

ITEM NO: 5(d)

GREATER MANCHESTER PENSION FUND BUSINESS DEVELOPMENT WORKING GROUP

9 August 2011

Commenced: 3.00pm

Terminated: 4.00pm

Councillor K Quinn (Chair)

Councillor Smith

Councillor Middleton

Councillor Cooney

Councillor Pantall

Sandra Stewart

Solicitor to the Fund

Peter Morris

Executive Director of Pensions

Ray Grainger

Head of Pension Fund Legal

Apologies for absence: Councillors Taylor and Harrison, Ms Baines and the Chief Executive

1. DECLARATIONS OF INTEREST

There were no declarations of interest submitted by Members of the Working Group.

2. CHAIR'S OPENING REMARKS

The Chair welcomed everyone to the first meeting of the Business Development Working Group. He explained the aim of the Working Group which was to seek further local investment opportunities and business development related to the Pension Service's activities, which fell outside of the remit of the Alternative Investments Working Group and the Greater Manchester Property Venture Fund.

3. DEVELOPMENT OF LOCAL INVESTMENT PROGRAMME

The Executive Director of Pensions submitted a report which provided a framework for discussion at this inaugural meeting of the Working Group.

He began by outlining the background to the decision taken at the last meeting of the Management/Advisory Panel with regard to the formation of the Working Group.

Draft terms of reference for the Working Group were detailed in the report along with a suggested work programme. A draft illustration of allocations for local investment was also detailed and discussed.

The Executive Director also suggested that the important tasks for the Working Group at the initial phase were, as follows:

- Prioritise the types of investment for review;
- Give detailed consideration to the case for investment, e.g.

- were there opportunities or potential opportunities capable of generating the required returns?;
 - was the risk profile associated with generating such returns broadly in line with the returns and risks associated with other assets?;
 - did the investment have any other benefits that supported the local area and local economy?; and
 - was the Fund capable of taking advantage of the opportunity and if so, what support was required (internal or external) and what was the most suitable delivery mechanism.
- what range of allocation should be recommended for each category of investment supported?

He added that, as part of the initial phase, it was intended to invite external speakers from local organisations and consultancy firms who were suggesting that they had viable proposals for local investment.

Members agreed that the emphasis should be on new investment opportunities locally, and the Chair reiterated that it was not the intention to replicate the work of existing Working Groups.

Councillor Pantall commented on 'one off large scale opportunities' and stressed the need to understand the risks involved in such ventures. The Executive Director concurred, and added that it was not intended to enter into such investments in isolation, and the possibility of partnerships and the use of external advisers would be explored.

With regard to commercial returns, the Executive Director gave examples of current expectations of real return (above inflation) % per annum of various asset classes, and further explained that the norm would be a base position of a secure 3.0% - 3.5% real return with upside reflecting the degree of risk associated with the investment.

The framework for approving investments was detailed and discussed. The Chair made reference to the identification of specialist advice being key to the process.

The report set out the terms of reference and the investment strategy guidelines for the Greater Manchester Property Venture Fund, and potential changes to the terms of reference were detailed as follows:

- approving an investment range of 0%-3% of Main Fund value for GMPVF within the overall cap of 5% for local investment; and
- broadening the scope of eligible investment to include retail.

It was further explained that if the upper limit was increased to 3% of Main Fund value, this would enable investments of up to £45m to be undertaken without the need for individual Panel approval. It was reported that many town centres were in need of some regeneration and hence the case of considering retail opportunities. The reason why retail had a lower profile in the original terms of reference was the likelihood/possibility of 'substitution' at the expense of other town centres.

The report also addressed house building and explored the ways in which the Fund could invest in housing, e.g. houses for sale, private rented and affordable housing. An area that was currently being investigated and evaluated was private rented working with Manchester City Council. A copy of the outline proposal was attached to the report.

With regard to resources, it was stated that most local investments would require a substantial level of input. It was proposed to create a small in-house team initially, consisting of 3 – 4 people, and build up a network of external specialist managers and advisers. This would be reviewed on an on-going basis.

The report summarised that the initial focus of the Group was to help develop the work programme and priorities of the Fund with regard to local investment. The 'Business Development' aspect would be considered at a future meeting of the Working Group.

The Panel had approved a significant allocation of up to £500m for local investment, with its twin aims of commercial returns and supporting the area. The aim was to build up a portfolio of investments that could deliver these aims. The allocations would reflect changing priorities over time.

RECOMMENDED

- (i) That the draft terms of reference for the Working Group, as detailed in the report, be approved;**
- (ii) That the Working Groups priorities for evaluation be, in the first instance, to invite external speakers from local organisations and consultancy firms, to address the Group, in order that they put forward viable proposals for local investment;**
- (iii) That the limit of GMPVF allocation be increased to 3%;**
- (iv) That the terms of reference for GMPVF be extended to include retail; and**
- (v) That the Working Group support the evaluation of housing for rent as briefly outlined in the appendix to the report.**