

ITEM NO: 5(c)

GREATER MANCHESTER PENSION FUND

ALTERNATIVE INVESTMENTS WORKING GROUP

29 October 2010

Commenced: 9.35am

Terminated: 11.05am

Present: Councillor Cooney (Chair)

Councillor Baldwin

Councillor Gartside

Councillor Pennington

Councillor Ricci

Mr Mulryan

AMICUS UNITE

Mr Thompson

UCATT

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

8. DECLARATIONS OF INTEREST

There were no declarations of interest.

9. MINUTES

The Minutes of the proceedings of the Local Initiatives and Venture Capital Working Group held on 30 July 2010 were approved as a correct record.

10. HALF YEARLY REVIEW OF GMPF'S SPECIALIST VENTURE CAPITAL (SVC) PORTFOLIO

Mark Drugan and John Gripton of Capital Dynamics attended the meeting to present the half yearly review of the Specialist Venture Capital (SVC) portfolio to 30 June 2010. It was agreed that, as the Capital Dynamics report included comment on SVC portfolio performance, agenda items 4 and 5 were to be taken together.

Mr Drugan began by giving a brief overview of developments at Capital Dynamics in the period, including the opening of three offices (Rio de Janeiro, Zurich and Tokyo), the launch of Capital Dynamic's Clean Energy Infrastructure initiative and recruitment to their Real Estate Team. With regard to the Private Equity environment, it was reported that global fundraising in 2010 had been slow. Fundraising levels, investment and exit activity in Europe, the US and Asia during the period were also detailed and discussed.

In respect of the GMPF SVC portfolio, two new commitments were made during the period, increasing the total committed by GMPF to active SVC funds to £515 million as at 30 June 2010. One further commitment had been made after the period end. During the period under review, £12.4 million of GMPF commitments were drawdown, with distributions received totalling £10.3 million.

The value of the SVC portfolio increased by £6.7 million from that reported at 31 December 2010 reflecting, in part, increases in price/earnings comparators and currency movements. Further increases in portfolio value were expected as many portfolio companies, having concentrated on minimising costs and increasing liquidity during recent challenging economic conditions, were well-positioned to take full advantage as economies emerge from recession. However, citing a specific current example of a German-based fund, Mr Taylor commented that not all funds will perform well and when funds are in difficulty, significant Officer and CD resources are required in an effort to safeguard/protect GMPF's position.

With regard to performance, whilst some economic uncertainty remained, GMPF's SVC portfolio delivered a 15.6% return for the six months to June 30 2010, and continued the improved short term performance that began during the second half of 2009. The SVC portfolio return since inception, of 17.4%pa, remained relatively stable.

It was acknowledged that meaningful performance measurement of private equity investment was very difficult. GMPF Officers had been reviewing the figures detailed in the report presented at Item 5 on the Agenda with Capital Dynamics. The Capital Dynamics presentation detailed strong out-performance of BVCA returns by the SVC portfolio over periods of fifteen and twenty years to 31 December, 2009.

Using simplistic public market comparables, the SVC portfolio returns of 9.5% per annum, 8.1% per annum and 25.0% per annum over periods of 5, 10 and 15 years, respectively, reflected strong outperformance of public markets, with FTSE returns over the same periods of 6.5% per annum, 1.6% per annum and 7.5% per annum, respectively.

A more complex comparison of the performance of the SVC portfolio relative to public markets, using Public Market Equivalents, was then reported and discussed. Public Market Equivalents are a measure based on the replication of the timings of private equity cashflows invested into a public benchmark/index. The results of such comparisons again showed relative outperformance across the SVC portfolio. Both types of comparisons show beneficial outperformance of public equity by the SVC portfolio and therefore indicated a performance boost for GMPF from its private equity investments.

Officers would continue to work with Capital Dynamics to review the underlying data and explore ways to better assess GMPF's relative skill in constructing the SVC portfolio and the tracking of that skill level over time. This was important in terms of assessing the quality of the internal management of the SVC portfolio. A report on this work would be brought to a future meeting of this Working Group.

RECOMMENDED

That the report be noted.

11. PRICEWATERHOUSECOOPERS (PWC)/BRITISH PRIVATE EQUITY AND VENTURE CAPITAL ASSOCIATION (BVCA) UK PRIVATE EQUITY PERFORMANCE STATISTICS 2009

Consideration of this report of the Executive Director of Pensions was included in the preceding agenda item.

RECOMMENDED

That the report be noted.

12. ECI PARTNERS AND THEIR APPROACH TO PRIVATE EQUITY INVESTING

Mr J Lytle and Mr D Ewing of ECI Partners (ECI) attended the meeting to provide Members with an overview of ECI, their investment activities and developments in private equity generally.

It was reported that ECI, with offices in London and Manchester, operated as a single, national team focussed on deals valued between £10 million and £150 million. The current ECI team of 21 people, included 17 investment executives.

During the last 20 years, ECI have made over 100 investments, have realised over two thirds of them and the performance of multiple funds raised since 1990 was recognised as good. Members were advised of the progress of active ECI funds and two case studies were presented.

The Chair thanked Mr Lytle and Mr Ewing for a very informative presentation.

RECOMMENDED

That the content of the presentation be noted.

13. M&G UK COMPANIES FINANCING FUND (UK CFF)

Mr Harrington of Pension Fund Investments Group presented, for Member's information, a report which detailed the background to, and progress of, the UK CFF. GMPF made a commitment to UK CFF in 2009.

Mr Harrington, having represented GMPF at the recent Annual Meeting of UK CFF, summarised discussions at that meeting including five proposals identified by investors for the future of the Fund. These five options/alternatives were detailed to Members for their information.

Members were advised that Officers would consider the five options/alternatives in great detail, in consultation with the Fund's Advisers, where appropriate. The Executive Director of Pensions would then decide, under their delegated powers, GMPF's preferred way forward for UK CFF and advise the manager accordingly. A future meeting of this Working Group will be advised of developments at UK CFF.

RECOMMENDED

That the report be noted and that the Working Group receive an update on the decision taken by the Executive Director of Pensions together with the rationale thereof.