ITEM NO: 6(c)

GREATER MANCHESTER PENSION FUND

LOCAL INITIATIVES AND VENTURE CAPITAL WORKING GROUP

23 April 2010

Commenced:	**9.35am**	**Terminated: 10.55am**
Present:	**Councillor Cooney (Chair)**	
	Councillor Baldwin	
	Councillor Pennington	
	Mr Mulryan	**AMICUS UNITE**
	Peter Morris	**Executive Director of Pensions**
	Steven Taylor	**Head of Pensions Investments**
	Nigel Frisby	**Pension Fund Investments Group**
	Daniel Hobson	**Pension Fund Investments Group**
Apologies for absence:	**Councillors: Bell, Hobhouse, Ricci**	

17. DECLARATIONS OF INTEREST

There were no declarations of interest.

18. MINUTES

The Minutes of the proceedings of the Local Initiatives and Venture Capital Working Group held on 29 January 2010 were approved as a correct record.

19. 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 2009. Mr Gripton began with an overview of developments at Capital Dynamics and then updated members on how the Private Equity environment had changed during 2009 and, particularly, the substantial decline in fundraising and distribution levels.

It was reported that GMPF had made new fund commitments in 2009, resulting in commitments to active funds being £510m at the year end. It was anticipated that a reduction in the under-commitment level would be commence in 2010, as fundraising activity increases.

After reviewing the progress of the portfolio and a number of the underlying funds, it was concluded that the impact of the current market turmoil continued to be evident in the performance of the SVC portfolio during 2009. Although the return for the six months to 31 December 2009 was positive, the one year return to was a negative 3.4%, as a result of an overall fall in valuations and a slow pace of distributions, reducing the portfolio return since inception from 18.1% to 17.5%.

RECOMMENDED
That the report be noted.

20. 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 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 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 excellent current track record in this area.

Recent 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, particularly in the US.

No new fund commitments were made in 2009/10, reflecting the impact of the economic turmoil and a lack of suitable opportunities – very few 'top tier' private equity funds having been fundraising during this period. In recognition of these factors, the fact that GMPF does not try to 'market time' its commitments but acknowledging the need for caution when the fundraising cycle resumes (to avoid any 'log jam'), the Head of Pensions Investments explained that it was felt appropriate to carry forward £50m, being 50% of the current backlog.

Given that the most recent strategy changes were only effective from 1 January 2008, no further change to the current strategy was currently proposed.

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			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 (c) and (d) above for a period of 5 – 10 years, because of transitioning from the previous target ranges.

21. NEW INITIATIVES ALLOCATION : 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 and sought an increased allocation to the sector.

Since the establishment of GMPF's PFI/Infrastructure programme in 2001, the number and diversity of related investment opportunities had grown exponentially, with Infrastructure rapidly emerging as an institutional asset class, primarily driven by the global need for infrastructure spending/investment.

GMPF expects the universe of infrastructure fund managers would continue to grow rapidly, with new managers emerging from financial institutions, advisory groups, infrastructure or industrial companies and private equity groups as they take advantage of the burgeoning number of opportunities available, particularly with governments seeing much-need infrastructure projects as a means of combating the current economic downturn and notwithstanding the adverse impact of the current credit crunch on the availability and pricing of debt for some transactions.

GMPF continued to receive approaches from managers raising Funds targeting the Infrastructure asset class and proposals were currently under review that would fully utilise the current allocation.

It was widely acknowledged that the potential return available from PFI/Infrastructure investments remained very attractive, particularly given the indexation of cashflows and the downside protections available to project investors.

Given the existing PFI/Infrastructure fund commitments and the potential utilisation of the remaining element of the current allocation, it was considered appropriate to increase the allocation to PFI/Infrastructure funds from £120m to a maximum of 3% of Main Fund assets (being approximately £300m at current Main Fund value), as part of the GMPF's wider investment strategy. Such an increase would fall within the bounds indicated by Hymans in March 2009 (i.e. a maximum of 5%) as being suitable for this asset class.

In the light of the maturity of the existing portfolio commitments and the proposed size of the PFI/Infrastructure portfolio following the recommended increase in the allocation, it was no longer considered appropriate for this portfolio to remain within the New Initiatives Allocation. It was therefore proposed that PFI/Infrastructure fund investments were maintained as a separate portfolio in the same way, for example, as that for Specialist Venture Capital (SVC) Funds and the Special Opportunities Portfolio.

RECOMMENDED

(i) The current allocation to PFI/Infrastructure Funds be increased from £120m to a target level of 3% of the Main Fund as part of the Fund's wider investment strategy.

(ii) New fund commitments be phased over a programme period of approximately 4 years, with a target for commitments of between £40m and £80m pa to between 2 and 4 funds pa.

22. SPECIAL OPPORTUNITIES PORTFOLIO: PRUDENTIAL M&G UK COMPANIES FINANCING FUND

Consideration was given to a report of the Executive Director of Pensions which provided Members with an update and recent developments on the Prudential M&G UK Companies Financing Fund.

A communication from the Chief Executive of the fund manager, which described the current position of the M&G Companies Financing Fund, was appended to the report.

RECOMMENDED
That the report be noted.