ITEM NO: 5(c)

GREATER MANCHESTER PENSION FUND

ALTERNATIVE INVESTMENTS WORKING GROUP

15 April 2011

Commenced: 9.30am **Terminated: 11.00am**

Present:	**Councillor Cooney (Chair)**	
	Councillor Pennington	
	Councillor Ricci	
	Councillor Thompson	
	Peter Morris	**Executive Director of Pensions**
	Steven Taylor	**Head of Pensions Investments**
	Tom Harrington	**Pension Fund Investments Group**
	Nigel Frisby	**Pension Fund Investments Group**
	Russell Page	**Pension Fund Legal**
Apologies for Absence:	**Councillors Lambert and Walton**	

21. DECLARATIONS OF INTEREST

There were no declarations of interest.

22. MINUTES

The Minutes of the proceedings of the Alternative Investments Working Group held on 28 January 2011 were approved as a correct record.

23. CAPITAL DYNAMICS LIMITED – ANNUAL REVIEW

Messrs J Gripton and M Drugan of Capital Dynamics Ltd attended the meeting to present the annual review of the Specialist Venture Capital (SVC) portfolio to 31 December 2010. Mr Gripton began with an overview of developments at Capital Dynamics and then updated members on how the Private Equity environment continued to build on the improvement that began during the second half of 2009. This improvement is reflected in the one year return of 11% achieved by the SVC portfolio for the year to 31 December 2010.

It was reported that GMPF had made three new fund commitments totalling £36m in 2010, increasing total commitments to active funds to £531m at the year end. It was anticipated that the current under-commitment level created during 2009 and 2010 would be addressed throughout 2011 and 2012, as fundraising activity increases.

After reviewing the progress of the portfolio and a number of individual, underlying funds, it was concluded that improved performance of the portfolio during the year reflected some recovery of value that resulted from the impact of the global economic crisis together with the distributions received following a number of successful realisations/exits.

It was reported that the portfolio return since inception, at 17.4%, had remained relatively stable.

RECOMMENDED
That the report be noted.

24. SPECIALIST VENTURE CAPITAL (SVC) – STRATEGY REVIEW

The Executive Director of Pensions submitted a report which presented an overview of the Fund's approach to private equity/venture capital investment, the key elements of the SVC strategy, a review of the current position and recommendations for the continuation of the existing strategy.

The report detailed the current position against strategy, a strategy that had been the subject of a fundamental review undertaken in 2007 in consultation with the funds specialist advisers, Capital Dynamics Ltd, and which became effective on 1 January 2008.

The current strategy and means of implementation detailed in the report reflected the development and evolution of the Private Equity/Venture Capital industry and had been designed to enable GMPF to derive investment returns from the established Private Equity/Venture Capital markets of the UK, Europe and the USA, whilst cautiously accessing Asia – which was considered the most developed of the emerging markets.

It was generally acknowledged that, whilst the short to medium term performance of the SVC portfolio had have been adversely affected by downward pressure on valuations, valuations had recovered somewhat mirroring improvements in the public markets.

It was considered that implementing the revised strategy in the manner detailed in the report gave a reasonable balance between the various competing issues (i.e. resource use, diversification, practicalities, cost etc) whilst achieving an efficient and effective approach to portfolio construction and continuing to provide scope to build upon the Fund's good current track record in this area.

Capital Dynamics' analysis of the various geographies and investment sectors/stages indicated that GMPF's portfolio should continue to perform well, particularly if advantage was taken of the opportunities created by the 'downturn', such as Secondary funds targeting the US and European markets, in addition to the opportunities provided by funds investing in distressed or turnaround situations - as had been the case during 2010/11.

Whilst commitments totalling almost £62m were made to five new funds during the period under review, the 'backlog' of commitments from previous years had increased to £93m. It was recommended that this 'backlog' be carried forward for investment in the future as it was firmly believed that commitments made to funds raised and invested as the economy improved were likely to deliver good returns as GPs, maintaining high levels of investment discipline, capitalised on better pricing.

RECOMMENDED
That:

(a) **the medium term strategic allocation for private equity (SVC and VNW) remains at 4% by value of the total Main Fund assets.**

(b) **the scale of commitment to funds remains at £80m pa to work towards achievement of the strategy over the next 6 years or so.**

(c) **the Fund continues to implement the revised SVC strategy via 3 year programmes as detailed below:**

Geography	Large Buyout	Mid Market Buyout	Venture	Total Number of Funds
EUROPE, inc UK	3 - Direct	6 – Direct	1 - FoF	10
USA	3 – Direct/FoF	3 – Direct/FoF	2 - FoF	8
ASIA	3 FoF			3
				21

Geography	Large Buyout (£m)	Mid Market Buyout (£m)	Venture (£m)	Total (£m)
EUROPE, inc UK	39	76	8	123
USA	36	36	27	99
ASIA	18			18
				240

(d) the target geographical diversification of the SVC portfolio remains as follows:

Europe, inc UK	**50% to 55%**
USA	**40% to 45%**
Asia	**5% to 10%**

(e) the investment stage diversification of the SVC portfolio remains as follows:

Geography	Large Buyout	Mid Market Buyout	Venture
EUROPE, inc UK	30% to 35%	60% to 65%	5% to 10%
USA	35% to 40%	35% to 40%	25% to 30%
ASIA	45% to 50%	45% to 50%	0% to 10%

(f) it continues to be recognised that the portfolio may not fall within the target ranges at (d) and (e) above for a period of 5 – 10 years, because of transitioning from the previous target ranges.

25. PFI & INFRASTRUCTURE FUND PORTFOLIO – STRATEGY REPORT

The Executive Director of Pensions submitted a report which updated Members on the performance of the Fund's PFI/Infrastructure portfolio during 2010/11, detailed the current holdings position and briefly discussed the strategic position of the portfolio, strategy implementation and the proposed investment programme for 2011/12.

It was explained that, since April 2010, GMPF's PFI/Infrastructure investments had been maintained as a separate portfolio, as was done for the Fund's Specialist Venture Capital (SVC) investments. The estimated summary valuation of the PFI/Infrastructure portfolio as at 31 March 2011 was £54.8m and details of funds were appended to the report.

With regard to activity in 2010/11, it was reported that the effects of the global crisis in 2009, which substantially reduced the availability of debt for new investments (and increased pricing) and a lack of investor sentiment/activity brought an end to a sustained period of growth within the infrastructure industry. However, based on the characteristics of the asset class and latent investor demand, industry experts forecast that 2010/11 would see the market rebound.

Investor confidence and appetite for infrastructure funds did return in 2010, with fundraising levels significantly higher than in 2009, albeit that fund managers were required to set more realistic fundraising targets and extend the fundraising cycle to reach those targets. GMPF made commitments totalling £30m to two new funds raised during the period under review.

Details of the currently strategy position and actual position were set out in the report. The report also set out in detail the basis to be established for the construction of the portfolio and the managing of the programme of investments.

The report concluded that implementing the PFI/Infrastructure portfolio strategy in the manner set out in the report gave a reasonable balance between the various competing issues (resource use, diversification, practicalities, etc), whilst achieving a systematic approach to portfolio construction and continued to provide scope to build on the Fund's current exposure to the asset class.

RECOMMENDED
That:

(a) the medium term strategy allocation for PFI/Infrastructure funds remained at 3% by value of the Main Fund assets;

(b) the scale of new fund commitments remained at between £40m-£80m pa and between 2 and 4 new funds pa;

(c) a split of total portfolio commitments be as follows:-

Primary/Evergreen funds	**–**	**Higher relative risk: 67%, and**
Secondary funds	**_**	**Lower relative risk: 33%**

(d) the 'range' of investment targeted to specific regions be as follows:

Europe	**40 – 60%**
N America	**30 – 40%**
Asia-Pacific/other	**0 – 20%**

(e) it continues to be recognised that the portfolio may not fall within the target ranges at (d) above for a period of years, because of transitioning from the current portfolio composition.

26. SPECIAL OPPORTUNITIES PORTFOLIO: APPROVAL OF INVESTMENT TYPE

Consideration was given to a report of the Executive Director of Pensions which sought the Working Group's approval for a new type of investment for the Fund's 'Special Opportunities Portfolio' and provided details of an example of a specific investment opportunity that would satisfy this 'type approval'.

The key features of the 'Special Opportunities Portfolio' were set out in the report and details of the proposed investment type were given. Members were advised that the proposed investment type satisfied the minimum requirements of the 'Special Opportunities Portfolio'.

The report described the investment rationale behind the proposal and the risks/issues to be considered within the due diligence process.

It was further reported that all Advisers to the Fund were supportive of the investment.

RECOMMENDED
That the making of investments from the 'Special Opportunities Portfolio' in the new type of investment as described in the report, be approved.

27. M&G COMPANIES FINANCING FUND: UPDATE

Consideration was given to a report of the Executive Director of Pensions which updated Members on matters relating to the M&G UK Companies Financing Fund (the M&G Fund). As reported to the 29 October 2010 meeting of this Working Group, M&G had consulted investors on five possible options for the future of the M&G Fund.

The Executive Director of Pensions had responded with GMPF's preferred option - an extension of the investment period.

After considering investors' comments and having assessed future opportunities for investment, the manager had proposed a one year extension to both the investment period and term of the M&G Fund. This proposal would be optional and investors who 'opted-out' would restrict their exposure only to those investments made prior to July 2011.

Having consulted a GMPF Adviser and following a review of the amended legal documentation, the Executive Director of Pensions had consented to the extension, under delegated powers, on the GMPF's behalf.

RECOMMENDATION
That the report be noted.