

ITEM NO: 5(c)

GREATER MANCHESTER PENSION FUND

LOCAL INITIATIVES AND VENTURE CAPITAL WORKING GROUP

30 October 2009

Commenced: 9.30am

Terminated: 10.40am

Present: Councillor Cooney (Chair)

Councillor Baldwin

Councillor Ricci

Mr Mulryan

S Taylor

Head of Pension Fund Investments

N Frisby

Pension Fund Investments Team

D Hobson

Pension Fund Investment Team

N Charnock

Pension Fund Legal

Apologies for absence: Councillors: Bell, Hobhouse, Pennington, Smith

5. MINUTES

The Minutes of the proceedings of the Local Initiatives and Venture Capital Working Group held on 31 July 2009 were approved as a correct record.

6. PROJECT GOLF

The Head of Pension Fund Investments updated Members with regard to the current status of Project Golf and the developments since the last report to the Working Group (Meeting of 31 July 2009, Minute 2 refers), and informed everyone that an announcement had recently been made to say that the deal had been completed with another consortium.

7. SPECIAL OPPORTUNITIES PORTFOLIO: APPROVAL OF INVESTMENT TYPE

The Director of Pensions submitted a report which sought the Working Group's approval for a new type of investment for the fund's newly constituted 'Special Opportunities Portfolio' and provided details of an example of a specific opportunity.

The report explained the key features of the 'Special Opportunities Portfolio' and gave details of the investment type; a 'Commercial Property Debt Fund' and how it satisfied the minimum requirement of the 'Special Opportunities Portfolio'.

The investment rationale was also detailed and the key risks discussed. It was highlighted that all specific investments from the 'Special Opportunities Portfolio' would be subject to the satisfactory completion of due diligence and agreement of acceptable legal documentation.

RECOMMENDED

That approval be given to the making of investments from the 'Special Opportunities Portfolio' in the new type of investment as described in the report.

8. CAPITAL DYNAMICS HALF YEARLY REVIEW

Ms Willetts of Capital Dynamics (CD) attended the meeting to present the half yearly review of the Specialist Venture Capital (SVC) portfolio to 30 June 2009.

Ms Willetts began by giving a brief overview of developments at CD in the period, including the takeover of the management of the HRJ fund of funds, which was based on the west coast of America. This had broadened CD's investment strategies to include Real Estate and increased the client base in the US.

It was reported that global fundraising in 2009 would be lower than in previous years. Investment activity in Europe and Asia during the period was also detailed and discussed.

With regard to the GMPF SVC portfolio, there had been no new commitments during the period under review. However it was hoped that 2010 would be able to address the current under-commitment level with many private equity managers delaying fundraising until then, although 2009 commitment levels would certainly fall short of the annual target of BP 80 million.

The total committed to active funds was £578m, of these commitments 13.1 million had been drawn up and 3.4 million distributed.

As at 30 June 2009, the SVC portfolio had fallen in value by £22 million and it was considered that valuations would continue to fall in the short term, although long term the outlook was stable.

It was concluded that the impact of the current market turmoil continued to be evident in the performance of the portfolio during the first half of 2009. The period return to June 30 2009 was a negative 21.6% resulting from a fall in valuations. This had reduced the return since inception to 17.4% from 18.0% at December 31 2008. The Fund was showing a net cash outflow of GBP 9.7 million for the six months to June 30 2009.

Net asset value as a percentage of the overall pension fund had remained static at approximately 2.1% at both June 30 2009 and at the end of 2008.

The final message was that the current economic climate was possibly the toughest encountered since 1929. The significant falls in valuations were consistent with those experienced in the quoted markets and the majority of the fund's portfolio of underlying funds had been affected by this. The short to medium term performance of the portfolio could continue to be negatively impacted by continued downward pressure on valuations, however the current vintage was likely to produce good returns for private equity managers with money to invest. Such managers would be able to capitalise from better pricing provided they still maintained the same degree of discipline in selecting their deals.

RECOMMENDED

That the content of the presentation be noted.

9. PWC/BVCA UK PRIVATE EQUITY PERFORMANCE STATISTICS 2008

Consideration was given to a report of the Director of Pensions which updated the Working Group on the results of the PwC/BVCA survey for 2008 and compared BVCA returns with those achieved by GMPF's UK Specialist Venture Capital (SVC) Funds.

The survey showed that whilst the 2008 returns from UK SVC funds equalled that achieved in 2007, UK SVC funds continued to significantly outperform both Total UK Pension Fund assets and the UK stock market (FTSE All-share and FTSE 100) indices over the one year and all other reported time periods.

GMPF's UK SVC portfolio had again delivered very strong performance over the 10 year term, whilst the return over the three and five year periods was below that of BVCA UK funds, this reflected GMPF's historic lack of exposure to Large Management Buy-out (MBO) funds.

The report concluded that longer term performance of GMPF's SVC portfolio remained very good, notwithstanding the unusual, negative return delivered in 2008. Whilst the exceptional level of returns seen in 1999 (85%) were again not achieved during 2008 and were unlikely to be seen again, it was generally considered that, as in the past, investing into a downturn would generate significant positive returns in the future.

RECOMMENDED

That the report be noted.

10. EU DIRECTIVE ON ALTERNATIVE INVESTMENT FUND MANAGERS (AIFM)

Mr Frisby of the Pension Fund Investment Team made reference to the above, which had been discussed at the last meeting of the Working Group (Meeting of 31 July 2009, Minute 4 refers). He circulated further correspondence from the European Commission regarding changes to the draft directive. He reported that a revision of the draft was expected by the end of the year, and that the Working Group would be kept informed with regard to further developments.

11. THANK YOU TO STAFF INVOLVED IN PROJECT GOLF

The Head of Pension Fund Investments thanked all members of the Investments Team and Pension Fund Legal Team who had worked on Project Golf. He informed Members that all staff had worked extremely hard and had been very flexible with regard to working extra/unsocial hours, especially Mr Frisby and Mr Hobson.

The Chair added his thanks and gratitude to all.