

ITEM NO: 5(b)

GREATER MANCHESTER PENSION FUND

LOCAL INITIATIVES AND VENTURE CAPITAL WORKING GROUP

30 July 2010

Commenced: 9.35am

Terminated: 10.30am

Present: Councillor Cooney (Chair)

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

Russell Page Pension Fund Legal

Apologies for absence: Councillors: Baldwin, J Smith and Ricci

1. CHAIR'S OPENING REMARKS

The Chair welcomed everyone to the meeting and made reference to the recent death of the former Chair of the Greater Manchester Pension Fund Management Panel and former Executive Leader of Tameside Council, Councillor S R Oldham CBE. He paid tribute to Councillor Oldham's enormous contribution to the Pension Fund and explained that he would be sadly missed.

Members then stood for a few moments silence in memory of Councillor S R Oldham.

2. DECLARATIONS OF INTEREST

There were no declarations of interest.

3. MINUTES

The Minutes of the proceedings of the Local Initiatives and Venture Capital Working Group held on 23 April 2010 were approved as a correct record.

4. WORKING GROUP 'SCOPE OF INTEREST'/REMIT

Consideration was given to a report of the Executive Director of Pensions which gave details of the 'scope of interest'/remit of the Working Group.

The report also suggested that it seemed appropriate to re-title the Working Group to reflect a wider role in Alternative Investments.

Discussion ensued with regard to the draft 'scope'/remit and the inclusion of local investments within the wider remit of Alternative Investments. It was :-

RECOMMENDED

- (i) **That the 'scope of interest'/remit of the Local Initiatives and Venture Capital Working Group be amended to include consideration of local investments, as appended to these minutes; and**
- (ii) **That the Working Group be re-titled the Alternative Investments Working Group.**

5. GRAPHITE CAPITAL AND THEIR APPROACH TO PRIVATE EQUITY INVESTING

Mr Cavell of Graphite Capital (Graphite) attended the meeting to provide Members with an overview of Graphite, their investment activities and developments in private equity generally.

It was reported that Graphite operated from a single office in London, targeting established mid-market businesses with an enterprise value between £25m and £200m. The current Graphite team of 20 investment professionals had extensive experience in specific sectors such as retail, healthcare and recruitment – sectors in which they had invested through multiple economic cycles.

Since 1991, Graphite had made almost 100 investments and realised over two thirds of them, generating a multiple of over 3 times the cost of those investments and an annual return of over 40%.

Members were advised of GMPF's commitment to Graphite VII in 2007 and the subsequent progress of that fund's investments which, being relatively immature, were currently held at cost.

The Chair thanked Mr Cavell for a very interesting and informative presentation.

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

Consideration was given to a report of the Executive Director of Pensions which updated Members on the AIFM Directive and its potential impact on elements of the Private Equity industry.

The concerns of the private equity industry and investors were outlined in the report and discussed. A selection of press articles relating to this matter were appended to the report for information.

RECOMMENDED

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

7. PRIVATE EQUITY-RELATED RESEARCH PUBLICATIONS

The Executive Director of Pensions submitted a report which informed Members of the conclusions reached in two recently published Private Equity-related research papers.

One paper, published by the European Central Bank (ECB), covered research into ***'The real effects of Private Equity investment'***. The conclusions drawn were that :-

- (a) private equity investment had a positive impact on business creation, particularly in R&D intensive industries;

- (b) by offering a unique combination of ownership and incentives, private equity investment lowered the cost of start up capital and resulted in higher industry dynamics; and
- (c) the effect of private equity was greater in countries with better judicial systems.

Overall, it was considered that private equity was seen to generate value through fostering entrepreneurial activity.

The second paper, published by the London Business School/HEC Paris and titled '**Private Equity Fund Level Return Attribution : Evidence from UK-based Buyout Funds**' covered the attractiveness of the asset class, particularly relative to comparable public market investments.

The main conclusions and findings of this paper were that the:-

- (a) returns generated by buyout funds' were significantly higher than the relevant benchmarks;
- (b) performance of funds in the sample was not solely attributable to leverage and outperformance was still found after adjusting for such leverage; and
- (c) results of the research were robust to a number of sensitivity analyses.

RECOMMENDED

That the report be noted.