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GREATER MANCHESTER PENSION FUND - MANAGEMENT/ADVISORY PANEL

Day: Friday
Date: 23 September 2016
Time: 10.00 am
Place: Guardsman Tony Downes House, Manchester Road, Droylsden, M43 6SF

Item No.	AGENDA	Page No

GENERAL BUSINESS

1. CHAIR'S OPENING REMARKS

2. APOLOGIES FOR ABSENCE

3. DECLARATIONS OF INTEREST

To receive any declarations of interest from Members of the Panel.

4. MINUTES

a) MINUTES OF THE PENSION FUND ADVISORY PANEL — 1 - 18

To approve as a correct record the Minutes of the meeting of the Pension Fund Advisory Panel held on 1 July 2016.

b) MINUTES OF THE PENSION FUND MANAGEMENT PANEL — 19 - 24

To approve as a correct record the Minutes of the meeting of the Pension Fund Management Panel held on 1 July 2016.

c) MINUTES OF THE MEETING OF THE URGENT MATTERS PANEL — 25 - 26

To approve as a correct record the Minutes of the meeting of the Pension Fund Advisory Panel held on 1 September 2016.

5. LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

a) URGENT ITEMS

To consider any items which the Chair is of the opinion shall be considered as a matter of urgency.

From: Democratic Services Unit – any further information may be obtained from the reporting officer or from Carolyn Eaton, Senior Democratic Services Officer, to whom any apologies for absence should be notified.

b) EXEMPT ITEMS

The Proper Officer is of the opinion that during the consideration of the items set out below, the meeting is not likely to be open to the press and public and therefore the reports are excluded in accordance with the provisions of the Schedule 12A to the Local Government Act 1972.

Items	Paragraphs	Justification
9, 10, 11, 12, 13, 14	3&10, 3&10, 3&10, 3&10, 3&10, 3&10	Disclosure would, or would be likely to prejudice the commercial interests of the Fund and/or its agents which could in turn affect the interests of the beneficiaries and/or tax payers.

ITEMS FOR DISCUSSION/DECISION

ITEMS FOR INFORMATION

NAPF Annual Conference **ACC Liverpool**	**19–21 October 2016**
LGPS Fundamentals Training **Leeds Marriott Hotel** **Day 1** **Day 2** **Day 3**	 **18 October 2016** **9 November 2016** **6 December 2016**
Capital International Training Day **Hilton Doubletree, Manchester**	**1 December 2016**
LAPFF Annual Conference **Marriott Hotel Bournemouth**	**7–9 December 2016**

19. DATES OF FUTURE MEETINGS

Management/Advisory Panel	18 November 2016 10 March 2017
Local Pensions Board	13 October 2016 15 December 2016 30 March 2016
Pensions Administration Working Group	14 October 2016 27 January 2017 7 April 2017
Investment Monitoring and ESG Working Group	14 October 2016 27 January 2017 7 April 2017
Alternative Investments Working Group	21 October 2016 3 February 2017 13 April 2017
Property Working Group	4 November 2016 17 February 2017 13 April 2017
Policy and Development Working Group	6 October 2016 2 February 2017 23 March 2017
Employer Funding Viability Working Group	28 October 2016 10 February 2017 21 April 2017

GREATER MANCHESTER PENSION FUND ADVISORY PANEL

1 July 2016

Commenced:	**10.00am**	**Terminated: 12.25pm**
Present:	**Councillor K Quinn (Chair)** **Councillors: Francis (Bolton), Grimshaw (Bury), Halliwell (Wigan), Mitchell (Trafford), Pantall (Stockport) and Ms Herbert (MoJ)** **Employee Representatives:** **Mr Allsop (UNISON), Mr Drury (UNITE), Mr Flatley (GMB), (Mr Llewellyn (UNITE), Mr Thompson (UCATT)** **Local Pensions Board Members (in attendance as observers):** **Councillors Cooper, Fairfoull and Mr Schofield** **Advisors:** **Mr Marshall, Mr Moizer and Mr Powers**	
Apologies for Absence:	**Councillors Akbar, Brett, Wilson**	

1. DECLARATIONS OF INTEREST

There were no declarations of interest submitted by Members.

2. MINUTES

The Minutes of the proceedings of the meeting of the Pension Fund Advisory Panel held on 11 March 2016 were signed as a correct record.

The Minutes of the proceedings of the meeting of the Pension Fund Management Panel held on 11 March 2016 were signed as a correct record.

3. LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

(a) Urgent Items

The Chair announced that there were no urgent items for consideration at this meeting.

(b) Exempt Items

RESOLVED
That under Section 100 (A) of the Local Government Act 1972 the public be excluded for the following items of business on the grounds that:
(i) they involve the likely disclosure of exempt information as defined in the paragraphs of Part 1 of Schedule 12A of the act specified below; and
(ii) in all circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information for reasons specified below:

Items	Paragraphs	Justification
9, 10, 11, 12, 13, 14, 15	**3&10, 3&10, 3&10, 3&10, 3&10, 3&10, 3&10**	**Disclosure would or would be likely to prejudice the commercial interests of the Fund and/or its agents, which could in turn affect the interests of the beneficiaries and/or tax payers.**

4. INVESTMENT MONITORING AND ESG WORKING GROUP

The Minutes of the proceedings of the meeting of the Investment Monitoring and ESG Working Group held on 8 April 2016 were considered.

RECOMMENDED
(i) That the Minutes be received as a correct record; and
(ii) In respect of Minute 35, Class Actions, that the fund joins the litigation currently being brought by Bentham against Volkswagen in Germany.

5. PENSIONS ADMINISTRATION WORKING GROUP

The Minutes of the proceedings of the meeting of the Pensions Administration Working Group held on 8 April 2016 were considered.

RECOMMENDED
(i) That the Minutes be received as a correct record;
(ii) In respect of Minute 26, the Pensions Regulator's Essential Guide to Issuing Annual Benefit Statements, that the Guide be applied regarding the production of Annual Benefit Statements for active members and deferred members;
(iii) With regard to Minute 27, Academies, that a further update be submitted when more clarity on the proposals and the initial assessment of the implications had been completed; and
(iv) In respect of Minute 28, Performance Standards and Arrears, that the frequency of performance reporting be increased to quarterly.

6. ALTERNATIVE INVESTMENTS WORKING GROUP

The Minutes of the proceedings of the meeting of the Alternative Investments Working Group held on 15 April 2016 were considered.

RECOMMENDED
(i) That the Minutes be received as a correct record;
(ii) With regard to Minute 21, Private Equity – Review of Strategy and Implementation, that:
(a) the medium term strategic allocation for private equity remains at 5% by value of the total Main Fund assets;
(b) the target geographical diversification of the private equity portfolio be amended to;

Geography	Percentage of portfolio Total Value*
EUROPE, inc UK	40% to 50%
USA	40% to 50%
ASIA	10% to 15%

**** Total Value = Net Asset Value + Undrawn Commitments***

(c) the investment stage diversification of the private equity portfolio be amended to;

<table>
<tr><th rowspan="2">Geography</th><th colspan="3">Stage as a percentage of Regional Total Value</th></tr>
<tr><th>Large Buyout</th><th>Mid-Market Buyout</th><th>Venture</th></tr>
<tr><td>EUROPE, inc UK</td><td rowspan="2">40% to 50%</td><td>40% to 50%</td><td rowspan="3">5-15%</td></tr>
<tr><td>USA</td><td>40% to 50%</td></tr>
<tr><td>ASIA</td><td>40% to 50%</td><td>40% to 50%</td></tr>
</table>

** Total Value = Net Asset Value + Undrawn Commitments*

(d) the scale of commitment to funds to be £240m per annum, to work towards achievement of the strategy allocation over the next 5/6 years or so;
(e) the Private Markets team continue to implement the private equity strategy via 3 year programmes of commitments but with the target number of commitments over that period increased from the current target of 20 funds to 24 funds. Each commitment to be of the average size of £30m, in the absence of exceptional factors;
(f) commitments to European and US primary buyout funds to be made directly to partnership vehicles. Secondary investments, Asia and Venture Capital to be accessed via Fund of Funds but officers to continue to assess the viability of a direct approach giving due consideration to risk, diversification and resource availability;
(g) it continues to be recognised that the portfolio may not fall within the target ranges at (b) and (c) above for a period of 5 – 10 years, because of transitioning from the previous target ranges;

(iii) In respect of Minute 23, Infrastructure – Review of Strategy and Implementation; that
(a) the medium term strategic allocation to infrastructure funds remains at 4% by value of total Main Fund assets;
(b) the target geographical diversification of the infrastructure portfolio be amended to;

Geography	Target Range
EUROPE, inc UK	50% to 70%
N AMERICA	20% to 30%
ASIA-PACIFIC/OTHER	0% to 20%

(c) the target stage diversification of the infrastructure portfolio be amended to;

Investment Stage	Relative Risk	Target Range
CORE & LT CONTRACTED	LOW	30% to 40%
VALUE ADDED	MEDIUM	40% to 60%
OPPORTUNISTIC	HIGH	0% to 20%

(d) the scale of fund commitments to be £120m per annum to work towards achievement of the strategy over the coming years;
(e) the Private Markets team continue to implement the infrastructure strategy via 3 year programmes of commitments, across between 2 and 4 new funds per annum (averaging 3 new funds per annum);
(f) Commitments to primary funds to be made directly to partnership vehicles;
(g) It continues to be recognised that the portfolio may not fall within the target ranges at (b) and (c) above for a period of years, because of transitioning from the current portfolio composition.

7. EMPLOYER FUNDING VIABILITY WORKING GROUP

The Minutes of the proceedings of the meeting of the Employer Funding Viability Working Group held on 22 April 2016 were considered.

RECOMMENDED
(i) That the Minutes be received as a correct record; and
(ii) In respect of Minute 33, 31 March 2016 Actuarial Valuation, that the Actuary calculates draft valuation results using the assumptions proposed in the presentation.

8. POLICY AND DEVELOPMENT WORKING GROUP

The Minutes of the proceedings of the Policy and Development Working Group held on 26 May 2016 were considered.

RECOMMENDED
(i) That the Minutes be received as a correct record;
(ii) In respect of Minute 5, Detailed Proposals for the Operation of a Global Equity 'Purchase/Sale' Trigger Process, that:
(a) That the detailed proposals set out within the report for the operation of a global equity trigger process be adopted;
(b) That L&G be used to implement the proposed trigger process subject to satisfactory conclusion of legal and other documentation (including as to levels of charges) and finalisation of any other necessary arrangements; and
(c) That the 'Designated Officer of the Fund' for the purposes of exercising a veto, in connection with the Global Equity trigger process, as described at Section 10 of the report, shall be the Assistant Executive Director of Pensions (Investments), but that the Designated Officer of the Fund shall not exercise any veto without having consulted the Executive Director of Governance, Resources and Pensions.
(iii) With regard to Minute 6, Investment Strategy and Tactical Positioning 2016/17, that:
(a) That there be no material change to asset allocations;
(b) That the Infrastructure strategic benchmark be increased from 4% to 10% (5% Infrastructure Funds and 5% Direct UK Infrastructure);
(c) That the Infrastructure 'realistic' benchmark be increased from 1% to 3.5% and the Private Equity 'realistic' benchmark be increased from 2.5% to 3%;
(d) That within the pre-agreed range of 3-5%, 5% be allocated to the new Global Credit Manager;
(e) That the Global Equity manager's allocation be increased to 5%, to correct for the dilution effect of the assimilation of Probation Assets; and
(f) That the Hedging liability risks highlighted in the report be noted for future consideration.

9. LOCAL PENSIONS BOARD

RECOMMENDED
That the Minutes of the proceedings of the Local Pensions Board held on 30 March 2016 be noted.

10. WORKING GROUP APPOINTMENTS

Consideration was given to a report of the Executive Director of Governance, Resources and Pensions detailing the appointments to the Working Groups.

RECOMMENDED
That the appointments to the Working Groups be noted.

11. MANAGEMENT SUMMARY

The Executive Director of Governance, Resources and Pensions submitted a report updating Members on issues and matters of interest arising during the last quarter, as follows:

Pooling of Assets
It was reported that the progression of the Government's proposals for the pooling of assets was a key area of work for the Panel, Chair of the Fund and Officers. The final submission from the Pool was due to be made to Government on 15 July 2016 in line with the timetable and a separate progress report would be presented to the Panel later in the agenda.

Actuarial Valuation
Members were advised that the next actuarial valuation was due to be undertaken as at 31 March 2016, with revised employer contribution rates to take effect from 1 April 2017. This was a major task for all areas of the Pension Service and it was time critical for both employers and the administering authority. Progress would be monitored by the Employer Funding and Viability Working Group with the valuation being the main item at its forthcoming meetings. Updates would be presented to Panel meetings throughout the year.

As reported at previous Panel meetings, the Employer Funding and Viability Working Group was giving consideration to the case for giving employers a discount for paying employer contributions in advance. This matter had also been discussed with local authority treasurers, several of whom had expressed interest in participating. Discussions were progressing with the local authorities' auditors on potential accounting requirements regarding this matter.

GMPVF – One St Peter's Square
The Assistant Executive Director, Property and Local Investments, reported that the sale of One St Peter's Square was progressing. There had been some delay following the result of the EU Referendum and progress would be reported at the Property Working Group and future Panel meetings.

Climate Change
It was reported that, on 18 May 2016, 'Fossil Free Greater Manchester' (FFGM) published an open letter to the Chair of the Panel. The letter contained questions to the Chair of the Panel, following a Tameside Radio interview with the Chair and a member of FFGM. The questions related to the Fund's holding in coal mining companies, and the fund's engagement strategy with fossil fuel companies.

On 6 June 2016, the chair of the panel replied to the FFGM letter. The reply reiterated, amongst other things, that the fund had no plans to divest from fossil fuel companies at this time.

Copies of the letter and the reply were attached to the report.

GMPF & LPFA Infrastructure LLP (GLIL)
Members were informed that GLIL continued to proactively pursue a number of infrastructure investment opportunities across a variety of sub-sectors within the UK, achieving full investment Committee approval for two deals in 2016 so far.

One approval was for the purchase of a minority stake in a regulated water utility and the other was for a stake in one of Europe's largest onshore wind farms.

RECOMMENDED
That the progress made and issues raised in the Management Summary be noted

12. POOLING OF ASSETS

The Assistant Executive Director, Funding and Business Development submitted a report, which provided an update on recent developments relating to the proposals for pooling investments across the LGPS in England and Wales and the recent activities of GMPF in this area.

Members were reminded that, as reported at previous meetings of the Panel and the Policy and Development Working Group, discussions regarding collaboration had been ongoing on a regular basis with a number of other, predominantly northern based LGPS funds. During this process, the Funds involved in discussions had developed a Memorandum of Understanding setting out the operation of a 'Collective Asset Pool' and the proposed steps in its formation. The Memorandum of Understanding had been signed by GMPF, Merseyside Pension Fund (MPF) and West Yorkshire Pension Fund (WYPF). A copy of the Memorandum of Understanding was appended to the report.

It was reported that the 3 Funds had combined assets of around £35 billion, therefore clearly meeting the scale criteria (in excess of £25 billion).

Members were informed that there were currently 8 proposed pools, made up as follows:

- Northern Powerhouse;
- London CIV (the 33 London Boroughs) – this has already been established;
- South West Funds plus Environment Agency ('Project Brunel');
- 'ACCESS' (Most of the south East County Council Funds);
- Midlands;
- 'Border to Coast' (The remaining northern funds plus a small number of others);
- Wales; and
- LPFA/Lancashire (plus potentially Berkshire) ('the Local Pensions Partnership – LLP').

Members were informed that Government had previously stated that it was looking for around 6 pools, each of at least £25 billion. The Wales and LPFA/Lancashire pools do not currently meet the Government's scale criteria. However, the Welsh pool had been granted an exemption from the scale criteria. The Northern Pool had links with the pool of LPFA and Lancashire (£10 billion or £12 billion with Berkshire) via GMPF's joint infrastructure vehicle with LPFA. The intention was for the Northern Pool to work alongside LPP on infrastructure investment going forward.

In late March 2016, all pools received a response from Government to their February submissions. The Northern Pool's response was appended to the report. The response confirmed that the Northern pool clearly met the scale criteria.

In respect of the progress of the Northern Pool, it was explained that, for the foreseeable future, the funds in the Northern Pool would be allocating considerable resource towards completing the July submission to Government and creating the pooling arrangements.

Five workstreams had been created to progress the various aspects, as follows:

- Asset Pools;
- Governance;
- Cost Savings;
- Infrastructure and Property; and
- Other alternative assets.

A particularly important task prior to the July submission was to determine the most appropriate operating model for the management of the Pool's assets. The main options for consideration were detailed in the report.

Members were informed that a 'cross-pool' group with representation from each of the individual pools had been created. The purpose of this group was to share best practice amongst the pools and to liaise effectively with the LGA pensions team and the civil servants at DCLG and HMT. The group would also play a role in developing the capability and capacity in infrastructure investment across the LGPS in England and Wales. The cross-pool group was helping Government to develop a standard template for the July submissions. This template effectively removed the requirement for Funds to submit an individual submission in addition to the joint pool submission, although each pool would still be able to submit feedback to Government on particular aspects of pooling. Each pool was expected to be asked to make presentations to the Government assessment panel in advance of the July submission. The Northern Pool's presentation had taken place on 16 June 2016.

In respect of developing capacity and capability in infrastructure, it was reported that general consensus across the LGPS was that improved access to infrastructure investment and lower cost was most likely to be achieved through a national platform accessible to all the LGPS asset pools. The cross-pool group was considering how the national platform could be established and whether it built on or ran alongside, any existing arrangements.

Ahead of the pooling agenda, GMPF, which had a long track record of investing in infrastructure funds, had developed capacity to invest in direct infrastructure opportunities through its joint venture with the London Pension Fund Authority (LPFA). The joint venture partnership was known as 'GLIL'. This vehicle had been designed to be extended to accommodate other funds and could form part of the national solution.

The report concluded that, as discussed at previous Panel meetings, one of the requirements of the Government's pooling guidance was that the Pool management team would report in the first instance to an oversight board consisting of a small number of representatives of the 3 participating funds. These were expected to be current Panel members.

This oversight board would act as a forum in which the views of the funds' pension committees on the performance and future direction of the Pool could be expressed and acted upon.

There was considerable work to be done in establishing the Pool and the timescales for obtaining Financial Conduct Authority (FCA) authorisation could be particularly lengthy. In order to ensure the Pool was fully operational by the deadline of 1 April 2018, it was possible that the oversight board may need to be established in shadow form over the next few months.

Detailed discussion with regard to the Pooling agenda ensued and Members raised a number of issues, including; the importance of establishing, robust governance and decision making arrangements at the out-set and the need to ensure that the operating model for the management of the Pool's assets met the needs of GMPF, going forward.

RECOMMENDED
(i) That the developments which have taken place since the March Panel meeting be noted; and
(ii) That approval be given to the Chair of the Panel to select Panel members to sit on any shadow oversight board which may be created.

13. INVESTMENT STRATEGY AND TACTICAL POSITIONING 2016/17

A report was submitted by the Assistant Executive Director of Pensions (Investments), reviewing the benchmark asset allocations for the Main Fund and Investment Managers and considering changes to the investment restrictions.

It was noted that the current benchmark was forecast to achieve the Fund's investment return target over the medium/long term and was efficient. It wasn't possible to adopt a benchmark which would deliver strong returns in all scenarios. No material changes to the benchmark were proposed.

With regard to Infrastructure, it was reported that the Fund had an established programme of commitments to Infrastructure Funds, with a current strategic allocation of 4% of the Main Fund, which, it was proposed, be increased to 5%. In addition, the Fund was progressing a joint venture with the London Pension Funds Authority (GLIL), which was making direct investments in UK infrastructure, and it was proposed that a 5% strategic allocation to Direct UK Infrastructure be established. The result would be a 10% strategic allocation to infrastructure that reflected the Fund's direction of travel, and matched the scale of ambition set out within the Fund's February 2016 pooling proposal to Government.

It was proposed to increase the Infrastructure 'realistic' benchmark from 1% to 3.5% and the Private Equity 'realistic' benchmark from 2.5% to 3% to reflect further progress made in implementing these portfolio's during 2015/16.

With regard to specialist managers, it was further proposed that, within the pre-agreed range of 3-5%, 5% be allocated to the new Global Credit Manager.

In respect of the Global Equity Manager's allocation, it was proposed that this be increased to 5% to correct the dilution effect of the assimilation of Probation Assets.

Hedging liability risks were highlighted as a longer term consideration, after other key changes currently planned had been implemented. It was explained that the Fund's typical approach would be to 'dial-down' equity exposure to increase the hedging properties of the Main Fund, but other more specific tools which might prove useful regarding inflation hedging or interest rate hedging may facilitate more efficient fine tuning at good prices.

The Assistant Executive Director (Investments) confirmed that the issue of BREXIT and the result of the EU Referendum was a significant risk event which has been considered throughout the Strategy Process and did not necessitate any change in the recommendations.

The Advisors were then asked to comment.

Mr Moizer noted that the result of the EU Referendum could mean increased challenges in the short term, however, overall, supported the approach.

Mr Marshall concurred with Mr Moizer.

Mr Powers expressed the view that in a potential low return scenario, the Fund may be reliant on Fund Manager outperformance in order to meet the overall investment return target. He was supportive of the approach set out within the Report.

RECOMMENDED
That:

1. **Any requirements for cash to be withdrawn from the securities managers to be taken from L&G, until their share of assets is reduced from approximately 33% to approximately 25% of the Main Fund. Any further cash requirements to be withdrawn from UBS.**
2. **Main Fund Overall Asset Allocation**
   - **(a) Reduce the overall benchmark public equity weighting by 5% with a concomitant increase in allocation to a Multi-Asset Credit Investments asset class.**
   - **(b) Adjust the Public Equity and Bond weightings pro-rata to take account of the increases in 'realistic benchmark' allocations to Private Equity, Infrastructure and Property.** ***[see 5. (a), 5. (b), 6. (b) and 7. (b) below]***
   - **(c) Increase the benchmark and actual allocation for Global Equity to its target 5% with 'funding' taken from the equity assets of L&G.**
   - **(d) Increase the Public Equity weighting by 3% points for the concomitant reduction to 0% for Tactical Cash.** ***[see 4. (d) below]***

3. **Public Equity Allocation**
   (a) **Maintain the Public Equity split at 35% UK and 65% Overseas.**
   (b) **Maintain the Overseas equity split at : North America 32.5%; Europe (ex UK) 27.5%; Japan 15%; Pacific 10% and Emerging Markets 15%.**

4. **Debt Related Investments (inc Bonds)/Cash Allocation**
   (a) **No immediate change to current individual bond benchmark allocations.**
   (b) **Institute a benchmark exposure of 5% points to a Multi-Asset Credit Investments 'asset class' in line with the reduction in the weighting of public equity.** ***[see 2. (a) above]***
   (c) **Continue to progress to completion the procurement exercise for a specialist manager of Multi-Asset Credit Investments (with a remit to manage 5% of Main Fund assets).**
   (d) **Remove the 3% allocation to Tactical Cash from the Main Fund benchmark. No change to the 3.2% allocation to Strategic Cash.**
5. **Alternative Investments**
   (a) **Private Equity: The recommendations of the Alternative Investments Working Group be adopted (minute 21 refers). Increase the current 'realistic benchmark' allocation from 2.5% to 3%.**
   (b) **Infrastructure : The recommendations of the Alternative Investments Working Group be adopted (minute 23 refers), as amended by the proposed increase in target allocation from 4% to 5%, and with nominal sterling amounts of new annual commitments specified in the Working Group report being pro-rated upwards accordingly with effect from 1 July 2016. Increase the current 'realistic benchmark' allocation from 1% to 2%.**
   (c) **Special Opportunities Portfolio: The recommendations of the Alternative Investments Working Group be adopted (minute 24 refers).**
6. **Property**
   (a) **Maintain the long term target allocation to property at 10% of total Main Fund assets, broadening the range of approaches to obtaining the target 10% exposure.**
   (b) **Phase in 'realistic benchmark' allocations to reflect the forecast investment programmes and movement towards the 10% target, as follows :**

	Brought forward 2015/16 Realistic% Range% Cash flow	Proposed 2016/17 Realistic% Range% Cash flow	Proposed 2017/18 Realistic% Range% Cash flow
Main Portfolio External	4 3-5 £150m-£200m	5 4-6 £50m-£100m	5 5-7 £50m-£100m
Indirect	1 0-2 -	1 0-2 (£0m)-(£50m)	1 0-2 (£0m) -(£25m)
GMPVF	1 0-2 £25m-£50m	1.5 1-2 £50m-£75m	2 2-3 £50m-£75m
Overseas	1 0-2 £50m-£100m	1.5 1-3 £100m-£150m	1.5 1-3 £100-£150m
Other	0 0-1 £25m-£75m	0 0-1 £25m-£75m	0.5 0-1 £25m-£75m
Total	7 6-14 £225m-£375m	9 6-14 £200m-£450m	10 6-14 £150m-£250m

7. **Local Investment**

(a) **Maintain the overall limit on those assets which are locally invested at 5% of Main Fund as agreed at the July 2011 Panel whilst recognising the new collaborative initiatives of the North West Impact Portfolio.**

(b) **Establish a strategic allocation to Direct UK Infrastructure of 5% and a 'realistic' benchmark allocation of 1.5%. Increase the allocation to GLIL from £250m to £500m to work towards the strategic allocation.**

	Range %
GMPVF	0-3
I4G	£50m
Impact Portfolio	0-1
GLIL	Up to £500m (Not all local)
Total	0-5

8. **Implementation**

The nature, timing and detailed implementation of any benchmark changes necessary to reflect the decisions of the Panel be settled by the Executive Director of Governance, Resources and Pensions following consultation with the Advisors and/or managers where appropriate.

14. REPORTS OF THE MANAGERS

(a) Capital International

Stephen Gosztony, President and Martyn Hole, Equity Investment Director, Capital International, attended before Members to present their quarterly report.

Mr Gosztony began by detailing the composition of the portfolio and outlining Capital's views on the 'Brexit' result of the recent EU Referendum. He explained that the portfolio was not built on Brexit, but did have significant exposure to emerging markets and limited exposure to Europe.

Likely Brexit scenarios were outlined and implications were detailed and discussed as follows:

- Brexit would imply new headwinds for the global economy;
- The possibility of a looser monetary policy by central banks globally;
- Fiscal policy could also be looser, supporting growth;
- Weak sterling – already built into long term assumptions, but with the possibility of more weakness to come;
- The expectation that the Bank of England would cut rates and undertake QE in corporate bonds;
- Brexit policies could: cut free trade; immigration; capital flows; include a fiscal package;
- Consequences could then be higher inflation, lower growth, lower productivity; and
- The uncertainties around Scotland.

Mr Gosztony further explained that the Brexit result had had a massive impact on Sterling investment. He reported that Emerging markets, however, had not been as affected by the result. Fixed income had done better than expected, however it was difficult to predict. Mr Gosztony added that the equity/bond split was a key issue for the Fund going forward.

Mr Hole explained that every analyst at Capital had been asked to write a report on the impact of Brexit on each of their companies.

A summary of capital market assumptions was given and, going forward, it was explained that there may be a need to look to lower assumptions in fixed income areas, however, the picture was less certain in respect of equities.

The 20 largest holdings in the Equity Portfolio were detailed and discussed.

The Advisors were then asked to comment.

Mr Powers sought Capital's views on the scenario that Brexit may not actually take place and the option of renegotiating with Europe with the emergence of a new EU, and asked how much of Capital's strategy was leaning towards this assumption?

Mr Gosztony, in his response, explained that Capital were certain with regard to the weakening of Sterling and that this was already built into their assumptions. He added that whatever happened, confidence in the UK had been shaken and the cost of servicing the deficit had to be addressed.

Mr Hole explained that analysts at Capital had considered this scenario, however, were of the view that Brexit would go ahead.

Mr Moizer agreed with Capital's views on the deficit and added that the fall in Sterling should help and asked what Capital's advice would be on UK investments?

Mr Hole referred to the UK market and explained that by value, 44% of dividends were declared in dollars or euros. However, some sectors had been 'badly hit' – i.e. clothing and banks.

Mr Marshall asked Capital to comment on macroeconomic factors.
Mr Hole explained that daily calls were made to analyse the current situation and that opportunities were constantly being sought.

Panel members sought Capital's views on opportunities going forward, based on analysts reports.

Mr Hole made reference to Emerging Markets being an area of potential interest and added that the rest of the portfolio would be considered on a stock by stock basis.

(b) UBS Asset Management

Ian Barnes, Head of UK and Ireland, Jonathan Davies, Head of Currency and Global Investment Solutions and Steve Magill, Portfolio Manager, UK Value Equities, UBS Asset Management, attended before Members to present their quarterly report.

Mr Barnes also began by commenting on the financial market implications of the result of the recent EU Referendum. He explained that, in his view, Brexit could be seen as an opportunity for investors and that a positive result could come out of it.
Mr Davies explained that the EU would not want to encourage other countries to follow the UK, therefore, he felt that there would not be any concessions for the UK.

He went on to comment on the outlook for the UK, explaining that during an extended period of policy uncertainty, GDP was likely to suffer due to withheld investment, there would a lower interest rate outlook and bond yields would be lower and the Pound weaker due to lower prospective returns. He added that some companies would benefit from a weaker Pound.

Mr Davies further commented on the possible threat of a constitutional crisis triggered by Scotland's demands to remain in the EU and the scenario of an independent Scotland.

Further discussion ensued with regard to the UK's options, including access to the Single market, freedom of movement and the 'Norway solution', which would mean that the UK would still contribute to the EU, to a lesser extent.

The scenario that Brexit may not actually take place was also addressed and Mr Davies explained that although the referendum was not legally binding on Parliament, it would be difficult to ignore the result.

Mr Davies concluded that the immediate response to markets was fairly rational with lots of potential opportunities expected. Heightened uncertainty had raised global risk premiums, offset somewhat by prospects of easier global monetary policy.

Mr Magill then commented on UK equities and reported that overall, the market seemed to have taken the result 'in its stride'. The overall picture, however, masked what had been happening in the market, with great volatility in share price in various shares.

He made reference to the portfolio's significant overweight in the overseas earning Oil and Mining sectors and an offsetting underweight to overseas earning Consumer Staple Stocks. Key UK domestic exposure was the overweighting in the banking sector. Mr Magill added that UBS continued to regard the banks in the portfolio as offering compelling value.

He concluded by reporting that the UK Equity value team would use increased volatility to increase holdings in stocks with attractive long term fundamentals and valuations.

The Advisors were then asked to comment.

Mr Moizer sought further clarification with regard to the future of British banks in light of their constraints in Europe, following Brexit. Mr Magill, in response, stated that many banks could operate from office bases within other EU Countries.

Mr Marshall sought UBS's views on the property sector, post Brexit. Mr Davies reported that the outlook was probably for lower property prices.

Mr Powers asked 'How big is the value opportunity'? Mr Magill responded that it was his view that there was above average level of value opportunity at the present time.

In response to an issue raised by the Chair in respect of tariff barriers, Mr Davies explained that global tariffs were not particularly high at the moment, however they would have to be re-negotiated and the UK would be in a weak bargaining position.

RECOMMENDED
That the content of the Fund Manager presentations and the comments of the Advisors, be noted.

15. EXTENSION OF EXTERNAL ACTIVE MULTI ASSET SECURITIES MANAGERS' APPOINTMENTS AND ASSOCIATED FEE ARRANGEMENTS

A report of the Assistant Executive Director of Pension Fund Investments was submitted, which considered the extension of the appointments of the Fund's external active multi-asset Securities Managers and outlined progress on fee discussions with Capital and UBS.

The Assistant Executive Director further explained that since the report was finalised, further fee discussions had taken place with UBS Asset Management and it was:

RECOMMENDED
(i) That the fee arrangements with Capital International be extended as proposed within the report; and
(ii) The revised fee arrangements with UBS Asset Management be extended as proposed in the communication received by the Assistant Executive Director of Pension Fund Investments and verbally communicated to the Panel at the meeting.

16. QUARTERLY REPORTS OF THE EXECUTIVE DIRECTOR OF GOVERNANCE, RESOURCES AND PENSIONS

(a) Summary Valuation of the Pension Fund Investment Portfolio as at 31 December 2015 and 31 March 2016

A report of the Assistant Executive Director of Pension Fund Investments was submitted, detailing and comparing the market value of the Fund's investment portfolio as at 31 December 2015 and 31 March 2016.

RECOMMENDED
That the report be noted.

(b) External Managers' Performance

The Assistant Executive Director of Pension Fund Investments submitted a report, which advised Members of the recent performance of the external Fund Managers.

It was noted that in the quarter to 31 March 2016, Capital had underperformed by 0.8% against their benchmark index of 3.3%. UBS had outperformed by 0.5% against their benchmark index of 1.5% and Legal and General had broadly succeeded in tracking their benchmark.

Performance figures for the twelve months to 31 March 2016 were detailed which showed that Capital had underperformed their benchmark by -0.4% and UBS had also underperformed their benchmark by -1.2%. Legal and General had broadly succeeded in tracking their benchmark.

RECOMMENDED
That the content of the report be noted.

17. ANNUAL PERFORMANCE REPORTS

(a) Long Term Performance 2015/16 – Main Fund and Active Managers

Consideration was given to a report of the Assistant Executive Director of Pension Fund Investments which advised Members of the excellent long term results for UBS and the Main Fund as a whole, as measured by WM. Detailed results covering periods up to 25 years were given.

The Main Fund was in the top 10% of the Local Authority Pension Funds surveyed by WM over 20 years and was the fourth best performing Local Authority Fund over the 25 year period.

The performance of UBS over their time as a Manager for the Fund had been excellent. Capital International had, however, underperformed their benchmark over 5, 10 and 15 years, and they had outperformed in only 1 of the last 3 years.

(b) Cash Management

A report was submitted by the Assistant Executive Director of Pension Fund Investments, which explained that the Fund adopted a relatively prudent approach to its cash management. The report outlined the constraints in place to ensure an appropriate level of prudence, focusing primarily on capital preservation and secondly on higher returns. It also detailed the performance achieved last year and over the last three years.

The report concluded that the Pension Fund's cash had been generally well managed. Performance in 2015/16 exceeded market returns and total interest received was £2.5 million.

(c) Long Term Property Performance (IPD review 2016 etc)

The Assistant Executive Director of Pensions – Local Investments and Property submitted a report, which advised Members of the recent and longer term investment performance of the Direct Property Portfolio (comprising directly owned properties and 'Specialist' Indirect Funds now managed externally by LaSalle Investment Management)) and of the 'Balanced Property Pooled Vehicle Portfolio' and 'Overseas Property Portfolio' (both managed by the Executive Director of Governance, Resources and Pensions).

With regard to the Main Property Portfolio managed by La Salle, in 2015, the Fund's total return for the LaSalle Managed Portfolio was 10.5% compared with the benchmark (IPD All-Property Universe) of 13.3%, showing underperformance of 2.8%. The directly held properties in isolation delivered a below benchmark return of 11.7%. This resulted in an overall ranking for GMPF in the 76th percentile of the All-Funds IPD Universe.

The Fund's direct property holdings had a relatively strong income base and significant work had been undertaken to reduce voids again this year. Open Market Rental Growth of the direct assets was significantly above the IPD average, suggesting more scope for rents to rise in the future through lease events.

The net investment of £132.5 million constitutes the busiest year in the history of the GMPF direct property portfolio in terms of transaction activity by value. The sales and purchase activity had seen the average lot size in the directly owned portfolio rise to be just short of £10 million, which was slightly below the IPD median level.

La Salle's purchases and sales in 2015 brought the directly-owned portfolio more in line with the IPD average portfolio in terms of composition, in particular, the overweight position in the retail sector and underweight position in the office sector, had been effectively neutralised.

In respect of the GMPF Balanced Property Pooled Vehicle Portfolio, it was reported that there were no sales of balanced property pooled vehicles during the year, though GMPF did acquire some additional units in the UBS Triton Fund. The value of the Balanced Property Pooled Vehicle Portfolio stood at circa £336 million as at 31 December 2015.

With regard to the GMPF Overseas Property Portfolio, details of total commitment plus drawdown values as at 31 December 2015 were reported. It was explained that these investments were in the draw down stage of a 4 year investment period, and it was too early to judge performance.

RECOMMENDED

(i) That the content of the reports be noted; and

(ii) That the Fund updates its Treasury Management Investment List as described within Section 4 of the Cash Management Report.

18. EXTERNAL AUDIT PLAN 2015/16

Consideration was given to a report of the External Auditor, Grant Thornton, which set out their approach to the 2015/16 audit.

RECOMMENDED

That the content of the report be noted.

19. GMPF STATEMENT OF ACCOUNTS 2015/16 GOVERNANCE ARRANGEMENTS

Consideration was given to a report of the Assistant Executive Director of Pensions – Local Investments and Property, proposing the governance arrangements for approval of the 2015/16 accounts for the Greater Manchester Pension Fund. The report further sought approval of the key assumptions for estimates to be used in the accounts and to note the pre-audit simplified accounts.

It was explained that the key decision making bodies for the Council was the Audit Panel, which received accounting policies reports for both the Fund and the Council and the Overview (Audit) Panel, which received the report of the external auditor following the audit of the accounts. The Council retained overall responsibility for the accounts of both and the follow-up on the audit reports received for both, and in practice, the Fund was responsible for managing this as it retained a team to do so.

The provisional timetable for approval of the accounts and consideration of audit reports by the Council and Fund for 2016/17 was outlined in the report.

It was further reported that the audit process must be completed before the end of September 2016. The date for the Overview (Audit) Panel was set for 12 September 2016. The date for GMPF Management Panel had been set for 23 September 2016, hence the need for an Urgent Matters Panel before the 12 September 2016. The audit letters for both the Fund and the Council would be received formally by the TMBC Overview (Audit) Panel in September 2016.

The key on-going assumptions used in production of the accounts, covered the following matters:

- Accruals basis;
- Fair value for investments;
- Market prices at bid where possible;
- For non-listed assets, compliance with accounting standards and best practice;
- Liabilities in compliance with International Accounting Standard 19 (IAS 19); and
- Continued phased implementation of CIPFA's guidance on accounting for management costs in the LGPS.

The key financial movements during the financial year to 31 March 2016 were detailed in the report.

RECOMMENDED
(i) That the governance arrangements for the Fund's accounts be approved;
(ii) That the assumptions for estimates to be used in the GMPF Statement of Accounts be approved; and
(iii) That the pre-audit simplified accounts be noted.

20. GMPF ADMINISTRATION EXPENDITURE MONITORING STATEMENT FOR FINANCIAL YEAR 2015/16

The Assistant Executive Director of Pensions – Local Investments and Property, submitted a report comparing the administration expenses budget against the actual results for the 12 months to 31 March 2016.

It was reported that, for the financial year to 31 March 2016, there was an underspend of £4,708,000 against the budget of £24,037,000 for that period. Reasons for major variations over £50,000 for 2015/16 were detailed as follows:

- Investment Managers and Professional fees;
- Premises;
- Communications; and
- Recovery of Management and Legal Fees.

RECOMMENDED
That the content of the report be noted.

21. LGPS UPDATE

A report was submitted by the Assistant Executive Director of Pension Fund Administration providing information about recent developments regarding the Scheme, in this case regarding a DCLG consultation about possible changes to the Scheme Regulations and Academy Schools.

Following information presented at the last meeting of the Management Panel (Meeting of 11 March 2016, Minute 73 refers), members requested an update on reforms to public sector exit payments. The Assistant Executive Director explained that there was no further information available at this time in respect of this matter.

RECOMMENDED
That the content of the report be noted.

22. FUTURE TRAINING DATES

Trustee Training opportunities were noted as follows:

LGA Annual Conference 2016 Bournemouth International Centre	5 – 7 July 2016
NAPF Annual Conference ACC Liverpool	19 – 21 October 2016
LGPS Fundamentals Training Leeds Marriott Hotel	
Day 1	18 October 2016
Day 2	9 November 2016
Day 3	6 December 2016
Capital International Training Day Manchester venue to be advised	1 December 2016
LAPFF Annual Conference Marriott Hotel Bournemouth	7 – 9 December 2016

23. DATES OF FUTURE MEETINGS

The dates of future meetings of the Greater Manchester Pension Fund Management/Advisory Panel, Local Board and Working Groups were noted as follows:

Management/Advisory Panel	23 September 2016 (AGM) 18 November 2016 10 March 2017
Local Pensions Board	1 August 2016 13 October 2016 15 December 2016 30 March 2017
Pensions Administration Working Group	15 July 2016 14 October 2016 27 January 2017 7 April 2017

Investment Monitoring & ESG Working Group	15 July 2016 14 October 2016 27 January 2017 7 April 2017
Alternative Investments Working Group	22 July 2016 21 October 2016 3 February 2017 13 April 2017
Property Working Group	5 August 2016 4 November 2016 17 February 2017 13 April 2017
Policy and Development Working Group	6 October 2016 2 February 2017 23 March 2017
Employer Funding Viability Working Group	29 July 2016 28 October 2016 10 February 2017 21 April 2017

CHAIR

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GREATER MANCHESTER PENSION FUND MANAGEMENT PANEL

1 July 2016

Commenced:	**10.00am**	**Terminated:12.25pm**
Present:	**Councillor K Quinn (Chair)**	
	Councillors: Councillors: Cooney, J Fitzpatrick, Francis (Bolton), Grimshaw (Bury), Halliwell (Wigan), J Lane, Middleton, Mitchell (Trafford), Pantall (Stockport), Patrick, S Quinn, Reid, Ricci, M Smith, Taylor, Ward	
Apologies for Absence:	**Councillors: Akbar (Manchester), Brett (Rochdale) and Wilson (Salford).**	

1. DECLARATIONS OF INTEREST

There were no declarations of interest submitted by Members.

2. MINUTES

The Minutes of the proceedings of the meeting of the Pension Fund Advisory Panel held on 11 March 2016 were signed as a correct record.

The Minutes of the proceedings of the meeting of the Pension Fund Management Panel held on 11 March 2016 were signed as a correct record.

3. LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

(a) Urgent Items

The Chair announced that there were no urgent items for consideration at this meeting.

(b) Exempt Items

RESOLVED
That under Section 100 (A) of the Local Government Act 1972 the public be excluded for the following items of business on the grounds that:
(i) they involve the likely disclosure of exempt information as defined in the paragraphs of Part 1 of Schedule 12A of the act specified below; and
(ii) in all circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information for reasons specified below:

Items	Paragraphs	Justification
9, 10, 11, 12, 13, 14, 15	**3&10, 3&10, 3&10, 3&10, 3&10, 3&10, 3&10**	**Disclosure would or would be likely to prejudice the commercial interests of the Fund and/or its agents, which could in turn affect the interests of the beneficiaries and/or tax payers.**

4. INVESTMENT MONITORING AND ESG WORKING GROUP

The Minutes of the proceedings of the meeting of the Investment Monitoring and ESG Working Group held on 8 April 2016 were considered.

RESOLVED
That the recommendations of the Pension Fund Advisory Panel on this matter be adopted.

5. PENSIONS ADMINISTRATION WORKING GROUP

The Minutes of the proceedings of the meeting of the Pensions Administration Working Group held on 15 April 2016 were considered.

RESOLVED
That the recommendations of the Pension Fund Advisory Panel on this matter be adopted.

6. ALTERNATIVE INVESTMENTS WORKING GROUP

The Minutes of the proceedings of the meeting of the Alternative Investments Working Group held on 15 April 2016 were considered.

RESOLVED
That the recommendations of the Pension Fund Advisory Panel on this matter be adopted.

7. EMPLOYER FUNDING VIABILITY WORKING GROUP

The Minutes of the proceedings of the meeting of the Employer Funding Viability Working Group held on 22 April 2016 were considered.

RESOLVED
That the recommendations of the Pension Fund Advisory Panel on this matter be adopted.

8. POLICY AND DEVELOPMENT WORKING GROUP

The Minutes of the proceedings of the Policy and Development Working Group held on 26 may 2016 were considered.

RESOLVED
That the recommendations of the Pension Fund Advisory Panel on this matter be adopted.

9. LOCAL PENSIONS BOARD

RESOLVED
That the recommendations of the Pension Fund Advisory Panel on this matter be adopted.

10. WORKING GROUP APPOINTMENTS

Consideration was given to a report of the Executive Director of Governance, Resources and Pensions detailing the appointments to the Working Groups.

RESOLVED
That the recommendations of the Pension Fund Advisory Panel on this matter be adopted.

11. MANAGEMENT SUMMARY

A report of the Executive Director of Governance, Resources and Pensions was submitted.

RESOLVED
That the recommendations of the Pension Fund Advisory Panel on this matter be adopted.

12. POOLING OF ASSETS

A report of the Assistant Executive Director of Pensions – Funding and Business Management, was submitted.

RESOLVED
That the recommendations of the Pension Fund Advisory Panel on this matter be adopted.

13. INVESTMENT STRATEGY AND TACTICAL POSITIONING 2016/17

A report of the Assistant Executive Director of Pension Fund Investments was submitted.

RESOLVED
That the recommendations of the Pension Fund Advisory Panel on this matter be adopted.

14. REPORTS OF THE MANAGERS

Representatives of Capital International and UBS Global Asset Management attended before Members of the Panel to comment on their investment strategy and to answer questions raised by the Advisors and Members.

RESOLVED
That the recommendations of the Pension Fund Advisory Panel on this matter be adopted.

15. EXTENSION OF EXTERNAL ACTIVE MULTI ASSET SECURITIES MANAGERS' APPOINTMENTS AND ASSOCIATED FEE ARRANGEMENTS

A report of the Assistant Executive Director of Pension Fund Investments was submitted.

RESOLVED
That the recommendations of the Pension Fund Advisory Panel on this matter be adopted.

16. QUARTERLY REPORTS OF THE EXECUTIVE DIRECTOR OF PENSIONS

(a) Summary Valuation of the Pension Fund Investment Portfolio as at 31 December 2015 and 31 March 2016

A report of the Assistant Executive Director of Pension Fund Investments was submitted.

RESOLVED
That the recommendations of the Pension Fund Advisory Panel on this matter be adopted.

(b) External Managers' Performance

A report of the Assistant Executive Director of Pension Fund Investments was submitted.

RESOLVED
That the recommendations of the Pension Fund Advisory Panel on this matter be adopted.

17. ANNUAL PERFORMANCE REPORTS

(a) Long Term Performance 2015/16 – Main Fund and Active Managers

A report of the Assistant Executive Director of Pension Fund Investments was submitted.

RESOLVED
That the recommendations of the Pension Fund Advisory Panel on this matter be adopted.

(b) Cash Management

A report of the Assistant Executive Director of Pension Fund Investments was submitted.

RESOLVED
That the recommendations of the Pension Fund Advisory Panel on this matter be adopted.

(c) Long Term Property Performance (IPD review 2016 etc)

A report of the Assistant Executive Director of Pensions – Local Investments and Property was submitted.

RESOLVED
That the recommendations of the Pension Fund Advisory Panel on this matter be adopted.

18. EXTERNAL AUDIT PLAN 2015/16

Consideration was given to a report of the External Auditor, Grant Thornton, which set out their approach to the 2015/16 audit.

RESOLVED
That the recommendations of the Pension Fund Advisory Panel on this matter be adopted.

19. GMPF STATEMENT OF ACCOUNTS 2015/16 GOVERNANCE ARRANGEMENTS

A report of the Assistant Executive Director of Pensions – Local Investments and Property, was submitted.

RESOLVED
That the recommendations of the Pension Fund Advisory Panel on this matter be adopted.

20. GMPF ADMINISTRATION EXPENDITURE MONITORING STATEMENT FOR FINANCIAL YEAR 2015/16

A report of the Assistant Executive Director of Pensions – Local Investments and Property, was submitted.

RESOLVED
That the recommendations of the Pension Fund Advisory Panel on this matter be adopted.

21. LGPS UPDATE

A report of the Assistant Executive Director of Pension Fund Administration was submitted.

RESOLVED
That the recommendations of the Pension Fund Advisory Panel on this matter be adopted.

22. FUTURE TRAINING DATES

LGA Annual Conference 2016 Bournemouth International Centre	5 – 7 July 2016
NAPF Annual Conference ACC Liverpool	19 – 21 October 2016
LGPS Fundamentals Training Leeds Marriott Hotel	
Day 1	18 October 2016
Day 2	9 November 2016
Day 3	6 December 2016
Capital International Training Day Manchester venue to be advised	1 December 2016
LAPFF Annual Conference Marriott Hotel Bournemouth	7 – 9 December 2016

23. DATES OF FUTURE MEETINGS

The dates of future meetings of the Greater Manchester Pension Fund Management/Advisory Panel, Local Board and Working Groups were noted as follows:

Management/Advisory Panel	23 September 2016 (AGM) 18 November 2016 10 March 2017
Local Pensions Board	1 August 2016 13 October 2016 15 December 2016 30 March 2017
Pensions Administration Working Group	15 July 2016 14 October 2016 27 January 2017 7 April 2017
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Employer Funding Viability Working Group	29 July 2016 28 October 2016 10 February 2017 21 April 2017

CHAIR

GREATER MANCHESTER PENSION FUND URGENT MATTERS PANEL

1 September 2016

Commenced: 11.00 am **Terminated: 11.10 am**

Present: **Councillor K Quinn (Chair)**

Councillors JM Fitzpatrick and Pantall

1. DECLARATIONS OF INTEREST

There were no declarations of interest submitted by Members.

2. GMPF STATEMENT OF ACCOUNTS 2015/16 GOVERNANCE ARRANGEMENTS AND UPDATE

The Assistant Executive Director of Pensions (Local Investments and Property) made reference to a report initially considered at the Employer Funding Working Group on 29 July 2016 submitted for information and background relating to subsequent items on the Urgent Matters Panel agenda.

The report provided an update on the governance arrangements for approval of the 2015/16 accounts for the Greater Manchester Pension Fund and noted the on-going key assumptions for estimates used in the accounts and the pre-audit simplified accounts. The revised audit plan was appended to the report.

The Assistant Executive Director informed Members that the Employer Funding Working Group had given detailed consideration to the accounts at its last meeting on 29 July 2016 and a report from the External Auditor, Grant Thornton. The Working Group, as required by International Standards on Auditing, had reviewed the reasonableness of significant assumptions for estimates to be used in the accounts and approved the bases applied.

RESOLVED
That the recommendations agreed at the Employer Funding Group on 29 July 2016, as detailed in the report be noted.

3. AUDIT FINDINGS REPORT AND LETTER OF REPRESENTATION

The Chair welcomed representatives of Grant Thornton who had issued two reports on the financial statements of the Fund, covering:

- The Fund's financial statements as covered in the Fund's Annual Report; and
- The Fund's financial statements included within the administering authority's accounts.

Ms Dixon, presented the Annual Governance report, a copy of which was appended to the report. She envisaged an unqualified audit opinion and asked that Members take note of the typographical disclosure changes to the financial statements before approving the Fund's financial statements.

The Chair extended a vote of thanks to the external auditors endorsed by the Panel and a vote of thanks to the staff in achieving such a clean bill of health.

RESOLVED
(i) That the content of the report be noted; and
(ii) That the Chair of the Panel and the Assistant Executive Director, Finance, sign the letter of representation on behalf of the Management Panel on the 12 September 2016 following the Overview (Audit) Panel.

4. ANNUAL REPORT

Consideration was given to the latest draft of the Annual Report and Accounts. This version was approved subject to completion and addition of letter of representation and audit certificate.

RESOLVED
That the Annual Report and Accounts be approved.

CHAIR

GREATER MANCHESTER PENSION FUND - INVESTMENT MONITORING AND ESG WORKING GROUP

Friday, 15 July 2016

Commenced: 10.30 am **Terminated:** 12.00 pm

Present: Councillors Taylor (Chair), Middleton, Brett, Grimshaw, Mitchell, Pantall and Mr Llewellyn

Apologies for Absence: Councillor Ricci

1. DECLARATIONS OF INTEREST

There were no declarations of interest.

2. MINUTES

The Minutes of the meeting of the Investment Monitoring and ESG Working Group held on 8 April 2016 were approved as a correct record.

3. UBS CORPORATE GOVERNANCE REVIEW

The Working Group welcomed Ian Barnes and Paul Clark of UBS who attended the meeting to present Corporate Governance activity over the past 12 months.

The role of the governance and stewardship team was outlined to the group and in response to a question it was advised that the team structure had changed and was now part of the Chief Operating Officer division. It was explained that this change provided assurance that the governance and stewardship team was independent of the equities team. It was clarified that working practices remained the same. Stewardship activity and the global engagement reach were highlighted.

The role of corporate governance in the investment process was explained to the group. It was emphasised by Mr Clarke that effective corporate governance led to sustainable long term corporate performance and that this was obtained through detailed knowledge of investee companies, focussing on the ‘outputs’ of governance and via engagement with senior board members. This was of benefit because it provided a better understanding of how well governed a company was, the quality of the management and how the strategy benefitted shareholders.

The most important governance factors for UBS were confirmed as strategy, quality and skillset of the Board and Management, succession planning, operational performance, risk management, reputation and remuneration.

It was highlighted that voting was seen as an intrinsic part of the governance oversight process and it gave investors the forum to ensure that their views were taken into account. It was explained that a high voting turnout at general meetings could help ensure that decisions were representative of all stakeholders and not only those with large holdings or shorter term perspectives.

For the year to 31 March 2016, UBS had voted at 296 company meetings on behalf of GMPF for 3,781 separate resolutions and voted against management on 243 resolutions (6.5% of the total). Examples of key votes were provided and explained to the group.

RECOMMENDED:
That the report be noted.

4. UBS TRADING COSTS

The Assistant Executive Director of Pensions (Investments) submitted a report to facilitate Member's scrutiny of UBS's approach and practice to trading costs. UBS's 'level one' and 'level two' disclosure reports for the period 1 January 2015 to 31 December 2015, were appended to the report.

Ian Barnes, UBS, presented GMPF's transaction costs and provided an analysis of trading for the 12 month period ending 31 December 2015. It was reported that the 'level two' report had been reviewed by GMPF officers and questions arising from the review had been satisfactorily answered by UBS.

RECOMMENDED:
That the report be noted.

5. ROUTINE PIRC UPDATE

The Working Group welcomed Tessa Younger and Lara Blecher of PIRC Ltd, who attended the meeting to present an update on the Local Authority Pension Fund Forum (LAPFF) work programme, entitled "Work Plan Highlights". A copy of the plan was appended to the report.

It was reported that LAPFF had 71 UK public sector pension fund members with combined assets of approximately £175 billion. There was a long-term approach to ensure that returns were financially and environmentally sustainable. It was explained to the group that LAPFF promoted focus on face to face engagement and aimed to encourage companies to adhere to high standards of corporate behaviour to ensure they were well run and delivered sustainable shareholder returns. It was highlighted that real change in corporate behaviour was not always immediate and that a small change could have big effects. Voting remained a vitally important element of LAPFF engagement and there had been high votes against company management on remuneration at companies including BP, Smith and Nephew and Weir.

Members were provided with an update on the current LAPFF initiatives, in particular executive pay and their long term involvement with carbon risk. Strategic resilience resolutions, the quarterly engagement report for the period April to June 2016, tax transparency and labour standards were discussed with the group.

RECOMMENDED:
That the report be noted.

6. UNDERWRITING, STOCKLENDING AND COMMISSION RECAPTURE

The Assistant Executive Director of Pensions (Investments) submitted a report advising Members of the activity and income generated on Underwriting, Stocklending and Commission Recapture during the quarter ending March 2016.

It was reported that Capital International did not participate in underwriting activity and that the Fund had accepted sub-underwriting via UBS in the quarter. Underwriting commission in respect of the quarter was £43,564. Stocklending income during the quarter was £92,666 and commission 'recaptured' was £26,570.

The report outlined that income generated from these activities were very sensitive to market conditions, therefore the amounts generated were expected to vary from one quarter to another, and from one year to another.

RECOMMENDED:
That the report be noted.

7. CLASS ACTION UPDATE

The Assistant Executive Director of Pensions (Investments) submitted a report, which provided Members with an update on litigation in which GMPF sought to actively recover losses in the value of its shareholdings in various companies as a result of actions taken by those companies.

A summary of active Class Action recommendations, which remained outstanding and recent developments of each action was provided.

RECOMMENDED:
That the report be noted.

8. URGENT ITEMS

There were no urgent items.

CHAIR

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GREATER MANCHESTER PENSION FUND - PENSIONS ADMINISTRATION WORKING GROUP

Friday, 15 July 2016

Commenced: 9.00 am **Terminated:** 9.45 am

Present: Councillors J Lane (Chair), Middleton, S Quinn, Brett, Grimshaw and Mr Allsop

Apologies for Absence: Councillor Patrick

1. DECLARATIONS OF INTEREST

There were no declarations of interest.

2. MINUTES

The Minutes of the meeting of Pensions Administration Working Group held on 8 April 2016 were approved as a correct record.

3. PERFORMANCE STANDARDS

The Assistant Executive Director of Pensions (Administration) submitted a report, which provided information about adherence to the performance standards set by the Pensions Fund Management Panel.

The record of performance for the 12 months ending May 2016 was appended to the report, which showed that 18 of the 28 standards had met the level of 90% or better, throughout the month of May 21 of the 28 standards had achieved this target which indicated an improving trend. The performance of the ten Local Authorities in respect of notifying the Pensions Office of new starters and early leavers and details of outstanding queries were also appended to the report.

It was reported that arrears relating to early leavers was reducing as well as deferred benefits, which now stood at approximately 900 cases down from 3000 cases as previously reported.

The Executive Director for Governance, Resources and Pensions commented that the statistics provided a snapshot from a moment in time and for future reports it would be useful to include information about the age of queries (e.g. the year in which they were raised), and an average age of the queries.

RECOMMENDED:
(1) That the report be noted.
(2) That the age and the average age of employer queries be included on the outstanding tasks spreadsheet

4. LETTERS TO ACADEMIES

The Assistant Executive Director of Pensions (Administration) submitted a report, which detailed a copy of the letter sent to Local Authorities for onward transmission to schools notifying them of the pension consequences of becoming an academy.

There are approximately 900 Local Authority schools, with one reply having been received to date.
RECOMMENDED:
That the report be noted.

5. CLUB VITA 2016

The Assistant Executive Director of Pensions (Administration) submitted a report on Club Vita, which was a wholly owned subsidiary of Hymans Robertson that specialised in the analysis of mortality statistics for pension schemes. GMPF was a member of Club Vita and the report provided information from this year's analysis of the Fund's data.

It was reported that Club Vita collected and analysed data from many Hymans Robertson clients with the aim of trying to improve mortality forecasts. The actuary used the results of this analysis, which was derived from the Vita life curves calculated for each GMPF member, and the results had a direct and material impact on the contributions employers would pay during 2017 - 2020.

A presentation was given which showed that this year's analysis showed a decrease in the Fund's liabilities of 1.4% compared to the assumption used in the 2013 valuation. Slightly more pension ceased during 2013 – 2016 than the actuary expected which had the effect of decreasing liabilities by an additional 0.1% to give an overall reduction in the Fund's liabilities of 1.5%.

Club Vita took into account member's pre-retirement salaries, postcodes, gender and reason for retirement which resulted in a robust analysis and enabled accurate application of the results to the Fund. Key points in the wider analysis included: life expectancy increased at around 2.1 years per decade between 1993 and 2013, members with higher lifespans had a disproportionate effect on the finances of the Fund and men with large pensions were more likely to leave a financial dependant.

RECOMMENDED:
That the report and presentation be noted.

6. SMALL COMPENSATION PAYMENTS

The Assistant Executive Director of Pensions (Administration) submitted a report, which provided information about ex-gratia payments made during 2015/16 for instances of performance falling below expected standard. Throughout the year there had been four cases which Emma Mayall, Pensions Policy Manager, outlined to Members of the Working Group.

RECOMMENDED:
That the report be noted.

7. URGENT ITEMS

There were no urgent items.

CHAIR

GREATER MANCHESTER PENSION FUND - ALTERNATIVE INVESTMENTS WORKING GROUP

Friday, 22 July 2016

Commenced: 9.30 am **Terminated:** 10.40 am

Present: Councillors Cooney (Chair), Ricci, Ward, Halliwell, Mr Drury and Mr Thompson

Apologies for Absence: Councillor Reid

1. DECLARATIONS OF INTEREST

There were no declarations of interest.

2. MINUTES

The Minutes of the meeting of Alternative Investments Working Group meeting held on 15 April 2016 were approved as a correct record.

3. PRIVATE EQUITY PORTFOLIO - REVIEW OF PERFORMANCE

The Assistant Executive Director of Pensions (Investments) submitted a report updating the Working Group on the returns achieved by GMPF's Private Equity Portfolio on an absolute basis and when compared with public equity markets and private equity comparators.

It was reported that GMPF used long term measures such as the internal rate of return and money multiple as the most appropriate means of evaluating performance, a vintage decade approach had been adopted and, in calculating the performance, included only those funds that were considered to be mature (i.e. more than 4 years old).

A market background was provided and the Working Group was informed that 2015 had been a positive year for the performance of private equity assets, economic growth was modest and interest rates remained at very low levels. As a result of positive market conditions, asset realisations continued at high levels and fund raising was brisk for managers with good track records.

GMPF's private equity portfolio returns were presented for each of the vintage decades with detailed analysis of each decade outlined in the report alongside comparisons to public equity markets. Overall, since inception, the mature funds within GMPF's private equity programme had achieved a return of 16.9% per annum as at 31 December 2015 (17% per annum as at 31 December 2014), a return that was good in absolute terms and when compared to appropriate public and private market comparators.

RECOMMENDED:
That the report be noted.

4. INFRASTRUCTURE PORTFOLIO - REVIEW OF PERFORMANCE

The Assistant Executive Director of Pensions (Investments) submitted a report updating the Working Group on the returns achieved by GMPF's Infrastructure portfolio.

It was reported that GMPF's infrastructure portfolio had been established in 2001 and had been maintained as a separate portfolio since 2010. Long term measures, such as the 'since inception' internal rate of return, were considered to be the most appropriate means of evaluating portfolio performance and comprised only 'mature' funds - those in excess of 4 years old.

The details and performance of individual infrastructure funds were highlighted, as per Appendix A of the report, as was the performance of each of the revised categories of 'core and long term contracted' funds, 'value added' funds and 'opportunistic' funds.

Overall each of the three categories of the infrastructure portfolio were reporting positive performance and the portfolio level return for all mature funds as at 31 December 2015 was 8.3% per annum (compared to 7.2% per annum as at 31 December 2014) which continued to show progress towards the target of 9 -12% per annum.

RECOMMENDED:
That the report be noted.

5. WARBURG PINCUS

The Working Group welcomed Jonas Agesand and Kanika Kumar of Warburg Pincus, who attended the meeting to present an overview of their firm's investment activities and of the private equity industry more generally.

Warburg Pincus was established in New York in 1966 and was one of the world's oldest private equity firms and one of the first to invest outside the US. The firm had over 500 employees including over 185 investment professionals based in investment offices around the world.

The firm had a global focus on thesis-driven growth investing in five core sectors; energy, financial services, healthcare and consumer, industrial and business services and technology media and communications. The firm had a strong track record and had invested in more than 760 portfolio companies.

The private equity track record of the firm was highlighted, including detailed analysis of the three funds raised by Warburg Pincus since 2006 and to which GMPF had made commitments, and a comprehensive case study was discussed.

RECOMMENDED:
That the report be noted.

6. SPECIAL OPPORTUNITIES PORTFOLIO - APPROVAL OF AN INVESTMENT SUB-TYPE

The Assistant Executive Director of Pensions (Investments) submitted a report seeking the Working Group's approval for a new investment "sub-type" for the Fund's "Special Opportunities Portfolio".

The key features of the portfolio were presented and it was reported that the proposed investment sub-type, "Leveraged Private Debt", would be a sub-type of the existing "Private Debt" type approval. The new sub-type approval would allow individual investments/commitments involving a number of those key features, thereby satisfying the minimum requirements of the "Special Opportunities Portfolio".

The report detailed Officers' definition of "Leveraged Private Debt" fund and the rationale for leveraging a private debt portfolio.

It was proposed that the "Leveraged Private Debt" type approval be applicable for investments up to one third of the Private Debt type approval based upon the projected Net Asset Value likely to be attained, as assessed at the time of making the commitment. Officers had spent 18 months tracking opportunities in the credit market and were satisfied that there was an attractive risk/return opportunity, with changes in the banking system having created an attractive market opportunity for alternative lenders to provide debt capital to companies.

GMPF's three external advisers had been consulted and had given their unanimous approval to the establishment of this investment sub-type.

RECOMMENDED:
That approval be given for a new sub-type of investment by the Fund's "Special Opportunities Portfolio".

7. URGENT ITEMS

There were no urgent items.

CHAIR

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GREATER MANCHESTER PENSION FUND - EMPLOYER FUNDING VIABILITY WORKING GROUP

Friday, 29 July 2016

Commenced: 9.30 am **Terminated:** 10.40 am

Present: Councillors J Fitzpatrick (Chair), Cooney, Mitchell and Mr Allsop

Apologies for Absence: Councillors Reid, Patrick and Ms Herbert

1. DECLARATIONS OF INTEREST

There were no declarations of interest.

2. MINUTES

The Minutes of the meeting of the Employer Funding Viability Working Group held on 22 April 2016 were approved as a correct record.

3. VALUATION WORKSTREAM HIGHLIGHT

The Assistant Executive Director of Pensions (Funding and Business Development) submitted a report detailing the 31 March 2016 Actuarial Valuation work streams highlight report and risk log.

It was reported that the triennial valuation of the Fund at 31 March 2016 required formal completion of the process no later than 31 March 2017. As agreed at the previous meeting of the Working Group, a project management and reporting framework would be used by the valuation team to ensure the project was delivered on time and to budget.

An update was given on each of the six work streams and the report contained highlight reports from each work stream that provided a brief summary of progress against key milestones and set out any issues that needed further consideration together with any actions required. The report also detailed a risk log documenting the key risks to the success of the project and mitigations to manage these risks.

RECOMMENDED:
That the report be noted.

4. ACCOUNTING FOR PENSION COSTS - IAS 19

The Assistant Executive Director of Pensions (Funding and Business Development) submitted a report detailing the outcome of this year's Local Authority pensions accounting reports, which demonstrated a small increase in funding levels assessed in accordance with the accounting standard IAS 19.

It was reported that the Fund submitted data to the Actuary who produced a formal report for each employer that prepared disclosures under IAS19, which was the accounting standard that defined how pension costs and funding levels were incorporated into organisation's accounts. All Local Authority employers had experienced a positive impact on their reported funding level between 2015 and 2016.

There had been negative returns in equity markets for the 12 months to 31 March 2016, with the Main Fund actual returns confirmed at -0.8%, which was less than the Actuary's long term assumed real rate of 2.3% at the start of the accounting period. It was reported that the main reason for the reduction in deficits was an increase in the discount rate, which was set with reference to the yield on AA rated corporate bonds, and a subsequent decrease in liabilities. The real discount rate had increased from 0.8% per annum at 31 March 2015 to 1.3% per annum as at 31 March 2016, the impact of which had outweighed the lower than expected asset returns.

RECOMMENDED:
That the report be noted.

5. GMPF ADMINISTRATION EXPENDITURE MONITORING STATEMENT FOR THE FINANCIAL YEAR 2015/16 AND KEY FINANCIALS OUT-TURN

The Assistant Executive Director of Pensions (Local Investments and Property) submitted a report comparing the administration expenses budget against the actual results for the 12 months to 31 March 2016 and the out-turn for key financials.

Actual expenditure for the financial year to 31 March 2016 was £19.330 million, which was £4.708 million less than the estimate of £24.037 million for the period. The main reasons for major variations were listed and included fees payable to investment managers and professional fees incurred being lower than expected and additional recovery of management and legal fees.

It was explained that CIPFA guidance required LGPS Fund annual reports to include medium term financial planning, which had been included for the first time last year. The financial out-turn against the prediction for 2015/16 was outlined, as detailed at table 3.3 of the report. The key reason for the variances was that investment performance for the year was a return of -0.8% compared to the long term predicted annual rate of 4.8%. The financial forecast for 2016-18, using the same assumptions as the original prediction in 2015, had been reset using the actual position as at 2016.

RECOMMENDED:
That the report be noted.

6. GMPF ADMINISTRATION EXPENDITURE MONITORING STATEMENT FOR THE 2 MONTHS TO MAY 2016

The Assistant Executive Director of Pensions (Local Investments and Property) submitted a report comparing the administration expenses budget against the actual results for the 2 months to May 2016.

Actual expenditure was £196,000 less than the estimate of £4,605 million for the same period. The main reasons for major variations were listed and included staff costs and managers and professional fees.

RECOMMENDED:
That the report be noted.

7. GMPF STATEMENT OF ACCOUNTS 2015/2016 GOVERNANCE ARRANGEMENTS

The Assistant Executive Director of Pensions (Local Investments and Property) submitted a report informing Members of the governance arrangements for approval of the GMPF accounts as part of the accounts for Tameside MBC as the administering authority. Members also considered the key assumptions used in the production of GMPF accounts and the pre-audit simplified accounts.

Members were notified that the GMPF Management Panel approved the accounts and formal letters were required by the external auditor. The key decision making bodies for the Council were the Audit Panel and Overview (Audit) Panel, which received accounting policy reports and the external auditor's report. The provisional timetable for approval of the accounts and audit reports by these bodies for 2016/17 and a simplified accounts summary was outlined.

The Working Group gave consideration to the accounts, as required by International Standards on Auditing, and reviewed the reasonableness of significant assumptions for estimates to be used in the accounts and approved the bases applied. The notes to the accounts were explained and discussed and attention focused on the basis of the key assumptions underpinning the estimates used.

A simplified summary of accounts was provided and explanation given of the key financial movements during the financial year to 31 March 2016, taken from the pre-audit financial accounts

RECOMMENDED:

(i) That the governance arrangements for the approval of GMPF accounts be noted;

(ii) That the assumptions for estimates used in the GMPF accounts be noted; and

(iii) That the pre-audit simplified accounts be noted.

8. 2015/16 EXTERNAL AUDIT PLAN

The Assistant Executive Director of Pensions (Local Investments and Property) submitted a report detailing the external audit plan for GMPF for the year ending 31 March 2016. The Grant Thornton Audit Plan for the year ending 31 March 2016 was appended to the report.

Panel Members gave consideration to the Audit Plan, which outlined the challenges and opportunities that the Fund was facing in terms of pooling of investments, changes to the investment regulations, governance arrangements, an increase in local government outsourcing and academies and earlier closedown of accounts. It was reported that the key developments in the year for the Fund were financial pressures, a move towards a career average scheme and accounting for Fund management costs.

The audit approach and presumed significant risks identified were outlined including fraudulent transactions, management over-ride of controls and level 3 investments. Other risks included inaccurate investment income, invalid activity for investment purchases and sales, inaccurate valuation of level 2 investment values, incorrect contributions received, incorrect benefit payments and inaccurate member data.

The external audit process had been completed within the statutory timescales and no material weaknesses had been identified. The Fund had been commended on a successful year from an audit perspective.

RECOMMENDED:
That the report be noted.

9. GMPF AGED DEBT AS AT 19 JUNE 2016

The Assistant Executive Director of Pensions (Local investments and Property) submitted a report summarising the aged debt for the Fund as at 19 June 2016. Aged debt typically consisted of rent arrears from tenants of GMPF property, outstanding contributions and overpayment of pensions to members, which have not yet been repaid.

The report detailed all aged debt (31 days and over) alongside comparison to the previous quarter and explanations were provided for the main changes. A summary of debt across the four separate areas of Property Main Fund, Property Venture Fund, Employer Related and Overpayment of Pensions was detailed.

The key trends were that total property aged debt had increased slightly from March to June 2016 but total employer and overpaid pensions aged debt had decreased. Total debt had decreased significantly from March to June 2016 mainly due to payment having been received from several large employer early retirement invoices.

Tables which showed the highest value invoices within the Employers, Property Main Fund and the Property Venture Fund category were appended to the report.

RECOMMENDED:
That the report be noted.

10. URGENT ITEMS

There were no urgent items.

CHAIR

GREATER MANCHESTER PENSION FUND

POLICY AND DEVELOPMENT WORKING GROUP

3 August 2016

Commenced:	**2.00pm**	**Terminated: 3.00pm**
	Councillor K Quinn (Chair)	
	Councillor Cooney	
	Councillor J Lane	
	Councillor S Quinn	
	Councillor Pantall	
	Councillor M Smith	
	Councillor Taylor	
	Ronnie Bowie	**Actuary to the Fund**
	Peter Moizer	**Advisor the Fund**
	Sandra Stewart	**Executive Director of Governance, Resources and Pensions**
	Steven Taylor	**Assistant Executive Director of Pensions - Investments**
	Paddy Dowdall	**Assistant Executive Director of Pensions – Local Investments and Property**
	Tom Harrington	**Investments Team**
Apologies for absence:	**Councillor J Fitzpatrick**	

7. INVESTMENT MANAGEMENT ARRANGEMENTS

Consideration was given to a report of the Assistant Executive Director of Pensions - Investments, which considered the ongoing investment management arrangements for the Fund.

By way of background information, it was reported that, on 11 March 2016, the meeting of the Management Panel considered a report, which examined the investment management arrangements of the Fund and the appointments of the active multi-asset Securities Managers. The report set out details of WM research in relation to UK local authority pension funds and the key drivers of success.

The Panel resolved to continue with the broad thrust of the current structure of investment management arrangements. However, whilst supportive of the people, investment philosophy and processes of the Managers, there were some reservations about performance, which continued to underperform against the benchmark. In addition, the uncertainty in relation to the ongoing development of pooling arrangements suggested that the negotiation of further three year fee arrangements with the Managers was not the optimal way forward. The Panel thus took an in principle decision to extend the current three year fee arrangements with the active multi-asset Securities Managers, by an additional year, to a four year arrangement to allow time for events to unfold.

In light of continued reservations, this meeting of the Working Group was convened to consider a range of possible options in relation to potential action to address the performance issues of one Fund Manager in particular.

Short, medium and long term performance data for the Fund Manager concerned was submitted in an appendix to the report and discussed and deliberated by members of the Working Group.

Potential options for a way forward and associated cost implications for the Fund were detailed and discussed.

The Advisers were also asked to comment.

Mr Bowie acknowledged the specific Fund Manager's poor performance, particularly in emerging markets, over the past 5 years and also raised concerns regarding the amount of cash held by the Manager and the drag this had on performance. However, balanced against the Manager's strengths in personnel, process and philosophy, and the transition costs and officer time/resources associated with any termination of the contract, he favoured the retention of the Manager.

Mr Moizer concurred with Mr Bowie's comments. In particular, he emphasised the Fund Manager's quality research process but questioned what might be the catalyst for the market to begin to share the Fund Manager's valuation views.

The above concerns were also echoed by members of the Working Group.

The Executive Director of Governance, Resources and Pensions made reference to the importance of strong governance and planned enhancements to management information, going forward.

Detailed discussion ensued with regard to the information provided and the options available going forward, and it was:

RECOMMENDED

(i) That the Fund Manager in question, be retained in line with the arrangements and time frame agreed at the meeting of the Management Panel on 11 March 2016;

(ii) That their investment mandate be reduced by 10% of assets under management, to partially fund the newly appointed Credit Manager; and

(iii) That a report be submitted to the meeting of the Management Panel on 23 September 2016 setting out preliminary suggested governance arrangements in respect of Fund Manager reporting to, and attendance at, Panel and Working Group meetings, going forward.

GREATER MANCHESTER PENSION FUND - PROPERTY WORKING GROUP

Friday, 5 August 2016

Commenced: 9.30 am **Terminated:** 11.45 am

Present: Councillors S Quinn (Chair), J Fitzpatrick, J Lane, M Smith, Ward, Halliwell and Mr Thompson

Apologies for Absence: Councillor Wilson and Mr Drury

1. DECLARATIONS OF INTEREST

There were no declarations of interest.

2. MINUTES

The Minutes of the meeting of the Property Working Group held on 19 February 2016 were approved as a correct record.

3. MANAGEMENT SUMMARY

The Assistant Executive Director of Pensions (Local Investments and Property) submitted a report, which provided a commentary on issues and matters of interest arising over the last quarter, particularly the result of the EU referendum, which would have a significant impact on Property investment going forward.

With regard to 'Valuation, Performance and Allocation', the headlines from the Investment Property Databank report were that performance for the La Salle portfolio continued to lag the benchmark, largely due to in-direct investments, whereas the balanced portfolios selected internally had performed ahead of benchmark. The allocations to property investments and their current weightings as at 30 June 2016 were outlined to the Group.

It was reported that La Salle would be presenting their quarterly report to the Group and the key issues relating to transactional and asset management activity over the last year, prospective purchases and the current state of the market with particular reference to the implications of the EU referendum result. GVA would also be reporting to the Group, and their presentation would focus on Wilmslow Road and First Street in addition to an update on other sites.

The Assistant Executive Director of Pensions (Local Investments and Property) informed the group that the two year review of GVA's contract would be discussed at the next meeting of the working group and asked if there were any issues to be considered. There was some feedback focusing on the need for GVA to make progress on longstanding projects and to make new investments. The Assistant Executive Director noted this and also said that GVA had a difficult job and that the Fund should look to ensure that it had a wide range of options to deploy capital in local property investments and that the report would focus on progress by GVA against business plans in the two years and also look at future options.

The Executive Director for Governance, Resources and Pensions commented that in order to ensure we were measuring the performance of GVA and indeed any manager in this area we needed to set out clear objectives and milestones to ensure that we were looking at added value rather than underlying value of property.

An update was provided with regard to overseas investment with two additional investments to report since the last meeting of the group.

RECOMMENDED:
That the report be noted.

4. LONG TERM PROPERTY PERFORMANCE

The Assistant Executive Director of Pensions (Local Investments and Property) submitted a report advising on the recent and longer term investment performance of the main UK property portfolio managed by La Salle Investment Management and the internally managed UK Balanced and Overseas portfolio.

It was reported that property had performed well relative to other classes during 2015 with a return of 13.3.%, however, there were concerns over current pricing levels and the implications of the recent EU referendum result therefore caution was being taken with regard to current investment activity.

At the end of 2015 the La Salle managed portfolio had 49 standing property investments and nine investments in specialist property indirect vehicles, three purchases had been made and four properties had been sold. Historically the composition of the direct properties showed a strong bias toward the retail sector and an underweight position in offices, however purchases made during 2015 had changed the composition to closer match the theoretical structure of the Investment Property Databank (IPD) Universe.

The target for the La Salle managed portfolio was to outperform the IPD All-Property Annual Universe by 0.75% over a rolling three year basis. In 2015 the Fund's total return was 10.5% compared to the benchmark of 13.3%. Voids in the directly-owned assets as a percentage of "Open Market Rental Value" continued to decrease and currently stood at 2.1%, which was below the IPD median level of 5.1%. The directly-owned assets had a higher income return and specialist indirect funds had a drag on overall performance and underperformed the benchmark by 6.3%.

There were no sales of UK balanced property pooled vehicles during 2015, some acquisitions were made and the portfolio outperformed its benchmark by 0.5%. An update on purchasing activity and backgrounds were provided for five overseas investments in order to give insight into the investments. The team would continue to control overseas and alternative investment risk through diversification of geography, vintage, sector and other factors.

RECOMMEDED:
(i) That the report be noted; and
(ii) That La Salle present to Panel at the meeting in September on their past performance and future strategy.

5. INVESTMENT GUIDELINES FOR OTHER PROPERTY INVESTMENTS

The Assistant Executive Director of Pensions (Local Investments and Pensions) submitted a report detailing activity in the management of the Fund's 'Other' Property portfolio and sought approval for Investment Guidelines. 'Other' property could be broadly defined as the leisure, agricultural, healthcare and residential sectors.

It was reported that there had been a long term underweighted position within this portfolio and investment in 'Other' property had better prospective returns than traditional UK property sectors in the medium term with a number of identifiable opportunities to invest in.

One specific commitment made to date was outlined to the Group, in Darwin Leisure Property Fund, an open-ended unit trust which operated a portfolio of UK holiday leisure parks. A co-investment had also been made in Centreparcs UK as part of a parallel investment.

The Statement of Investment Guidelines for the 'Other' property investment portfolio was appended to the report and outlined to the Group.

RECOMMENDED:
(i) That the report be noted; and
(ii) That the Investment Guidelines be approved.

6. PROPERTY RELATED AGED DEBT AS AT 19 JUNE 2016

The Assistant Executive Director of Pensions (Local Investment and Property) submitted a report summarising the aged debt (31 days and over) for the two property portfolios (Main Property Fund and Greater Manchester Property Venture Fund (GMPVF)) as at 19 June 2016.

It was reported that the value of Property Aged Debt for the Fund as at 19 June 2016 was £0.315 million, compared to £0.189 million as at 19 March 2016. This marginal increase was mainly due to one company who had since paid their debt.

An overview of the debt position was given including a summary of debt across the two areas and totals. It was noted that procedures for collection of debt were complied with and were working well, GMPVF debt remained very marginally within amber status but this was not material at present.

The highest value debts for each portfolio were detailed as per the appendices to the report. The policies for debt recovery were unchanged and there were currently no payment plans in place. It was noted that a risk profile would be included for future reporting.

RECOMMENDED:
That the report be noted.

7. LA SALLE INVESTMENT MANAGEMENT QUARTERLY REPORT

The Working Group welcomed Simon Marks, Tom Rose and Rebecca Gates, La Salle Investment Management, who attended the meeting to present the GMPF main property portfolio quarterly report for quarter two 2016 and to outline the current state of the market with particular reference to the implications of the EU referendum result.

Mr Marks began by outlining the economic consequences resulting from the recent vote for the UK to leave the European Union. It was anticipated that performance over the short to medium term would be weaker with the potential for some opportunistic acquisitions over the next 12 months. There should be no negative impacts over the longer term and expectations were for the UK to prosper and be well-balanced.

The Working Group heard that rental growth was usually weaker in a weaker environment and the worst hit area was expected to be the central London commercial sector, however, although traditionally a volatile market, it was now more insulated with ongoing construction. Alternative sectors would be more resilient in the current climate and the residential market should make a quicker recovery than the commercial market.

Mr Rose and Ms Gates highlighted the following areas:-
- Portfolio Performance
- Portfolio Composition

- Transactional Activity (completed and planned)
- Key Estate Management Issues, including rent reviews and lease renewals

It was reported that the portfolio had produced a total return of 10.5% during 2015, compared to the benchmark of 13.3%. The total return for directly held assets was 11.7%, indirects underperformed the benchmark returning 7%, four sales throughout the year contributed 0.3% to the return and three purchases dragged returns by 1%.
It was anticipated that there would be a negative impact on the value of the portfolio over the short to medium term given expected property market volatility resulting from the current environment of economic and political uncertainty, which would likely be reflected in future valuations.

The portfolio composition was outlined and details provided of completed purchases, purchases under offer, completed sales and sales under offer. The Working Group was provided with information relating to lettings and lease renewals, rent reviews and vacancies.

The Director of Governance, Resources and Pensions suggested that it might be helpful to the Panel going forward to consider a risk profile of the debt because by focussing on the largest we may be focussing on the most secure whereas focus and actions may be more productive on the smaller but more risky debt.

The Chair thanked Mr Marks, Mr Rose and Ms Gates for their presentation.

RECOMMENDED:
That the report be noted.

8. GVA QUARTERLY REPORT

The Working Group welcomed Jonathan Stanlake and Gareth Conroy of GVA who attended the meeting to present the GVA quarterly report. The presentation focussed on activity at Wilmslow Road in Didsbury and First Street in Manchester. An update was also given on the progress at the other Greater Manchester Property Venture Fund (GMPVF) sites including housing development sites.

Wilmslow Road, Didsbury – it was reported that the office building had been acquired in 2013 for future redevelopment potential. Investigations were ongoing regarding part demolition and part conversion to residential use. Soft market testing, financial appraisals based on feasibility drawings and a pre-application discussion with the local planning authority had all been completed.

First Street, Manchester – it was reported that this site was acquired in January 2016 with an anticipated completion date of September 2017. The building would provide 175,000 square feet of internal space, 39,000 of which had already been let and terms had been issued for an additional 50,000 square feet. Construction was progressing on site and marketing had commenced.

The report also gave an update on existing assets at:
- Calver Park, Warrington
- Island Site, Manchester
- Pomona
- Stalybridge West, Tameside
- Former Sorting Office, Stockport
- Chorlton Shopping Centre, South Manchester
- Preston East, J31 M6
- Old Haymarket, Liverpool City Centre
- Martland Park, Wigan
- Globe Park, Rochdale
- Unity House, Wigan

- One St Peter's Square, Manchester City Centre

An update was given on potential housing development sites in Tameside and the work that had been undertaken on these sites.

Financial performance information was provided for each site to show the current market valuation when compared to the cost to GMPF, together with the return to the Fund from the date of acquisition taking into account all income and expenditure to date. It was explained that sites would not show a positive internal rate of return until development had been completed later in the project lifecycle.

The Working Group was also provided with a schedule of fee expenditure incurred on development activity during the previous quarter for each site and a RAG (Red, Amber, Green) analysis showing the progress of development activity undertaken during the last three quarters to May, June and July 2016 and the current prediction on final viability.

RECOMMENDED:
That the report be noted.

9. ELIZABETH HOUSE UNIT TRUST

The Assistant Executive Director of Pensions (Local Investments and Property) submitted a report updating Members on Elizabeth House Unit Trust.

It was reported that GMPF purchased Elizabeth House in 2003 prior to the formation of the joint venture with Argent in 2008. GMPF was a 50% partner in the Elizabeth House Limited Partnership with Argent the other 50% partner. For tax efficiency reasons, the partnership set up a Jersey Registered Unit Trust to purchase and develop the Elizabeth House site, now known as 1 St. Peters Square.

An offer had been received from Deka in June 2015 to purchase the site and, following market testing, the offer was accepted by the Limited Partnership Board as it was economically advantageous in the buoyant property market conditions prevalent at the time. Following the outcome of the EU Referendum and subsequent uncertainty in the UK property market Deka renegotiated the terms of the purchase with the Partnership and a final offer had now been accepted with a completion date of mid-August 2016. The revised offer demonstrated a good transaction for the fund with a profit in excess of 20% on cost.

RECOMMENDED:
That the sale of the Elizabeth House Unit Trust be noted.

10. URGENT ITEMS

There were no urgent items.

CHAIR

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GREATER MANCHESTER PENSION FUND

LOCAL PENSIONS BOARD

1 August 2016

Commenced: 3.00pm **Terminated: 5.00pm**

Present:	**Councillor Fairfoull (Chair)**	**Employer Representative**
	Richard Paver	**Employer Representative**
	Jayne Hammond	**Employer Representative**
	Paul Taylor	**Employer Representative**
	David Schofield	**Employee Representative**
	Chris Goodwin	**Employee Representative**
	Pat Catterall	**Employee Representative**
Apologies for absence:	**Councillor Cooper, Mark Rayner and Catherine Lloyd**	

1. DECLARATIONS OF INTEREST

There were no declarations of interest submitted by Members in relation to items on the agenda.

2. MINUTES

The Minutes of the meeting of the Local Pensions Board held on 30 March 2016, having been circulated, were signed by the Chair as a correct record.

3. FUNDING AND INVESTMENT TRAINING

The Assistant Executive Director, Funding and Business Development and the Assistant Executive Director Pension Fund Investments, delivered a presentation, providing information/guidance on funding and investment processes and principles, including:

- Purpose of the Actuarial Valuation process;
- How contribution rates are set;
- The Funding Strategy Statement;
- Statement of Investment Principles; and
- Role of the Custodian.

4. GMPF MANAGEMENT PANEL UPDATE

The Assistant Executive Director, Funding and Business Development submitted a report providing an update for Board members on some of the key agenda items from the meeting of GMPF Management/Advisory Panel held on 1 July 2016, as follows:

Pooling of Assets
It was reported that the progression of the Government's proposals for the pooling of assets was a key area of work for the Panel, Chair of the Fund and Officers. The final submission from the Pool had been made to Government on 15 July 2016 in line with the timetable and a separate progress report would be presented to the Board later in the agenda.

Actuarial Valuation
Members were advised that the next actuarial valuation was due to be undertaken as at 31 March 2016, with revised employer contribution rates to take effect from 1 April 2017. This was a major task for all areas of the Pension Service and it was time critical for both employers and the administering authority. Progress would be monitored by the Employer Funding and Viability Working Group with the valuation being the main item at its forthcoming meetings. Updates would be presented to Panel meetings throughout the year. A separate progress report would be presented to the Board later in the agenda.

As reported at previous Panel meetings, the Employer Funding and Viability Working Group was giving consideration to the case for giving employers a discount for paying employer contributions in advance. This matter had also been discussed with local authority treasurers, several of whom had expressed interest in participating. Discussions were progressing with the local authorities' auditors on potential accounting requirements regarding this matter.

GMPVF – One St Peter's Square
The Assistant Executive Director, Property and Local Investments, reported that the sale of One St Peter's Square was progressing. There had been some delay following the result of the EU Referendum and progress would be reported at the Property Working Group and future Panel meetings.

Climate Change
It was reported that, on 18 May 2016, 'Fossil Free Greater Manchester' (FFGM) published an open letter to the Chair of the Panel. The letter contained questions to the Chair of the Panel, following a Tameside Radio interview with the Chair and a member of FFGM. The questions related to the Fund's holding in coal mining companies, and the fund's engagement strategy with fossil fuel companies.

On 6 June 2016, the chair of the panel replied to the FFGM letter. The reply reiterated, amongst other things, that the fund had no plans to divest from fossil fuel companies at this time.

Copies of the letter and the reply were attached to the report.

GMPF & LFPA Infrastructure LLP (GLIL)
Members were informed that GLIL continued to proactively pursue a number of infrastructure investment opportunities across a variety of sub-sectors within the UK, achieving full investment Committee approval for two deals in 2016 so far.

One approval was for a stake in one of Europe's largest onshore wind farms and the other was for anaerobic waste digestion plants. There had been some bids that had not been successful including a minority stake in a regulated water utility.

LGPS Update
Members were updated in respect of a DCLG consultation about possible changes to the Scheme Regulations and Academy Schools.

RESOLVED
That the content of the report be noted.

5. POOLING OF ASSETS

The Assistant Executive Director, Funding and Business Development, submitted a report, which provided an update on recent developments relating to the proposals for pooling investments across the LGPS in England and Wales and the recent activities of GMPF in this area.

Members were reminded that, as reported at previous meetings of the Panel and the Policy and Development Working Group, discussions regarding collaboration had been ongoing on a regular basis with a number of other, predominantly northern based LGPS funds. During this process, the Funds involved in discussions had developed a Memorandum of Understanding setting out the operation of a 'Collective Asset Pool' and the proposed steps in its formation. The Memorandum of Understanding had been signed by GMPF, Merseyside Pension Fund (MPF) and West Yorkshire Pension Fund (WYPF).

It was reported that the 3 Funds had combined assets of around £35 billion, therefore clearly meeting the scale criteria (in excess of £25 billion).

Members were informed that there were currently 8 proposed pools, made up as follows:

- Northern Powerhouse;
- London CIV (the 33 London Boroughs) – this has already been established;
- South West Funds plus Environment Agency ('Project Brunel');
- 'ACCESS' (Most of the south East County Council Funds);
- Midlands;
- 'Border to Coast' (The remaining northern funds plus a small number of others);
- Wales; and
- LPFA/Lancashire (plus potentially Berkshire) ('the Local Pensions Partnership – LLP').

Members were informed that Government had previously stated that it was looking for around 6 pools, each of at least £25 billion. The Wales and LPFA/Lancashire pools do not currently meet the Government's scale criteria. However, the Welsh pool had been granted an exemption from the scale criteria. The Northern Pool had links with the pool of LPFA and Lancashire (£10 billion or £12 billion with Berkshire) via GMPF's joint infrastructure vehicle with LPFA. The intention was for the Northern Pool to work alongside LPP on infrastructure investment going forward.

In late March 2016, all pools received a response from Government to their February submissions. The Northern Pool's response was appended to the report. The response confirmed that the Northern pool clearly met the scale criteria.

In respect of the progress of the Northern Pool, it was explained that, for the foreseeable future, the funds in the Northern Pool would be allocating considerable resource towards completing the July submission to Government and creating the pooling arrangements.

Five workstreams had been created to progress the various aspects, as follows:

- Asset Pools;
- Governance;
- Cost Savings;
- Infrastructure and Property; and
- Other alternative assets.

A particularly important task prior to the July submission was to determine the most appropriate operating model for the management of the Pool's assets. The main options for consideration were detailed in the report.

Members were informed that a 'cross-pool' group with representation from each of the individual pools had been created. The purpose of this group was to share best practice amongst the pools and to liaise effectively with the LGA pensions team and the civil servants at DCLG and HMT. The group would also play a role in developing the capability and capacity in infrastructure investment across the LGPS in England and Wales. The cross-pool group was helping Government to develop a standard template for the July submissions. This template effectively removed the requirement for Funds to submit an individual submission in addition to the joint pool submission, although each pool would still be able to submit feedback to Government on particular aspects of pooling. However, the Director of Governance, Resources and Pensions, commented that there was no political oversight of the cross pool and this was something that needed to be reviewed to ensure democratic deficit was addressed. Each pool was expected to be asked to make presentations to the Government assessment panel in advance of the July submission. The Northern Pool's presentation had taken place on 16 June 2016.

In respect of developing capacity and capability in infrastructure, it was reported that general consensus across the LGPS was that improved access to infrastructure investment and lower cost was most likely to be achieved through a national platform accessible to all the LGPS asset pools. The cross-pool group was considering how the national platform could be established and whether it built on or ran alongside, any existing arrangements.

Ahead of the pooling agenda, GMPF, which had a long track record of investing in infrastructure funds, had developed capacity to invest in direct infrastructure opportunities through its joint venture with the London Pension Fund Authority (LPFA). The joint venture partnership was known as 'GLIL'. This vehicle had been designed to be extended to accommodate other Funds and could form part of the national solution.

The report concluded that, as discussed at previous Panel meetings, one of the requirements of the Government's pooling guidance was that the Pool management team would report in the first instance to an oversight board consisting of a small number of representatives of the 3 participating funds. These were expected to be current Panel members.

This oversight board would act as a forum in which the views of the Funds' pension committees on the performance and future direction of the Pool could be expressed and acted upon.

There was considerable work to be done in establishing the Pool and the timescales for obtaining Financial Conduct Authority (FCA) authorisation could be particularly lengthy. In order to ensure the Pool was fully operational by the deadline of 1 April 2018, it was possible that the oversight board may need to be established in shadow form over the next few months.

As previously stated, the final submission from the Pool had been made to Government on 15 July 2016 and feedback was awaited and further information on this would be submitted to the next meeting of the Board.

RESOLVED
That the content of the report be noted.

6. ACTUARIAL VALUATION

Consideration was given to a report and presentation of the Assistant Executive Director of Pensions, Funding and Business Development, which explained that the triennial valuation of the Fund was due as at 31 March 2016, with formal completion of the process required no later than 31 March 2017.

The Assistant Executive Director gave details of the valuation timetable and outlined factors influencing the valuation outcome, including;

- key financial assumptions;
- impact of change to assumptions;
- market conditions;
- discount rate assumption;
- salary growth assumption;
- inflation – the RPI/CPI gap;
- differences in longevity;
- calculating contribution rates; and
- deficit contributions.

The report summarised that the funding level was similar to that of 2013, however falling active membership made repaying the deficit more challenging. Contributions would remain stable for main employers, however some employers would see an increase in contributions.

RESOLVED
That the content of the report be noted.

7. 2015/16 EXTERNAL AUDIT PLAN

Consideration was given to a report of the External Auditor, Grant Thornton, which set out their approach to the 2015/16 audit. The report had previously been considered by the Employer Funding Working Group and approved by the Management Panel.

Members sought clarification of any issues arising from the report. The Assistant Executive Director – Local Investments and Property, explained that he was due to meet with Grant Thornton in August ahead of formal agreement of the Plan at an Urgent Matters meeting of the Management Panel in early September and that he was not anticipating any major concerns.

Members further requested that the Annual Governance Statement be submitted to the next meeting of the Board.

RESOLVED
(i) That the content of the External Audit Plan be noted; and
(ii) That the Annual Governance Statement be submitted to the next meeting of the Board.

8. RISK MANAGEMENT AND AUDIT SERVICES – ANNUAL REPORT 2015/16

The Head of Risk Management and Audit Services submitted a report summarising the work performed by the Service Unit and provided assurances as to the adequacy of the Pension Fund's systems of internal control.

Key achievements of the service provided to the Pension Fund for 2015/16 were detailed.

The full year position of the audit plan was appended to the report. Actual days spent as at 31 March 2016 were 254.8 which equated to 102% and 94% of planned audits were completed in those days.

It was reported that audits were undertaken on a number of the financial systems used by the Pension Fund. Where issues were identified as part of the systems audit work, action plans were agreed with management and where not already done, these would be followed up in due course:-

- Pensions Benefits Payable;
- Contribution Income; and
- Creditors.

Details were also given of post audit reviews carried out and it was reported that assurance had been given that systems were now operating more effectively and that the majority of recommendations made had been implemented. No significant recommendations were outstanding and Internal Audit was satisfied with the reasons put forward by management.

With regard to anti-fraud work and irregularity investigations, Board members were informed of one potential fraud case notified to the Internal Audit team during the year, which was an allegation in respect of a pension in payment. The allegation was investigated and shown to be unfounded.

In respect of the National Fraud Initiative, it was reported that work had continued during 2015/16 on the matches identified from the NFI 2014 Data Matching Exercise, which became available at the end of January 2015 and the results were summarised in the report.

With regard to Risk Management and Insurance, it was explained that resources had been directed towards training during the last few months of 2015/16 to ensure that all staff completed the On-Line Data Protection at Work and Responsible for Information E-tutorials via the Virtual College Training System. Further training was being reviewed by the Information Governance Group and would be rolled out to appropriate staff once approved.

Key Performance Indicators for 2015/16 applicable to the Pension Fund were detailed in the report and it was reported that all four performance indicators had been achieved.

The report concluded that, overall, the Head of Risk Management and Audit provided assurance that the Pension Fund's governance, risk and control framework was generally sound and operated reasonably consistently. No significant control issues were identified in the year. This opinion was based on the work of the Risk Management and Audit Service Unit carried out between April 2015 and March 2016.

RESOLVED
That the content of the report be noted.

9. RISK MANAGEMENT AND AUDIT SERVICES 2016/17

A report was submitted by the Head of Risk Management and Audit Services summarising the work of the Internal Audit Service for the period April – June 2016.

Details were given of final and draft reports issued during the period.

Details were also given of audits in progress as follows:
- Unitisation;
- Visit to the Property Fund Manager ;
- Visits to Contributing Bodies; and
- Risk Management Review.

Information was provided of other work carried out in the period, including:
- Advice – Year End Return Compliance checklist for Employers, Signing Off a Service Charge account (GMPVF), Starters/Leavers late notification query; Compliance with The Pensions Regulator Code of Practice 14;
- Irregularities – none in this quarter.

In respect of the Internal Audit Plan 2016/17, details of the days spent against the plan to date, were appended to the report.

In respect of one of the final reports issued – Visits to Contributing Bodies, Board members raised concerns in respect of instances of the incorrect calculation and application of Assumed Pensionable Pay (APP), identified at all three employers visited.

It was confirmed that although small in scale, further guidance had been issued to employers via the Employers Bulletin in respect of this matter and it was suggested that an article be published in the next edition of the Pension Power magazine. It was agreed that a further update be provided to the next meeting of the Board.

RESOLVED
(i) That the content of the report be noted;
(ii) That an update be provided in respect of instances of the incorrect calculation and application of Assumed Pensionable Pay to the next meeting of the Board.

CHAIR

Report To:	**Pension Fund Management Panel**
Date:	23 September 2016
Reporting Officer:	Sandra Stewart, Executive Director - Governance, Resources and Pensions Euan Miller, Assistant Executive Director – Pensions, Funding and Business Development
Subject :	**ACTUARIAL VALUATION**
Report Summary:	The Actuary has been giving periodic updates to the Fund regarding the 2013 actuarial valuation and the issues that will arise therefrom. The purpose of this report is to provide a further update that will serve as background to the Actuary's presentations to the Panel and the AGM.
Recommendation:	The Panel is recommended to note and consider: (i) The Actuary's current estimated funding position of the Fund as a whole. (ii) The projected timescales and actions required to finalise the valuation process.
Financial Implications: **(Authorised by the Borough Treasurer)**	Whilst the funding level and deficit has not changed significantly since the previous valuation, the cost of providing future service benefits has increased, largely due to falls in long-term interest rates which reduce the level of expected investment returns. The impact on contribution rates will differ across employers depending on membership experience over the period and membership profile.
Legal Implications: **(Authorised by the Solicitor to the Fund)**	The LGPS Regulations require each administering authority in England and Wales to undertake an actuarial valuation as at 31 March 2016 and every third anniversary of that date thereafter. The valuation process must be completed within a year of the effective date of the valuation. In undertaking the valuation the actuary must have regard, in particular, to: • the Authority's Funding Strategy Statement; • the desirability of maintaining as constant a contribution rate as possible, and the requirement to ensure the solvency of the pension fund and the long-term cost efficiency of the Scheme.
Risk Management:	A key risk when administering the LGPS is that an employer fails whilst its sub fund is in deficit. The valuation adjusts employer contribution rates with the aim of matching asset and employer values in the future, in line with the GMPF's Funding Strategy Statement.

ACCESS TO INFORMATION:	**NON-CONFIDENTIAL**
	This report does not contain information which warrants its consideration in the absence of the Press or members of the public.
Background Papers:	The background papers relating to this report can be inspected by contacting Euan Miller, Assistant Executive Director – Funding and Business Development
	Telephone: 0161 301 7141
	e-mail: euan.miller@tameside.gov.uk

1. INTRODUCTION

1.1 The Panel has received periodic updates on the likely outcomes of the 2016 actuarial valuation and this has been discussed in detail at the Employer Funding and Viability Working Group.

1.2 At the end of July, the Fund's Actuary. Hymans Robertson, received updated membership data from GMPF which it has been using to undertake the valuation calculations. Hymans will give a further update at the Panel that will take account of membership experience over the last 3 years at the whole fund level, such as pay increases and mortality.

1.2 The aims of this report and the Actuary's presentation are:-

(i) to give an indication of the whole fund position based on the assumptions set out in section 3;
(ii) to flag material issues that the Actuary, the Employer Funding and Viability Working Group and Panel will need to consider as part of the valuation process;
(iii) to comment on the outlook for employer contributions.

2. DEVELOPMENTS INFLUENCING EMPLOYER COSTS

2.1 There has been a significant change in the membership of GMPF over the inter-valuation period. Over 40,000 members transferred to GMPF as a result of the changes to the Probation Service. The number of employee members has also been supported by the implementation of auto-enrolment, which is likely to have offset much of the impact of employers reducing their workforce due to the continuing austerity in public sector spending. In 2015/16 alone GMPF processed over 15,000 new joiners and the total membership of GMPF now stands at over 350,000.

2.2 A summary of the GMPF membership at the current and previous valuation dates is provided in Table 1 below:

Table 1 – Comparison of GMPF membership at 2013 and 2016 valuations

	31 March 2013	31 March 2016	Increase
Employee members	88,265	109,702	24%
Deferred members	95,597	126,868	33%
Pensioner members	91,807	115,005	25%
Total membership	**275,669**	**351,575**	**28%**

2.3 Pay restraint has continued for public sector workers and inflation has been lower than anticipated at the previous valuation. GMPF's assets have also produced a higher return than assumed over the 3-year period (18.4% vs 15.1%). These factors help to reduce the deficit in the Fund.

2.4 However, these factors are offset by a fall in long-term interest rates which result in the expectation of future investment returns being lower than at the last valuation. This increases both the expected cost of paying the benefits that members have earned to date and the cost of members building up future benefits.

3. FINANCIAL ASSUMPTIONS AND INDICATIVE FUNDING LEVEL

3.1 Provisional valuation assumptions were recommended by the April meeting of the Employer Funding and Viability Working Group. The financial assumptions used in the

2013 valuation and the assumptions proposed for the 2016 valuation are summarised below in Table 2. The reduction in assumed investment return reflects the reduction in long-term interest rates over the inter-valuation period. This assumption (and in particular the difference between this assumption and the CPI inflation assumption) generally has the most material impact on funding outcomes.

3.2 The assumption for future pay growth is becoming less material following the introduction of the 2014 Scheme. Benefits earned under the 2014 scheme are calculated with reference to pay over a member's working lifetime rather than a member's final pay. This assumption is becoming increasingly challenging to set as the number of employers in GMPF increases and they become increasingly diverse.

3.3 Increases to pensions and deferred benefits are linked to the Consumer Prices Index (CPI). Expectations of future CPI inflation are obtained by using market statistics to estimate Retail Price Inflation (RPI) and adjusting this to reflect the expected differences between RPI and CPI in future. The Actuary has reassessed this and he is intending to increase his estimate of the difference from 0.8% to 1.0% (i.e. CPI is assumed to be 0.8% less than RPI). This will have a beneficial impact on funding levels and the cost of future benefits earned.

3.4 There are also minor changes being made to the demographic assumptions such as future life-expectancy and the likelihood of ill-health retirement. However, these are unlikely to have a material impact on the valuation result. The one potential exception to this is that the assumption for take-up of the 50:50 Scheme will be lowered to reflect actual experience (there have been very few members taking up this option) and this will increase the expected cost of future-service benefits.

Table 2 – Comparison of assumptions used in 2013 vs proposed 2016 assumptions

	31 March 2013		31 March 2016	
	Nominal %	Real %	Nominal %	Real %
Investment Return	4.8	2.3	4.2	2.1
Pay increases*	3.55	1.05	2.9**	0.8**
Inflation - RPI - CPI	3.3 2.5		3.1 2.1	

* Plus an allowance for promotional pay increases
** For local authorities, assumed pay increases will be adjusted in the short-term to allow for the pay growth restrictions that are in force

3.5 Applying the indicative assumptions outlined above is likely to result in a funding level of approximately 92%. The Actuary will give a more detailed update at the meeting.

4. FUNDING STRATEGY STATEMENT

4.1 The Funding Strategy Statement (FSS) provides guidance to the Actuary in undertaking the actuarial valuation. CIPFA have updated their guidance on preparing the FSS and this was released in early September. Officers will be reviewing what updates need to be made to the FSS and a revised FSS will be tabled for review at the Employer Funding and Viability

Working Group meeting in October. It is also a requirement for the FSS to be issued to employers for consultation.

4.2 The Employer Funding and Viability Working Group will review the responses to the FSS consultation and bring a final version to Panel for approval in early 2017. The FSS needs to be considered in tandem with the results of the actuarial valuation.

5. OUTLOOK FOR EMPLOYER CONTRIBUTIONS

5.1 The employer contribution rate comprises two components, the estimated cost of providing future service benefits and an allowance towards repaying the deficit over a period of time. The fall in the assumed future investment return will mean that the estimated cost of providing future service benefits has increased from 2013. This may be offset to an extent by a small reduction in deficit contributions for the average employer. The Actuary will give an update at the meeting.

5.2 The outcome at the individual employer level can result in very different contribution rates and rate of change. The factors influencing the outcome include:

- Different membership profiles (average age, sex, employee/pensioner mix etc)
- Different experience (pay increases, mortality, retirement experience, transfers)
- Previous contributions paid to recover the deficit
- Security/guarantees
- Deficit recovery period.

5.3 In setting contribution rates the Actuary and the Panel need to consider the risks and protect the Fund but will also need to balance this with the affordability challenge for employers. Contribution rates should reflect the creditworthiness of the employer and the "security" provided to the Fund, e.g. the provision of a guarantee or a bond or the taking of security such as a charge on property. Early dialogue with employers in this area is essential and some external support and advice is likely to be required in dealing with employers, (e.g. legal, accountancy and actuarial).

5.4 For an increasing number of employers the Fund will need to recover deficits through specified monetary payments rather than simply adjusting the contribution rate, in particular for those employers that are closed to new members, have shrinking workforces and where the current payroll at the employer is small relative to the value of pension liabilities.

5.5 The measures that employers can take to help improve the funding position include pay restraint, controlling early retirements, understanding the impact of transfers and making additional employer contributions.

6. SUMMARY AND CONCLUSIONS

6.1 Whilst very few valuations have reached a conclusion, the expectation is that GMPF will maintain its position as one of the better funded local authority schemes and its employers' average employer contribution rate will again be at the lower end of the range.

6.2 The expectation of further material reductions in public expenditure will affect many of the Fund's employers. Further reductions in the public sector workforce are expected over the next 3 to 5 years, and the impact of auto-enrolment on increasing employee members will decline as most employers pass their Auto-enrolment staging dates. Some employers will cease to be viable and some employers will be abolished. This is a very challenging environment for employers and as previously commented, raises complex matters for the

Fund where issues of prudence, stewardship, affordability and stability will need to be considered.

6.3 The Actuary is aiming to have more clarity on individual employer results ready for detailed discussion at the Employer Funding and Viability Working Group in October and a summary of the results will be brought to the November Panel meeting.

7. RECOMMENDATIONS

7.1 The Panel is recommended to note:

(i) The Actuary's current estimate of the funding position of the Fund as a whole.
(ii) The projected timescales and actions required to finalise the valuation process.

Agenda Item 9

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Agenda Item 10

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Agenda Item 12

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Report To:	**Greater Manchester Pension Fund Management Panel**
Date:	23 September 2016
Reporting Officer:	Sandra Stewart, Executive Director of Governance, Resources and Pensions Paddy Dowdall Assistant Executive Director (Local Investments and Property)
Subject:	**GMPF STATEMENT OF ACCOUNTS AND ANNUAL REPORT 2015-2016**
Report Summary	This report is submitted for information and Members are asked to note the completion of the governance arrangements previously reported to Panel. It should be noted that the Auditors have given a clean bill of health, the accounts are unqualified and this is a testament to the work undertaken by the Panel.
Recommendations:	Members are asked to note (i) The completion of governance arrangements for approval of GMPF accounts (ii) The Audit Findings Report from Grant Thornton (iii) The Annual Report
Policy Implications:	None.
Financial Implications: **(Authorised by the Section 151 Officer)**	As the administering authority, Tameside MBC has important responsibilities in relation to the Greater Manchester Pension Fund. As the largest fund in the Local Government Pension Scheme, the Fund also has significant resources it deploys to meet those responsibilities. This paper sets out where the responsibilities lie. The assumptions used for valuing assets will have an impact on the value of assets reported in the accounts. In most circumstances the impact is unlikely to be material. For equities and bonds a bid basis is used that results in a more prudent outcome (compared to mid or offer prices).
Legal Implications: **(Authorised by the Solicitor to the Fund)**	The administering authority must produce an annual report and accounts in line with statutory provisions.
Risk Management:	GMPF's accounts are used to provide information to a variety of users and for a variety of purposes. The accuracy of the statements is critical in the determination of employer costs and there are clearly reputational issues relating to the validity of the accounts. The audit process provides reassurance on the integrity of the statements and mitigates against the possibility of material misstatement

ACCESS TO INFORMATION:	**NON-CONFIDENTIAL**
	This report does not contain information which warrants its consideration in the absence of the Press or members of the public.
Background Papers:	For further information please contact Paddy Dowdall, Assistant Executive Director – Local Investments and Property, tel 0161 301 7140, email paddy.dowdall@tameside.gov.uk.

1. INTRODUCTION

1.1 This report covers four sections:

- Governance Arrangements for the approval of the accounts;
- Audit Findings Report
- Simplified summary of the accounts for this year.
- Annual Report

2. GOVERNANCE ARRANGEMENTS

2.1 The Management Panel approves the GMPF accounts and formal letters required by the external auditor. It also receives external audit reports.

2.2 The key decision making bodies for the Council are the Audit Panel which receives accounting policies reports for both GMPF and the Council and the Overview (Audit) Panel which receives the report of the external auditor following the audit of the accounts. The Council retains overall responsibility for the accounts of both, and the follow-up on the audit reports received for both, but in practice delegates the responsibility for GMPF to GMPF.

2.3 The timetable for approval of the accounts and audit reports by these bodies for 2016/17 is outlined in the table below. This meeting is the final stage in the process.

Date	Group	Stage
31 May	Audit Panel	Approval of key assumptions and noting of governance arrangements (TMBC and GMPF)
1 July	GMPF Management Panel	Approval of key assumptions and noting of governance arrangements (GMPF)
1 September	GMPF Urgent Matters Panel	Approval of final accounts, annual report and audit report (GMPF)
12 September	Overview (Audit) Panel	Approval of final accounts, annual report and audit report (GMPF and TMBC)
23 September	GMPF Management Panel	Noting of the approval of final accounts, annual report and audit report

2.4 Financial requirements are that the pre-audit accounts of both TMBC and GMPF must be signed off by the S151 officer of the Council by 30 June.

2.5 The review by the external auditors commenced thereafter. Grant Thornton LLP provide the external audit contract for both, but a separate team conducted the GMPF audit due to the specialist and technical demands of LGPS accounts.

2.6 The audit process is now complete.

3. AUDIT FINDINGS REPORT

3.1 The report from Grant Thornton was received at the Urgent matters meeting on 1 September and by the Overview (Audit) Panel on the 12 September. The report is very positive and no material issues were raised by the auditors. It is attached for information as **Appendix 1**

4. SIMPLIFIED ACCOUNTS SUMMARY

4.1 The table below shows the key financial movements during the financial year to 31 March 2016 taken from the pre-audit financial accounts:

	£m	£m	£m
Fund Value at 31 March 2015			**17.591**
Contributions and Benefits			(110)
Employee contributions	142		
Employer contributions	455		
Pension benefits Paid		(705)	
Net Transfers		(2)	
Management Costs			(19)
Investment		(13)	
Administration		(5)	
Oversight		(1)	
Investments			(137)
Income	319		
Change in market value		(446)	
Total change in value of Fund			(266)
Fund Value 31 March 2016			**17,325**

5. ANNUAL REPORT

5.1 The annual report was approved by the urgent matters panel on 1 September 2016 and can be found at

http://www.gmpf.org.uk/AR/

Select the document 2016.pdf

6. RECOMMENDATIONS

6.1 To note the completion of governance arrangements for the approval of GMPF’s accounts.

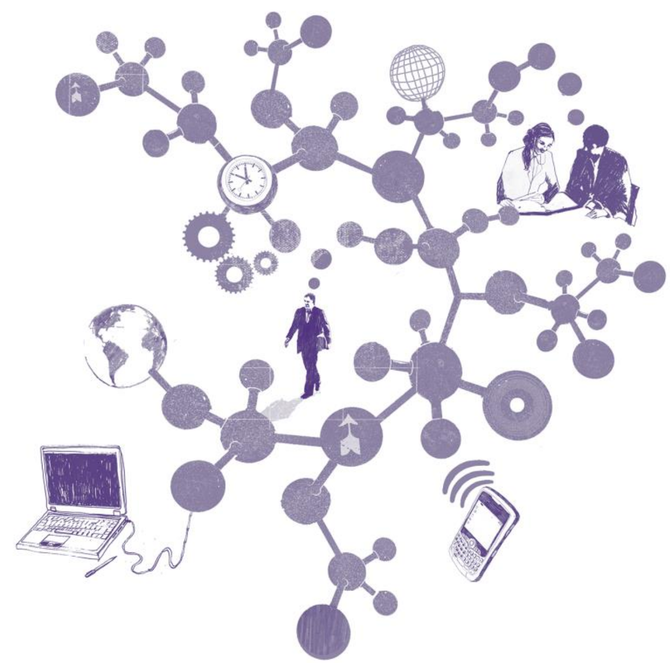
6.2 To note the Audit Findings Report from Grant Thornton.

6.3 To note the approval of the annual report by Urgent Matters Panel on 1 September 2016.

The Audit Findings Report for Greater Manchester Pension Fund

Year ended 31 March 2016

18 August 2016



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www.grant-thornton.co.uk

16 August 2016

Dear Members

Audit Findings for Greater Manchester Pension Fund for the year ending 31 March 2016

This Audit Findings report highlights the significant findings arising from the audit for the benefit of those charged with governance (in the case of the Greater Manchester Pension Fund, the Overview (Audit) Panel of Tameside MBC), as required by International Standard on Auditing (UK & Ireland) 260, the Local Audit and Accountability Act 2014 and the National Audit Office Code of Audit Practice. Its contents have been discussed with management.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

The contents of this report relates only to those matters which came to our attention during the conduct of our normal audit procedures which are designed primarily for the purpose of expressing our opinion on the financial statements. Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose defalcations or other irregularities, or to include all possible improvements in internal control that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We would like to take this opportunity to record our appreciation for the kind assistance provided by the finance team and other staff during our audit.

Yours sincerely

Mike Thomas

Engagement Lead

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Section 1: Executive summary

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Purpose of this report

This report highlights the key issues affecting the results of the Greater Manchester Pension Fund ('the Fund') and the preparation of the Fund's financial statements for the year ended 31 March 2016. It is also used to report our audit findings to management and those charged with governance in accordance with the requirements of International Standard on Auditing (UK & Ireland) 260, and the Local Audit and Accountability Act 2014 ('the Act').

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the Fund's financial statements give a true and fair view of the financial position of the Fund and its income and expenditure for the year and whether they have been properly prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting.

We are also required consider other information published together with the audited financial statements, whether it is consistent with the financial statements and in line with required guidance. This includes the Narrative Report and the Pension Fund Annual Report.

Introduction

In the conduct of our audit we have not had to alter or change our audit approach, which we communicated to you in our Audit Plan dated 18 April 2016.

Our audit is substantially complete although we are finalising our procedures in the following areas:

- review of the final version of the financial statements
- review of the final version of the Annual Report
- completion of our final internal reviews
- obtaining and reviewing the management letter of representation and
- updating our post balance sheet events review, to the date of signing the opinion.

We received draft financial statements on the 9th June 2016 and accompanying working papers at the commencement of our work, in accordance with the agreed timetable.

We anticipate providing a unqualified audit opinion in respect of the financial statements (see Appendix A). We have also included our anticipated opinion on the Annual Report at Appendix B.

Key audit and financial reporting issues

Financial statements opinion

We have identified no adjustments affecting the Fund's reported net assets position in the draft financial statements. The draft financial statements for the year ended 31 March 2016 recorded net assets of £17,324,623k and the audited financial statements record the same outcome.

There were no significant issues arising from our work. The draft financial statements provided to audit were of a high quality and supported by good working papers. The finance team responded promptly and knowledgably to audit requests and queries. We have recommended a very small number of adjustments to improve disclosure and the presentation of the financial statements, further details of which can be seen within section two of this report.

We anticipate providing an unqualified opinion in respect of the Fund's financial statements.

Controls

Roles and responsibilities

The Fund's management is responsible for the identification, assessment, management and monitoring of risk, and for developing, operating and monitoring the system of internal control.

Our audit is not designed to test all internal controls or identify all areas of control weakness. However, where, as part of our testing, we identify any control weaknesses, we report these to the Fund.

Findings

Our work has not identified any control weaknesses which we wish to highlight for your attention. Further details are provided within section two of this report.

The way forward

Matters arising from the financial statements audit have been discussed with the Assistant Executive Director of Pensions and the Assistant Director of Resources (section 151 Officer to the Fund).

Acknowledgement

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff during our audit.

Grant Thornton UK LLP
August 2016

Section 2: Audit findings

This section summarises the findings of the audit, we report on the final level of materiality used and the work undertaken against the risks we identified in our initial audit plan. We also conclude on the accounting policies, estimates and judgements used and highlight any weaknesses found as part of the audit in internal controls. As required by auditing standards we detail both adjusted and unadjusted misstatements to the accounts and their impact on the financial statements.

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The standard states that 'misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements'.

As we reported in our audit plan, we determined overall materiality to be £175,9120k (being 1% of net assets from the prior year audited accounts). We have considered whether this level remained appropriate during the course of the audit and have made no changes to our overall materiality.

We also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulated effect of such amounts would have a material impact on the financial statements. We have defined the amount below which misstatements would be clearly trivial to be £8,769k. This remains the same as reported in our audit plan.

As we reported in our audit plan, we identified the following items as key figures / disclosures in the accounts that should be reviewed in more detail to ensure they do not affect the users understanding of the financial statements.

Balance/transaction/disclosure	Explanation	Materiality level
Management expenses	Due to public interest in these disclosures and the statutory requirement for them to be made	Any errors identified by testing will be considered as to whether they would affect the users understanding of the financial statements
Related party transactions	Due to public interest in these disclosures and the statutory requirement for them to be made.	Any errors identified by testing will be assessed individually, with due regard given to the nature of the error and its potential impact on users of the financial statements. We are unable to quantify a materiality level as the concept of related party transactions takes in to account what is material to both the Pension Fund and the related party.
Auditor's remuneration	This is a statutory requirement and also a requirement of ethical and auditing standards.	Any errors identified by testing will be recommended for correction.
Cash and cash equivalents	The balance of cash and cash equivalents is usually material, and as the majority of your transactions affect the balance it is therefore considered to be material by nature also.	Any errors identified by testing will be considered as to whether they would affect the users understanding of the financial statements.

Audit findings against significant risks

"Significant risks often relate to significant non-routine transactions and judgemental matters. Non-routine transactions are transactions that are unusual, either due to size or nature, and that therefore occur infrequently. Judgemental matters may include the development of accounting estimates for which there is significant measurement uncertainty" (ISA(UK&I)315).

In this section we detail our response to the significant risks of material misstatement which we identified in the Audit Plan. As we noted in our plan, there are two presumed significant risks which are applicable to all audits under auditing standards.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
1.	**The revenue cycle includes fraudulent transactions** Under ISA (UK&I)240 there is a presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA(UK&I)240 and the nature of the revenue streams at Greater Manchester Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited due to clear separation of duties between the Fund, fund managers, custodian and accountancy partner (HSBC); and • the culture and ethical frameworks of local authorities, including Tameside MBC as the administering authority, mean that all forms of fraud are seen as unacceptable.	Our audit work has not identified any material issues in respect of revenue recognition.
2.	**Management over-ride of controls** Under ISA(UK&I)240 it is presumed that the risk of management over-ride of controls is present in all entities.	In line with our plan we: • reviewed entity-level controls • reviewed journal controls and tested a sample of journal entries • reviewed accounting estimates, judgements and decisions made by management • reviewed any unusual significant transactions	Our audit work has not identified any evidence of management over-ride of controls. In particular the findings of our review of journal controls and testing of journal entries has not identified any significant issues. We set out later in this section of the report our work and findings on key accounting estimates and judgements.

Audit findings against significant risks continued

We have also identified the following significant risks of material misstatement from our understanding of the entity. We set out below the work we have completed to address these risks.

	Risks identified in our audit plan	Work completed	Assurance gained and issues arising
3.	**Level 3 Investments – Valuation is incorrect** Under ISA(UK&I)315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.	In line with our plan we: • carried out walkthrough tests of the controls identified in the cycle. • tested a sample of private equity investments valuations by obtaining and reviewing the latest audited accounts for individual investments and agreeing these to the fund manager reports at that date. Reconciliation of those values to the values at 31 March with reference to known movements in the intervening period. • reviewed the qualifications of fund managers as experts to value the level 3 investments at year end and gain an understanding of how the valuation of these investments has been reached. • reviewed the nature and basis of estimated values and considered what assurance management has over the year end valuations provided for these types of investments.	Our audit work has not identified any issues around the valuation of the Level 3 Investments reported at year end.

Audit findings against other risks

In this section we detail our response to the other risks of material misstatement which we identified in the Audit Plan. Recommendations, together with management responses are attached at appendix A.

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Investments (income purchases and sales)	Investment Income not correct (Accuracy) Investment activity not valid. (Occurrence) Investment valuation not correct. (Valuation gross)	**We have undertaken the following work in relation to these risks** • updated our understanding of processes and key controls • undertaken walkthrough of the key controls to assess whether those controls operated in line with our understanding • For investments held by fund managers, reviewed reconciliation between JP Morgan, fund managers, HSBC and GMPF following up any significant variance and gain appropriate explanations/evidence for these. • For other investments (eg direct property), agreed a sample to supporting documentation.	Our audit work has not identified any significant issues in relation to the risk identified.
Investment values – Level 2 investments	Valuation is incorrect. (Valuation net)	**We have undertaken the following work in relation to this risk:** • We have performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • We have reviewed the reconciliation of information provided by the fund managers, the custodian and the Fund's own records and sought explanations for variances • For direct property investments agreed values in total to valuer's report and undertaken steps to gain reliance on the valuer as an expert.	Our audit work has not identified any significant issues in relation to the risk identified.

Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Contributions	Recorded contributions not correct (Occurrence)	**We have undertaken the following work in relation to this risk:** • performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • Tested a sample of contributions to source data to gain assurance over their accuracy and occurrence. • Rationalised contributions received with reference to changes in member body payrolls and numbers of contributing pensioners and ensured that any unexpected trends were satisfactorily explained.	Our audit work has not identified any significant issues in relation to the risk identified.
Benefits payable	Benefits improperly computed/claims liability understated (Completeness, accuracy and occurrence)	**We have undertaken the following work in relation to this risk:** • performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • Controls testing over completeness, accuracy and occurrence of benefit payments. • Sample testing of pension payments, lump sums, and refunds • Rationalised pensions paid with reference to changes in pensioner numbers and increases applied in the year and ensured that any unusual trends were satisfactorily explained.	Our audit work has not identified any significant issues in relation to the risk identified.
Member Data	Member data not correct. (Rights and Obligations)	**We have undertaken the following work in relation to this risk:** • performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • reconciliation of member numbers • Sample tested changes to member data for new member, leavers and new pensioners made during the year to source documentation.	Our audit work has not identified any significant issues in relation to the risk identified.

Audit findings against other risks (continued)

Transaction cycle	Description of risk	Work completed	Assurance gained & issues arising
Member Data	Member data not correct. (Rights and Obligations)	**We have undertaken the following work in relation to this risk:** • performed a walkthrough to gain assurance that the in-year controls were operating in accordance with our documented understanding. • reconciliation of member numbers • Sample tested changes to member data for new member, leavers and new pensioners made during the year to source documentation.	Our audit work has not identified any significant issues in relation to the risk identified.

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Accounting policies, estimates and judgements

In this section we report on our consideration of accounting policies, in particular revenue recognition policies, and key estimates and judgements made and included with the Fund's financial statements.

Accounting area	Summary of policy	Comments	Assessment
Revenue recognition	The financial statements include policies for recognition of the following: • Contributions • Investment income • Transfers in to the scheme Contributions and Investment Income are recognised on an accruals basis, whilst transfers in are recognised on a cash basis, with the exception of bulk transfers, which are accounted for on an accruals basis in accordance with the terms of the transfer agreement.	Review of your policies for revenue recognition confirms they are in line with the requirements of the CIPFA Code of Practice and cover all the expected areas in accordance with the Fund's activities. Our testing has confirmed that these policies have been correctly and consistently applied.	● Green
Judgements and estimates	Key estimates and judgements include: • Pension Fund Liability – present value of future retirement benefits • Valuation of investments - unquoted equities, infrastructure and special opportunities.	Our review of your key judgements disclosed in the draft financial statements has confirmed they are complete in accordance with our understanding of the Fund. Our testing has confirmed that the accounting policies in relation to these areas are in accordance with the CIPFA Code of Practice and have been correctly and consistently applied.	● Green
Going concern	Officers have a reasonable expectation that the services provided by the Fund will continue for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the financial statements.	We have reviewed officers' assessment and are satisfied with management's assessment that the going concern basis is appropriate for the 2015/16 financial statements.	● Green

Assessment
● Red - Marginal accounting policy which could potentially attract attention from regulators ● Amber - Accounting policy appropriate but scope for improved disclosure ● Green - Accounting policy appropriate and disclosures sufficient

Other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

	Issue	Commentary
1.	**Matters in relation to fraud**	• We have discussed the risk of fraud with the officers and members and have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
2.	**Matters in relation to related parties**	• From the work we carried out, we have not identified any related party transactions which have not been disclosed.
3.	**Matters in relation to laws and regulations**	• You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work.
4.	**Written representations**	• A standard letter of representation has been requested from the Fund.
5.	**Confirmation requests from third parties**	• We obtained direct confirmations from your fund managers, custodian and accountancy partner for investment balances and from your bank for your cash balances (outside of the cash held by your fund managers). All of these requests have been returned with positive confirmation
6.	**Disclosures**	• Our review found no material errors or omissions but we have requested management to make some minor amendments to further improve the clarity of the information included within the financial statements.
7.	**Matters on which we report by exception**	• We are required to report by exception where the Pension Fund Annual Report is inconsistent with the financial statements. We have not identified any issues we wish to report.

Internal controls

The purpose of an audit is to express an opinion on the financial statements.

Our audit included consideration of internal controls relevant to the preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control. We considered and walked through the internal controls for Investment Purchases and Sales, Investment Valuations – Levels 2 and 3, Contributions, Benefits Payable, and Member Data as set out on pages 10 to 13 within this report.

The controls were found to be operating effectively and we have no matters to report..

Adjusted and unadjusted misstatements

We are required to report all non-trivial misstatements to those charged with governance, whether or not the financial statements have been adjusted by management. There were no adjusted or unadjusted misstatements identified as a result of our procedures.

Misclassifications and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

	Adjustment type	Value £'000	Account balance	Impact on the financial statements
1	Disclosure	n/a	Note 3 - Classification of Financial Instruments -	Other Investment liabilities (£21,925k) incorrectly typed into the classification 'designated as Fair value through profit and loss' – this has now been corrected in the revised version of the accounts
2	Disclosure	n/a	Note 8 - Management Expenses – prior year figures restatement	Whilst only a reclassification of figures, the note is required to highlight this fact in the column of prior year figres.

Section 3: Fees, non-audit services and independence

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Fees

	Proposed fee per Audit Plan £	Actual fees £
Pension fund scale fee	56,341	56,341
IAS 19 work for admitted bodies auditors (PSAA regime only)	5,996	5,996
Total audit fees (excluding VAT)	**62,337**	**62,337**

The proposed fees for the year were in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA).

Grant Thornton UK LLP also provides audit services to:

- Matrix Homes Limited Partnership for fees totalling £11,500 and other services of £2,000; and
- Greater Manchester and London Infrastructure Limited Partnership for audit and accounts fees of £9,600 and other services of £1,800.

These are separate engagements outside the remit of Public Sector Audit Appointments Limited.

Fees for other services

Service	Fees £
Audit related services	**Nil**
Non-audit services	**Nil**

Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and therefore we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

Section 4: Communication of audit matters

Communication to those charged with governance

International Standards on Auditing (ISA) (UK&I) 260, as well as other ISA(UK&I)s, prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

The Audit Plan outlined our audit strategy and plan to deliver the audit, while this Audit Findings report presents the key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

Respective responsibilities

The Audit Findings Report has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/)

We have been appointed as the Fund's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice issued by the NAO (https://www.nao.org.uk/code-audit-practice/about-code/). Our work considers the Fund's key risks when reaching our conclusions under the Code of Audit Practice.

It is the responsibility of the Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Fund is fulfilling these responsibilities.

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Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to auditor's report		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern		✓

Appendix A: Audit opinion

We anticipate we will provide the Fund with an unqualified audit report .

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TAMESIDE METROPOLITAN BOROUGH COUNCIL – GREATER MANCHESTER PENSION FUND

We have audited the pension fund financial statements of Greater Manchester Pension Fund ("the pension fund") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The pension fund financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

This report is made solely to the members of the Tameside Metropolitan Borough Council ("the authority"), as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Assistant Executive Director –Resources and auditor

As explained more fully in the Statement of the Assistant Executive Director –Resources, the Assistant Executive Director - Resources is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the pension fund financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Assistant Executive Director - Resources; and the overall presentation of the pension fund financial statements. In addition, we read all the financial and non-financial information in the Authority's Statement of Accounts to identify material inconsistencies with the audited pension fund financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on the pension fund financial statements

In our opinion the pension fund financial statements:

- present a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2016 and of the amount and disposition at that date of the fund's assets and liabilities, and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Opinion on other matters

In our opinion, the other information published together with the audited pension fund financial statements in the Authority's Statement of Accounts is consistent with the audited pension fund financial statements.

for and on behalf of Grant Thornton UK LLP, Appointed Auditor

4 Hardman Square
Spinningfields
Manchester
M3 3EB

Appendix B: Proposed audit opinion on the annual report

We anticipate we will provide the Fund with an unqualified audit report

INDEPENDENT AUDITOR'S STATEMENT TO THE MEMBERS OF TAMESIDE METROPOLITAN BOROUGH COUNCIL ON THE PENSION FUND FINANCIAL STATEMENTS INCLUDED IN THE GREATER MANCHESTER PENSION FUND ANNUAL REPORT

The accompanying pension fund financial statements of Greater Manchester Pension Fund for the year ended 31 March 2016 which comprise the fund account, the net assets statement and the related notes are derived from the audited pension fund financial statements for the year ended 31 March 2016 included in Tameside Metropolitan Council's ('the authority')Statement of Accounts. We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated xx September 2016

The pension fund annual report, and the pension fund financial statements, do not reflect the effects of events that occurred subsequent to the date of our report on the Statement of Accounts. Reading the pension fund financial statements is not a substitute for reading the audited Statement of Accounts of the Authority.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our work has been undertaken so that we might state to the members of the Authority those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

The Assistant Executive Director – Resources responsibilities for the pension fund financial statements in the pension fund annual report

Under the Local Government Pension Scheme Regulations 2013 the Assistant Executive Director - Resources is responsible for the preparation of the pension fund financial statements, which must include the fund account, the net asset statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the pension fund financial statements in both the Authority Statement of Accounts and the pension fund annual report are set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16.

Auditor's responsibility

Our responsibility is to state to you whether the pension fund financial statements in the pension fund annual report are consistent with the pension fund financial statements in the Authority's Statement of Accounts in accordance with International Standard on Auditing 810, Engagements to Report on Summary Financial Statements.

In addition we read the other information contained in the pension fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund financial statements. The other information consists of the Chair's Introduction, Top 20 Equity Holdings, Investment Report, Financial Performance Report, Actuarial Statement, Scheme Administration, Funding Strategy Statement, Governance Compliance Statement, Statement of Investment Principles and Communications Policy

Opinion

In our opinion, the pension fund financial statements in the pension fund annual report derived from the audited pension fund financial statements in the Authority Statement of Accounts for the year ended 31 March 2016 are consistent, in all material respects, with those financial statements in accordance with proper practices as defined in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

for and on behalf of Grant Thornton UK LLP, Appointed Auditor

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Report To:	**Pension Fund Management Panel/Advisory Panel**
Date:	23 September 2016
Reporting Officers:	Sandra Stewart, Executive Director – Governance, Resources and Pensions. Gerard Dale, Assistant Executive Director – Pensions Administration.
Subject:	**LGPS UPDATE**
Report Summary:	The report provides a summary of items of note since the last meeting of the Panel.
Recommendations:	That the Panel note the contents of the report.
Financial Implications: **(Authorised by the Section 151 Officer)**	There are no material implications for the Fund, but the potential capping of exit payments will be of note to employers.
Legal Implications: **(Authorised by the Solicitor to the Fund)**	Any amendments to the Scheme's regulations will be implemented.
Risk Management:	The changes to Fair Deal, if enacted as proposed, will compel firms who take on outsourcing contracts to be members of the Scheme. Current admission agreements allow agreements to be terminated by the administering authority, in the event of an employer failing to comply with their duties under the agreement. This ultimate sanction will be removed, which may need recourse to the Pensions Regulator, in the event of an employer not fulfilling their duties.
Access to Information:	**NON-CONFIDENTIAL** **This report does not contain information which warrants its consideration in the absence of the Press or members of the public.**
Background Papers:	The LGA's response to the DCLG's consultation can be found here:http://lgpsregs.org/images/Drafts/2016-05LGPSAmendsConsResponse.pdf For any further information please contact Gerard Dale, Asst Executive Director – Pensions Administration, tel 0161 301 7227, email ged.dale@gmpf.org.uk

1. THE DCLG CONSULTATION ON LGPS AMENDMENT REGULATIONS

1.1 In May 2016, the Department for Communities and Local Government (DCLG) issued a consultation on draft amendment regulations for the LGPS in England and Wales. Amongst other amendments, the consultation covers the implementation of Fair Deal and changes to AVC provisions in light of the recent Freedom and Choice reforms. The consultation closed on 20 August 2016.

1.2 The GMPF reply to the consultation can be found here http://www.gmpf.org.uk/documents/consultations/regulations.pdf which in summary was broadly supportive of the changes proposed by the DCLG, e.g. that more deferred beneficiaries should be able to access their deferred benefits as of right once they are 55 and that firms taking on outsourcing contracts should be compelled to join the Scheme.

1.3 Regarding the latter, the DCLG has been requested to make explicit in the Regulations that a ceding employer be responsible for ensuring pension protection of those employees being transferred. In part, this is to avoid a stalemate in negotiations between the administering authority and ceding employers, where the former wants to ensure all liabilities are guaranteed and the latter may not wish to provide this guarantee.

2. EXIT PAYMENT REFORMS

2.1 The introduction of the Government's policy which will require high earners (earning £80,000 or more) who leave employment in the public sector with an exit payment to repay the exit payment, or a proportion of it, if they return to public sector employment within 12 months, has been delayed.

2.2 The intention had been to implement the legislation in July 2016 to take effect in autumn this year. However, Parliament went into recess without the appropriate legislation being made. It remains the goal of the Government to implement the proposals in autumn. However, this will depend on how quickly the legislation can be made following the return of Parliament on 5 September. Parliamentary time in September appears to be limited given that there will be a further recess during the party conference season.

2.3 The Government has also stated that it intends to implement the public sector £95,000 exit payments cap legislation in autumn. Draft regulations are awaited.

3. RECOMMENDATION

3.1 That the Panel note the content of the report.

Report To:	**Pension Fund Management/Advisory Panel**
Date:	23 September 2016
Reporting Officer:	Sandra Stewart, Executive Director of Governance, Resources and Pensions Euan Miller, Assistant Executive Director, Funding and Business Development
Subject:	**SECTION 13 VALUATION**
Report Summary:	This report provides a summary of the Section 13 valuation which will be undertaken by the Government Actuary's Department (GAD) as part of the 2016 actuarial valuation process for LGPS funds in England and Wales. The report also provides a summary of the 'dry-run' that GAD has undertaken using the 2013 LGPS valuations.
Recommendations:	Members are recommended to note the report.
Policy Implications:	None.
Financial Implications: **(Authorised by the Section 151 Officer)**	Employer contribution rates in the LGPS are determined by the triennial actuarial valuation process. The latest actuarial valuation is currently ongoing, with an effective date of 31 March 2016. The Section 13 valuation has no direct impact on contribution rates, but its existence may help ensure that all funds set contributions at an appropriate level.
Legal Implications: **(Authorised by the Solicitor to the Fund)**	It is a statutory requirement for an actuarial valuation of the Fund to be undertaken every three years. The work carried out must comply with the relevant regulations and professional standards. The Section 13 valuation process helps ensure that this is the case.
Risk Management:	A key risk when administering the LGPS is that an employer fails whilst its sub fund is in deficit. The valuation adjusts employer contribution rates with the aim of matching asset and employer values in the future, in line with the GMPF's Funding Strategy Statement.
Access to Information:	**NON-CONFIDENTIAL** **This report does not contain information which warrants its consideration in the absence of the Press or members of the public.**
Background Papers:	The background papers relating to this report can be inspected by contacting Euan Miller, Assistant Executive Director – Funding and Business Development.

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1 BACKGROUND

1.1 The 2016 LGPS valuations in England and Wales will be the first to be reviewed under the new framework set out in Section 13 of the Public Service Pensions Act ("S13"). This piece of primary legislation requires that an appointed person, in this case, the Government Actuary's Department ("GAD"), reports on whether each LGPS fund's formal funding valuation adheres to the following criteria.

Compliance – to confirm the valuation has been carried out in accordance with the LGPS Regulations

Consistency – to confirm the valuation is not inconsistent with other LGPS funds' valuations and that differences in assumption and methodology can be justified and evidenced

Solvency – to confirm contributions are sufficient to ensure solvency

Long term cost efficiency – to confirm contributions are sufficient to meet benefit accrual and repay any existing deficit

1.2 If GAD has concerns about LGPS funds under any of these measures then they can recommend remedial actions (such as imposing a given level of contributions on employers in the fund) which may ultimately be enforced by DCLG using powers granted under the legislation.

2. APPROACH

2.1 In summary, GAD will calculate a number of metrics for each of the LGPS funds using consistent actuarial assumptions. Funds will be ranked in a league table based on these metrics and assigned a RAG (Red/Amber/Green) status against each metric to identify those funds that may need to take action. The absolute value of the assumptions in the chosen actuarial basis is not important – the important fact is that all LGPS funds are measured on the same assumptions, allowing comparison across funds.

3. DRY RUN

3.1 In preparation for the 2016 Section 13 valuation, GAD has carried out a reivew of the 2013 LGPS valuations against the criteria set out above. GAD has published its report and this is available on the link below.

http://www.lgpsboard.org/images/Reports/Section13DryRun20160711.pdf

3.2 The 2013 valuations pre-date the effective date of the legislation. As such, the work on the 2013 valuations has no legal force but serves as a 'dry run' to familiarise all parties with the process and sets expectations as to how the 2016 valuation review might be implemented.

4. DRY RUN RESULTS – LGPS

4.1 As anticipated, no compliance issues were found.

4.2 GAD reported that they had found both presentational and evidential inconsistencies in the valuation approach adopted by some LGPS funds, and in assumptions used and disclosure of results. These inconsistencies make meaningful comparison of local valuation results difficult.

4.3 GAD reported concerns over securing solvency for two passenger transport funds that are closed to new members. A number of funds raised amber flags on one or more metrics examined under solvency. No funds were red flagged.

4.4 GAD named two funds (Berkshire and Somerset) with whom they would have wanted to have further discussion over the long term cost efficiency of their funding plans (i.e. their employers may not be paying enough contributions to fully repay the deficits in the funds)

4.5 GAD clarified that meeting solvency and long term cost-efficiency requirements takes precedence in the regulatory framework over the desirability of stable contributions (which is an objective in the LGPS regulations).

5. DRY RUN RESULTS – GMPF

5.1 Using the standard set of assumptions, GMPF has a funding level of 103% at 31 March 2016. This is the joint 4th highest funding level across England and Wales. GMPF's funding level assessed using the Fund's own assumptions was 91%, this was the joint 5th highest.

5.2 There were no red flags for GMPF under either the solvency or long-term cost efficiency criteria. GMPF was one of several funds to receive an amber flag on one of the solvency sub-criteria. This sub-criteria is a measure of the amount that contributions would need to increase by should the value of return-seeking assets decrease by 15%. This largely reflects the maturity of GMPF's membership compared to the average LGPS fund. If a fund received amber flags on several sub-criteria then GAD may seek further discussion with the fund to determine whether any further action may be required.

6. COMMENT

6.1 The GAD Section 13 report should help ensure fair comparisons can be made between LGPS funds and reduce the number of funds showing artificially inflated funding levels based on highly optimistic assumptions about the future. This additional level of scrutiny will hopefully improve funding standards, increase transparency and enhance the understanding of stakeholders and commentators.

6.2 However, each LGPS fund is responsible for meeting its own liabilities and should be able to, in conjunction with its advisors, implement a funding approach that reflects its local situation, beliefs and attitude to risk. Considerable risks are introduced by taking an approach which encourages funds to set their funding plan by reference to either a standard basis or the approach adopted by other LGPS funds. These risks include less engagement and ownership of funding decisions, loss of diversification within the LGPS leading to a concentration of funding risk, loss of innovation and creative solutions to funding challenges and the adoption of unsuitable assumptions. Perhaps the most potentially damaging risk is heading towards a "minimum funding requirement" – often described as a "race to the bottom".

6.3 GAD has examined a number of metrics, all at whole of fund level. However, administering authorities and fund actuaries address funding challenges at the individual employer level and try to optimise both solvency and long term cost efficiency for every employer in the fund through the valuation process. There are considerable complexities in this process which will not be captured by examination of high-level whole fund results.

6.4 The primary purpose of the triennial funding valuations is to allow each administering authority to put in place a funding plan that levies adequate contributions from employers and invests assets appropriately in order to meet the liabilities of their individual LGPS fund. Section 13 can play a valuable role in reassuring stakeholders that the LGPS as whole is in a position to meet the benefits earned by members and to flag where individual funds appear to be outliers from the main pack. However, it would be counter-productive if, by having undue regard to how they appear under Section 13, funds compromised their funding valuations and reduced their chances of meeting their liabilities cost effectively - the tail should not wag the dog!

7. RECOMMENDATIONS

7.1 Members are recommended to note the report.

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