reversed much of this context in 2020. However, defaults had remained quite low reflecting government support schemes, such as furlough, and lenders extending interest and covenant holidays to those businesses where the cash flow impact of lockdowns had been severe but was expected to be temporary. Critical balance sheet discussions awaited those businesses that did not emerge from COVID with the same capacity for cash flow generation as they had previously.

Outside of COVID-impacted sectors, after a significant hiatus in the second quarter of the year, lending volumes had picked up materially and with government/central bank support and stimulus and near zero interest rates, corporate finance markets were as competitive as they had ever been, according to managers.

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 Dec 2020, investment commitments amounting to £1,111m 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.

To date, GMPF's debt portfolio, as at 31 December 2020, 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. However, the impact

of any removal of government/central bank support and stimulus remained to be seen.

RECOMMENDED
That the content of the report be noted.

24. 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 2020.

It was explained that infrastructure was an asset class generally comprising assets and resources providing basic services essential for a functioning economy and society. Assets typically encompassed energy, water, communication, social infrastructure (eg hospitals, schools, prisons and governmental services) 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.

Members were advised that 2020 was a tough year for the infrastructure market. COVID had and continued to have a significant impact on the performance of transport assets and ongoing demand for those was yet to recover. Oil and gas midstream assets had also struggled as a result of the energy market crash in early 2020. Ongoing debate around the role of investors in achieving net-zero carbon targets was causing managers to reassess the parts of the market which most closely accorded with the demands of investors and their stakeholders. 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.

Managers in the sector were responding to investor demand by raising larger funds which raised questions around deployment and, in time, realisation options. Meanwhile, definitions of Infrastructure being employed by some managers continued to expand and included investments not traditionally considered to be infrastructure, but which shared some of the contracted, long term income characteristics of infrastructure assets.

The report summarised that the Infrastructure Funds portfolio was immature, despite dating back to 2001. The vast majority of commitments (>95%) had been made since 2010 whilst only 37% of the portfolio (by value) was sufficiently mature to merit performance measurement. Notwithstanding those caveats, 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.

25. 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 2020.

RECOMMENDED
That the content of the report be noted.

26. UK PROPERTY PERFORMANCE REPORT

Consideration was given to a report of the Assistant Director, Local Investments and Property advising Members of the annual and longer term performance of the UK Property portfolios.

The report provided a performance review for the 2020 calendar year of the main UK property portfolio managed by LaSalle Investment Management at the time and the internally-managed UK Balanced Funds and the UK Specialist Funds. An interim update on the deployment made in 2021 following the changes made to strategy by Management Panel, was also provided.

The overall UK property performance over 1, 3 and 5 years was detailed and discussed. It was explained that the total UK Property Portfolio had delivered disappointing relative performance over each time period. The performance of the balanced fund portfolio continued to be encouraging, particularly as going forward this would represent a larger overall exposure due to the decision to further invest in select funds. The specialist fund's performance had been disappointing, albeit entirely due to the non-core holdings which the current internal team inherited from the previous team. As those funds came to an end over the coming years, and with further investment into other funds, this impact was expected to significantly reduce going forward.

Advisors commented on property strategy in a post-covid world and sought clarification with regard to the potential for the property market going forward.

The Investment Manager, in his response, made reference to the strategic property review earlier in the year, which identified a focus on allocation to specialist sub-sectors going forward.

RECOMMENDED
That the content of the report be noted.

27. OVERSEAS PROPERTY PORTFOLIO - REVIEW OF PERFORMANCE

The Assistant Director, Local Investments and Property submitted a report updating the Working Group on the returns achieved by GMPF's Overseas Property portfolio to the end of 2020.

Members were presented with the GMPF Overseas Property portfolio returns.

It was explained that GMPF did not engage in any hedging activities for its Overseas Property Funds portfolio which was consistent with the approach for all alternative overseas asset classes which GMPF invested in. A currency effect of 90 bps was estimated on the performance during the 5-year period between 2015 and 2020, which was due to the depreciation of sterling against other currencies.

RECOMMENDED
That the content of the report be noted.

28. IMPACT AND INVEST FOR GROWTH PORTFOLIOS

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 A 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 2020. 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 20, against the allocation for both the Impact Portfolio and Invest for Growth Portfolios was £451 million, with £213 million of funds drawn to date. This was a nett increase in commitments of £15m from the position previously reported, as at 31 December 19.

The IRR position for the current Impact portfolio was 2.2% with the total value of investments being

£171m as at 31 December 2020. Including the two exits completed so far, the IRR position was 3.0%. The Invest for Growth portfolio had an IRR of 6.6% and a total value of £44m as at 31 December 20.

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 of Covid 19 should require any changes to the long term programme for impact investment.

In summary, Members were advised that the Impact Portfolio remained relatively immature and therefore performance measures should be treated with caution. The IRR of 3.0% was below benchmark, partly driven by the J-curve effect common to many private market investments, but also partially the result of poor performance within some of the earlier commitments in the lending to SME theme caused by structuring and fund manager issues. The team had made changes to the investment approach and there was confidence they would address those earlier issues, including pivoting to larger, national managers, supplemented with locally focussed co-investment sleeves and a more conservative approach to leverage and structuring.

The success of the more mature Invest for Growth portfolio, which had returned an IRR of 6.6%, supported the belief that benchmark returns would be achieved in the long term.

RECOMMENDED
That the content of the report be noted.

29. 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 2020.

Members received a detailed breakdown of the performance of the portfolio and sub-portfolios to 31 December 2020. The portfolio consisted of 37 investments, 26 were current and on-going with the 11 exited investments (property/sites now sold or loans fully repaid) generating a cash return in excess of cost of £39m. The 26 current investments represented cash drawn of £323m, being 43% of the allocation to GMPVF.

It was reported that the annualised return of the total portfolio at 5.3% was lower than the strategic benchmark of 6.7%. However, it was believed that the portfolio was on track to achieve the strategic return objective over the medium to long-term.

The current GMPVF portfolio was relatively immature, with £178m of capital being deployed in the last three years. In that context, the current IRR of 5.3%, 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.

30 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 2021.
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.

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.

31. GLOBAL EQUITY 'PURCHASE/SALE' TRIGGER PROCESS - UPDATE OF FAIR VALUE ESTIMATE, TRIGGER POINTS AND SIZE OF SWITCH

The Assistant Director of Pensions Investments, submitted a report explaining that, in June 2021, the Policy and Development Working Group recommended that the Panel adopt a pro-tem updated 31 March 2021 Fair Value estimate to allow officers to conduct additional due diligence.

It was explained that officers had now satisfactorily completed this additional due diligence and the report provided an updated estimate of Fair Value for global equities and associated trigger points for 2021/22, which were proposed for adoption at the September meeting of the Panel. It was further explained that the satisfactory completion of the additional due diligence now made it possible to incorporate the full set of valuation model inputs, which served to "diversify" the model risk inherent in the process. Officers continued to support this highly desirable feature of the approach.

Mr Powers, Advisor to the Fund, acknowledged the significant work undertaken in devising and implementing the Trigger process over 2015-2018 and the plausibility of the methodology and approach as outlined. Mr Powers added that there were other types of approaches to estimating Fair Values for global equities and asked that these remain under consideration going forward.

The Assistant Director of Pensions Investments explained that officers had spent some time looking at a small number of alternative approaches over the past year in connection with initial work regarding relative equity market valuations between the US and the rest of the world.

RECOMMENDED
That the updated Fair Value estimate and associated trigger points, as contained within the report, be adopted subject to keeping under review.

32. MANCHESTER AIRPORT GROUP'S PARTICIPATION IN GMPF

A report was submitted by the Assistant Director, Funding and Business Development, providing an update on developments since the previous meeting of the working group regarding Manchester Airport Group's participation in GMPF.

RECOMMENDED
That the content of the report and the balance being sought to deliver the outcomes of the employer whilst protecting the interests of the Fund and other employers, be noted.

CHAIR