

ITEM NO: 5(c)

GREATER MANCHESTER PENSION FUND ALTERNATIVE INVESTMENTS WORKING GROUP

28 January 2011

Commenced: 9.35am

Terminated: 11.05am

Present: Councillor Cooney (Chair)

Councillor Baldwin

Councillor Pennington

Mr Mulryan

AMICUS UNITE

Peter Morris

Executive Director of Pensions

Steven Taylor

Head of Pensions Investments

Tom Harrington

Pension Fund Investments Group

Daniel Hobson

Pension Fund Investments Group

Nigel Frisby

Pension Fund Investments Group

Russell Page

Pension Fund Legal

Apologies for Absence: Councillor Thompson and Mr Thompson

14. DECLARATIONS OF INTEREST

There were no declarations of interest.

15. MINUTES

The Minutes of the proceedings of the Alternative Investments Working Group held on 29 October 2010 were approved as a correct record.

16. PFI AND INFRASTRUCTURE PORTFOLIO: ANNUAL REVIEW

Consideration was given to a report of the Executive Director of Pensions which updated Members on the performance of the GMPF's PFI/Infrastructure portfolio and advised them of recent developments in the sector. Since April 2010, GMPF's PFI/Infrastructure investments had been maintained as a separate portfolio as was the case for the Fund's Specialist Venture Capital Investments.

The report detailed the background to the increases in allocation to the PFI/Infrastructure portfolio over time and detailed the differentiating features of the 'Primary', 'Evergreen' and 'Secondary' funds to which GMPF had made commitments since the establishment of the programme in 2001.

Details were provided of each underlying fund commitment, the cumulative amounts drawn and distributed, the valuation and performance data as at 31 December, 2010. In addition, Members were advised of the circumstances surrounding specific individual funds within the portfolio. Members were updated in detail on the situation of a UK-focussed 'Secondary' fund, particularly

with regard to the circumstances leading to the deferring of income and capital distributions, the future prospects in that regard, and were advised that GMPF Officers would continue to monitor this fund very closely.

In addition to the performance of the portfolio overall, the performance of the 'Primary/Evergreen' and 'Secondary' elements of the portfolio were separately reported. It was acknowledged that the potential returns available from PFI/PPP/Infrastructure investments remained attractive, particularly given the long-term indexation of cashflows and the downside protections available to project investors and, overall, a single-digit portfolio level return was considered reasonably attractive given the early stage of many of the funds within the portfolio and the performance of other asset classes.

GMPF continued to receive approaches from managers raising new Funds targeting the infrastructure asset class and a number of proposals were currently under review that would work towards the building of the portfolio and greater utilisation of the current allocation.

A further report on the implementation of the strategy for PFI/Infrastructure funds, including the associated staffing and resource issues arising from the increasing exposure, would be submitted to this Working Group for members' consideration as part of the review of the Fund's wider investment strategy.

RECOMMENDED

- (i) That the report be noted.**
- (ii) That a further report be submitted to the April 2011 meeting of the Alternative Investments Working Group on the implementation of a strategy for PFI/Infrastructure Funds, including the associated staffing and resource issues arising from the increasing exposure.**

17. VENTURES NORTH WEST: EXTENDED FUND

The Executive Director of Pensions submitted a report to update Members on the status of the three remaining, active investments within the Ventures North West Extended Fund.

It was noted that GMPF, along with other institutional investors, had only small minority equity holdings in each of the companies and, as a consequence, was unable to exert influence on the ultimate realisation of these investments.

Members were also updated on the investee companies that were the subject of administration or liquidation processes. It is considered unlikely that any further proceeds would be received from these dormant investments.

Members were advised that, as at 31 December 2010, £20.9m had been received from the £20m invested into 29 Extended Fund portfolio companies. These figures reflect the difficult nature of such investments and do not take into account the fees paid since the portfolio was established in 1995.

RECOMMENDED

That the report be noted.

18. RUTLAND PARTNERS AND THEIR APPROACH TO PRIVATE EQUITY INVESTING

Mike Harris of London-based Rutland Partners (Rutland) attended the meeting to provide Members with an overview of that firm's investment activities and of the private equity industry more generally. It was reported that Rutland has a team of 11 investment professionals with extensive

experience in a variety of sectors, having made and realised investments through multiple economic cycles.

Rutland has focussed on 'turnaround' investments since 1992, investing in under-performing UK-based or UK-focussed businesses where its team can actively engage with company management to improve performance, facilitate restructuring or assist with strategic change. Members were advised of the progress of active Rutland funds and a case study was presented.

The Chair thanked Mr Harris for his informative presentation.

RECOMMENDED

That the content of the presentation be noted.

19. ALTERNATIVE INVESTMENT FUND MANAGERS' DIRECTIVE: UPDATE

The Executive Director of Pensions submitted a further report which advised Working Group Members on recent developments relating to the approval, in November 2010, of the draft Directive on Alternative Investment Fund Managers (AIFM) and how it related to Private Equity. Background was provided on the draft Directive, as revised, and how it related to Private Equity.

When formally approved by the European Council, the Directive, originally published by the EU Commission on 30 April 2009 would become effective in early 2011 and could be implemented into national law as soon as 2013.

The initial draft AIFM Directive was part of an ambitious Commission programme to ensure comprehensive regulatory coverage of the wider financial services industry. The objectives of the Directive were to extend appropriate regulation and oversight of systemic risks and introduce harmonised requirements for managers within the space occupied by alternative investment funds.

The ongoing concerns of the Private Equity industry and investors were discussed and a selection of recent documents and press articles were provided with the report for Members' information. From GMPF Officers' discussions, the key issues for Private equity appear to be that many of the critical elements of the Directive have yet to be properly defined and the proposed monitoring body within the European Sales and Marketing Association (ESMA) has yet to be established.

It was reported that lobbying by fund managers, their trade bodies/associations and by investor bodies will continue and Officers will continue to monitor developments..

RECOMMENDED

- (i) That the report be noted.**
- (ii) That officers continue to monitor developments and liaise with industry/trade bodies regarding the implementation of the Directive.**

20. M&G COMPANIES FINANCING FUND: UPDATE

Consideration was given to a report of the Executive Director of Pensions which updated Members on the options for the future of the M&G UK Companies Financing Fund together with news on further investment progress made to date.

Members were reminded that five possible options for the future of the M&G Fund had been outlined at the Alternative Investments Working Group meeting held on 29 October 2010 (Minute 13 refers), and upon which M&G had invited investors to comment. The Executive Director of Pensions had responded and a copy of GMPF's analysis, which had been agreed with Hymans Robertson, was appended to the report for information.

M&G had subsequently provided investors with a summary of comments received and had concluded that their preferred response was to wait until towards the end of March 2011 before M&G sought a possible extension to the fund's investment period, currently due to expire in July 2011. This would allow M&G to establish whether there were likely to be significant opportunities for investment going forward.

RECOMMENDATION

That the report be noted.