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GREATER MANCHESTER PENSION FUND - MANAGEMENT/ADVISORY PANEL

Day: Friday
Date: 23 March 2018
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 (10.00AM)

2. APOLOGIES FOR ABSENCE

3. DECLARATIONS OF INTEREST

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

4. MINUTES (10.10AM)

a) MINUTES OF THE PENSION FUND ADVISORY PANEL — 1 - 14

To approve as a correct record the Minutes of the meeting of the Pension Fund Advisory Panel held on 17 November 2017.

b) MINUTES OF THE PENSION FUND MANAGEMENT PANEL — 15 - 20

To approve as a correct record the Minutes of the meeting of the Pension Fund Management Panel held on 17 November 2017.

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.

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.

From: Democratic Services Unit – any further information may be obtained from the reporting officer or from Carolyn Eaton, Senior Democratic Services Officer on 0161 342 3050 or carolyn.eaton@tameside.gov.uk, on 0161 342 3050 or carolyn.eaton@tameside.gov.uk, to whom any apologies for absence should be notified.

Items	Paragraphs	Justification
8,10,12,13,14,15	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.

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12.	**UPDATE ON COSTS (11.25AM)** Report of the Assistant Director of Pensions, Investments, attached.	231 - 256
13.	**PERFORMANCE DASHBOARD (11.35AM)** Report of the Assistant Director of Pensions, Investments, attached.	257 - 274
14.	**REPORTS OF THE MANAGERS (11.45AM)** Report of the Assistant Director of Pensions, Investments, attached. To review the performance of UBS Asset Management.	275 - 358
15.	**ADVISOR COMMENTS AND QUESTIONS**	
16.	**GMPF BUDGET 2018/19 AND FUTURE MEDIUM TERM FINANCIAL PLANNING (12.25PM)** Report of the Assistant Director of Pensions, Local Investment and Property, attached.	359 - 364

ITEMS FOR INFORMATION

17.	**AUDIT PLAN** Report of the Assistant Director of Pensions, Local Investment and Property, attached.	365 - 382
18.	**FUTURE TRAINING DATES** Trustee training opportunities are available as follows. Further information/details can be obtained by contacting Loretta Stowers on 0161 301 7151.	

PIRC Spring Seminar London	29 March 2018
PLSA Local Authority Conference Cotswold Water Park Hotel	21 – 23 May 2018
CIPFA Barnett Waddingham Local Board Annual Full Day Event London	27 June 2018
PLSA Annual Conference Liverpool	17 – 19 October 2018

19. DATES OF FUTURE MEETINGS

Local Pensions Board	29 March 2018
Pensions Administration Working Group	6 April 2018
Investment Monitoring and ESG Working Group	6 April 2018
Alternative Investments Working Group	13 April 2018
Property Working Group	20 April 2018

From: Democratic Services Unit – any further information may be obtained from the reporting officer or from Carolyn Eaton, Senior Democratic Services Officer on 0161 342 3050 or carolyn.eaton@tameside.gov.uk, on 0161 342 3050 or carolyn.eaton@tameside.gov.uk, to whom any apologies for absence should be notified.

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Employer Funding Viability Working Group	20 April 2018

From: Democratic Services Unit – any further information may be obtained from the reporting officer or from Carolyn Eaton, Senior Democratic Services Officer on 0161 342 3050 or carolyn.eaton@tameside.gov.uk, on 0161 342 3050 or carolyn.eaton@tameside.gov.uk, to whom any apologies for absence should be notified.

GREATER MANCHESTER PENSION FUND ADVISORY PANEL

17 November 2017

Commenced:	**9.30am**	**Terminated: 12.30pm**
Present:	**Councillor K Quinn (Chair)** **Councillors: Barnes (Salford), Brett (Rochdale), Grimshaw (Bury), Halliwell (Wigan), Mitchell (Trafford), Pantall (Stockport)** **Employee Representatives:** **Mr Allsop (UNISON), Mr Drury (UNITE) and Mr Llewellyn (UNITE)** **Local Pensions Board Members (in attendance as observers):** **Councillor Fairfoull** **Advisors:** **Mr Bowie, Mr Moizer, Mr Powers and Ms Brown**	
Apologies for absence:	**Councillor Jabbar (Oldham) and Mr Flatley (GMB)**	

40. CHAIR'S OPENING REMARKS

The Chair welcomed everyone to the meeting and announced that Mr Moizer and Mr Bowie had each served as Advisors to the Panel for 30 years. He thanked Mr Moizer and Mr Bowie for their long service and explained that this would be formally recognised with a presentation at the end of the meeting.

Members were informed that the Fund's value was currently £22 billion, an increase of over £400 million or £0.4 billion over the quarter since the last meeting of the Panel, and had more than doubled since 2010, when he had become Chair. It was noted that in the last 30 years, the Fund had achieved £3 billion above what would have been achieved if it had operated at the level of performance of the average Local Government Fund.

The Chair outlined key issues on the agenda, as follows:
- An update on pooling;
- The third and final stage of the 'root and branch' review of Investment Management arrangements;
- Training items on investment performance within the LGPS, followed by an update on Fund performance;
- An update on investment management costs;
- A presentation from Investec, Global Equities Manager for the Fund; and
- An update on the Fund's approach to Responsible Investment and feedback from the successful stakeholder day.

The Chair made reference to emails received by many Local Authorities across Greater Manchester regarding climate change and fossil fuel holdings. He described the ground-breaking investments being made in clean energy, which were vital to an orderly transition from fossil fuels to renewable energy, and, in terms of fossil fuel holdings, reaffirmed the Fund's commitment to using influence and engaging with companies to assess their business plans for alignment with a two degree warming scenario. He added that a draft response would be prepared.

41. DECLARATIONS OF INTEREST

There were no declarations of interest submitted by Members.

42. MINUTES

The Minutes of the proceedings of the meeting of the Pension Fund Advisory Panel held on 22 September 2017 were signed as a correct record.

The Minutes of the proceedings of the meeting of the Pension Fund Management Panel held on 22 September 2017 were signed as a correct record.

The Minutes of the proceedings of the Annual General Meeting held on 22 September 2017 were signed as a correct record.

43. 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
8, 9, 10, 11, 12, 13, 14, 15, 16	**3&10, 3&10, 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.**

44. POLICY AND DEVELOPMENT WORKING GROUP

The Minutes of the proceedings of the Policy and Development Working Group held on 5 October 2017 were considered.

The Chair explained that most of the items were covered separately on the agenda and it was

RECOMMENDED
- **(i) That the Minutes be received as a correct record;**
- **(ii) In respect of the Response from Government to the Spring Progress Review, that the content of the report, including the letter received from Government and the template for the October progress report, be noted and that governance arrangements for the Northern Pool be reported to the next meeting of the Working Group;**

(iii) **With regard to Investment Initiatives, that the actions proposed on additional investment initiatives to be taken by officers in consultation with the Chair, be noted;**
(iv) **In respect of Impact Portfolio Investments, that the progress to date and that the strategy on impact investments remained as reported in previous years be noted and that the amendments to the Investment Guidelines be approved, including the pacing model and specifically the 5 year pacing strategy subject to annual review of £85 million per annum for 2017, 2018 and £80 million per annum for 2019, 2020 and 2021;**
(v) **With regard to the Housing Investment Update, that a set of standards for size-dimensions of new build homes and building conversions be agreed with the joint venture partner and a report be submitted to the next meeting of the Working Group;**
(vi) **In respect of Financing Arrangements for Guardsman Tony Downes House, that the sale of Guardsman Tony Downes House of £7.0 million to the Administering Authority, Tameside Metropolitan Borough Council, be approved and the Fund committing:**
   (a) **To the payment of an annual rent with effect from 1 January 2018 to the Council of £384,250 per annum, with upward annual reviews linked to RPI, plus service charges for the running of the building and for cyclical maintenance of plant and equipment; and**
   (b) **That in the event that the Fund vacates the building before the expiry of 25 years, it will pay the Council a sum equivalent to the total annual passing rent for the period beginning on the date of vacation of the building to the 25th anniversary of the date of the Council 'purchased' the building (currently assumed to be 1 January 2043 and discount rate for NPV purposed 5.2%).**

45. INVESTMENT MONITORING AND ESG WORKING GROUP

The Minutes of the proceedings of the meeting of the Investment Monitoring and ESG Working Group held on 13 October 2017 were considered.

The Chair of the Working Group, Councillor Taylor, reported that Investec had given an update on their performance to the end of June 2017, which appeared to have turned a corner after their difficult start for the Fund. He added that Investec would also be presenting to the Panel on their more recent performance later on the agenda.

Members had also endorsed an updated draft Investment Strategy Statement which was the Fund's overarching document that explained how the investments were managed. Officers had fully reviewed the current Statement and made some change as a result. In particular, the section on Climate Change had been expanded. The draft was publicly out for consultation and a final version of the Statement would be brought to the next Panel meeting to be formally adopted. As had already been highlighted by the Chair of the Panel in his opening remarks, a number of Local Authorities were receiving correspondence from pressure groups following this consultation and a draft response was being prepared.

RECOMMENDED
(i) **That the Minutes be received as a correct record; and**
(ii) **In respect of the Investment Strategy Statement, that the Working Group endorses the proposed approach and the draft Investment Strategy Statement.**

46. PENSIONS ADMINISTRATION WORKING GROUP

The Minutes of the proceedings of the meeting of the Pensions Administration Working Group held on 13 October 2017 were considered.

The Chair of the Working Group, Councillor J Lane, explained that the Working Group were pleased to hear the progress being made with the First Bus Transfer with the transfer of member and payroll data having commenced. Although the testing process highlighted some issues with the data, the project team and Aquila Heywood successfully resolved these issues to ensure that the Fund were able to make the pension payments as initially planned.

It was further reported that the Working Group received a detailed update on the Guaranteed Minimum Pension Project. It was reported that the first stage of planning the project had been completed and work had begun to reconcile the data and investigate mismatches. Whilst there had been a minor delay to the project schedule due to revised data files being received from HMRC, the team continued to make good progress.

A report had also been received regarding members Additional Voluntary Contributions (AVCs) investments as at 31 March 2017 was also submitted detailing the performance of the Prudential for the financial year. It was also confirmed that a detailed review of the funds AVC arrangements was currently in progress with a view to ensuring that the AVC provisions for members were appropriate in the current pensions landscape.

RECOMMENDED
(i) That the Minutes be received as a correct record;
(ii) In respect of First Bus Transfer, that update reports on the progress of the project be brought to future Working Group meetings;
(iii) With regard the Pensions Regulator, that the new campaign launched by the Pensions Regulator to drive up standards of governance across pension schemes be noted and that the steps being taken by GMPF to ensure compliance with Code of Practice 14 be noted; and
(iv) In respect of the Guaranteed Minimum Pension Reconciliation, that update reports on the progress of the project be brought to future Working Group meetings.

47. ALTERNATIVE INVESTMENTS WORKING GROUP

The Minutes of the proceedings of the meeting of the Alternative Investments Working Group held on 20 October 2017 were considered.

The Chair of the Working Group, Councillor Cooney, explained that the Fund's specialist adviser, Capital Dynamics, had presented its half-yearly review of GMPF's Private Equity and Infrastructure portfolios to 30 June 2017. Both these portfolios continued to develop well, with 'since inception' returns of 16.8% per annum and 10.8% per annum respectively.

A report had also been received reviewing the Special Opportunities Portfolio which, whilst immature, was performing well and in excess of portfolio target returns.

A very interesting presentation had also been received from Advent, one of GMPF's newer Private Equity General Partner relationships, on its approach to investment and portfolio performance, together with a recent case study.

RECOMMENDED
That the Minutes be received as a correct record;

48. EMPLOYER FUNDING VIABILITY WORKING GROUP

The Minutes of the proceedings of the meeting of the Employer Funding Viability Working Group held on 27 October 2017 were considered.

The Chair of the Working Group, Councillor J Fitzpatrick, informed Panel Members that discussions had taken place in respect of the work ongoing to analyse the most effective way to deliver bespoke employer investment strategies. This would be discussed further at the next

meeting of the Working Group and also featured in the investment structure report later in the agenda.
A report had also been received summarising some of the activity taking place amongst employers. Of particular note was the recommendation made as to how the Fund responded to requests from the banks and building societies of housing associations which were changing their legal status.

The Chair added that the Working Group had felt it was important that the Fund needed to be very clear that whilst it would do all that it could to facilitate changes that Housing Associations were making to become Community Benefit Societies, one of the main benefits being to reduce their tax liabilities, the Fund could not agree with any bank lender/funder that their liabilities had first priority before that of any pension liabilities.

The Working Group had also made recommendations for revisions to the procedures for collecting outstanding employer debts, which aimed to get employers paying quicker and for the Fund to generate a return on any outstanding money.

RECOMMENDED
(i) That the Minutes be received as a correct record;
(ii) In respect of Bespoke Employer Investment Strategies, that a further report summarising the results of the asset liability modelling work and next steps for delivering Bespoke Employer Investment Strategies be brought to a future meeting of the Working Group;
(iii) With regard to Employer Activity, that the Fund should not enter into a contract with banks/building societies with regards to the conversion of Housing Associations employers to Community Benefit Societies, but will issue a comfort letter if requested to do so;
(iv) In respect of Employer Debt Recovery;
(a) That the GMPF Accountancy Team contact employers that have outstanding employer debts to discuss the reasons for late payment prior to issuing a second reminder letter;
(b) That the Fund offer a payment plan with an interest rate of 4.2% p.a. if an employer can demonstrate to the Fund's satisfaction that it has insufficient cash reserves to pay the debt immediately; and
(c) That the issue of non-payment be escalated to a higher level should an employer not wish to enter into a payment plan, with a reminder that the Fund may report late contributions to the Pensions Regulator.

49. PROPERTY WORKING GROUP

The Minutes of the proceedings of the Property Working Group held on 27 October 2017 were considered.

The Chair of the Working Group, Councillor S Quinn, explained that the Working Group considered a review of asset allocation to property. The deployment of property investment was in line with the medium term plan but due to strong equity performance property continued to remain underweight. The internal team would review deployment plans and report back the Working Group and Panel as to how this might be accelerated whilst continuing to ensure the Fund only invests in quality assets.

Panel Members were further informed that La Salle had presented to the meeting and progress was generally good. There were some concerns over the state of the Property Market due to general political and economic risks, however, there were still plenty of buyers for good quality buildings and pricing remained competitive.

La Salle were cautiously optimistic for returns over net 5 years at around 4 to 6% per annum.

Updates had also been received on local investments focusing on the Soapworks, Island Site and First Street.

RECOMMENDED
(i) That the Minutes be received as a correct record; and
(ii) In terms of the Management Summary, that a report on the results of the review into indirect investments be brought to a future meeting of the Working Group.

50. MANAGEMENT SUMMARY

Consideration was given to a report and presentation of the Director of Pensions, which provided a summary of issues and matters of interest arising during the last quarter and also provided an update on Project Magpie.

The Director explained that in terms of Performance and Valuation, the Total Fund increased in value by £418 million over the quarter, from £21,604 million as at 30 June 2017, to £22,022 million as at 30 September 2017.

In the quarter to 30 September 2017, the Main Fund returned +2.2% against a benchmark return of +1.7%, whilst in the year to 30 September 2017, the Main Fund returned +12.7%, against a benchmark return of +10.2%.

In terms of Project Magpie, as reported at previous Panel meetings, First Bus Group, one of GMPF's largest private-sector employers, was consolidating its LGPS arrangements in the West Yorkshire Pension Fund and the South Yorkshire Passenger Transport Pension Fund into GMPF. This proposal was approved by the Panel at its March meeting, subject to certain conditions being met.

The consolidation was effected by a Direction from the Secretary of State resulting in GMPF becoming the administering authority for the transferring members on 1 November 2017. GMPF would be making the November pension payments to the transferring members. The Director of Pensions thanked the Pensions Policy Manager and the Pensions Operations Manager and their teams for their hard work.

Assets of approximately £200 million would be transferring from the South Yorkshire Passenger Transport Pension Fund in January 2018 and would be held outside of the Main Fund. Approximately £400 million would transfer from the West Yorkshire Fund at regular intervals up to March 2019.

Regular updates would continue to be provided to the relevant working groups and the Management Panel as appropriate.

The Director then explained that diversity was firmly on the corporate agenda, with a growing body of research showing that it led to better decision making and financial performance – yet much of the Capital markets industry had been slow to act.

The Corporate Governance Code for listed companies set out expectations in relation to five key themes of leadership, effectiveness, executive remuneration, accountability and shareholder relations with considerable emphasis on board appointments and the balance of skills, diversity and independence of the directors. There was evidence to show that pension funds could similarly gain from a move in regulatory focus towards governance inputs.

It was further explained that the Fund wanted to embrace the possibilities on offer from improved gender diversity in senior positions both itself as a forward looking asset owner and those who invested on the Fund's behalf and advise us to do so. To do that, it was essential to know the starting point and desired destination. On that basis, the Fund had procured 'The Pipeline's

Gender Audit', which sought to help to provide businesses with an industry leading assessment of an organisation's performance in this crucial area.

Moving forward, it was expected that Fund Managers the Fund procures and those procured to advise the Fund, undertake the Pipeline's Gender Diversity Audit, which would give those procuring services a clear understanding on the current role of women in an organisation and the likelihood if needed, of future change and improvement. The Audit would look at organisational 'know how', as well as, whether they actively promoted gender diversity through an agreed policy framework, including communication, training, development and target setting. Most importantly, it would explain the importance an organisation put on gender diversity and their risk appetite for not integrating women into their business. It was concluded that regular updates would be provided to the relevant Working Groups and the Management Panel as appropriate.

RECOMMENDED
That the content of the report and progress on matters raised be noted.

51. LGPS POOLING UPDATE

The Assistant Director of Pensions, Funding and Business Development, 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.

It was reported that all pools were required to submit their pooling proposals to Government in July 2016 and progress updates on the delivery of these proposals were submitted in April 2017.

All pools received a letter from Government over the summer requesting submission of a further progress update covering the period to 30 September 2017. DCLG issued a template for the autumn progress update, which was very similar to the template for the submission made by pools in April.

The Northern Pool's progress report and supporting documents were appended to the report.

It was explained the main ongoing work streams for the Northern Pool were progressing well as follows:

- Developing a vehicle to make private equity investments on a collective basis. The governance of this was vehicle was expected to operate in a similar manner to the GLIL infrastructure vehicle.
- Procurement of an FCA regulated custodian for the pool. A review of how the pool could develop its risk, cost and performance reporting would be undertaken alongside the procurement.
- Work was underway to procure an FCA regulated operator for the GLIL infrastructure vehicle. This would allow other pools to join. GLIL currently had commitment of £1.3 billion to direct infrastructure in the UK, with investments of almost £300m made to date. There was currently little evidence of other pools having made significant progress on developing the capacity for direct infrastructure investments.
- The democratic services functions of each of the administering authorities were progressing the creation of the Pool joint committee, with Tameside MBC acting as lead authority. This joint committee would oversee the Pool and provide a democratic link back to the individual funds. The legal agreements setting out the governance framework of the Pool were not yet finalised as work was being undertaken to ensure that they were aligned with the governance framework of the private equity vehicle.

It was noted that Northern Pool costs to 30 September 2017 were approximately £200,000 compared to the original estimate of implementation costs which was £1.8 million

Details of GMPF's housing investments were included in the infrastructure section of the response to demonstrate progress against the Pool's target of building 10,000 homes. Up to 30 September 2017, GMPF had financed 284 completed homes, with a further 236 under construction. Due diligence was currently being undertaken on 9 further projects which would deliver another 3,863 homes. It was hoped that the rate of delivery could be increased via joint ventures with other funds in the Pool.

Following discussion with Jeff Houston of the LGA at the meeting of the Shadow Joint Committee held on 24 October 2017, the progress update provided further clarity for Government on how the plans for the Northern Pool had evolved since the July 2016 submission was made to Government and how, in the opinion of the participating funds, the pooling Criteria and Guidance were met. This was set out in the report and in an appendix to the report.

A update was also given of developments nationally, of the 8 pools across the LGPS.

In respect of Governance arrangements, the Assistant Director informed Members that it was expected that a report be submitted to the meeting of Full Council in February 2018, setting out the governance arrangements of the Northern Pool.

Detailed discussion ensued in respect of the above and the Pooling agenda in general and it was:

RECOMMENDED
That the content of the report and the progress of the Northern Pool, recently submitted to DCLG in line with agreed approach, be noted.

52. FINANCING ARRANGEMENTS FOR GUARDSMAN TONY DOWNES HOUSE

A report of the Assistant Director of Pensions, Local Investments and Property, was submitted, advising Members that an opportunity existed for the Fund to 'sell' Guardsman Tony Downes House to the administering authority and for the Pension Fund to be the tenant on a long lease-type of arrangement.

The report explained how this could bring financial advantages to both parties.

It was further explained that if the Council were to take ownership of the building on its balance sheet and receive rent from the Fund for its occupation, as opposed to it being a Fund investment owned by Tameside as administering authority, there would be a financial benefit to both the Fund and Council. This was essentially due to the cost of capital for the Pension Fund (i.e. its expected rate of return being higher than the rate at which the Council could borrow and much higher than the return than the Council received on its reserves).

Discussion and negotiation had been carried out between officers with a joint desire to find an arrangement that offered reasonable financial returns for each party. The Council and the Pension Fund had jointly commissioned an independent valuation of the building. The indicative value was around £14-£15psqft for the office accommodation and £7 million for the capital value. A copy of the formal confirmation from the external valuer was appended to the report.

Members were further informed that the ground floor had not yet been developed. It was originally planned that the Pension Fund would pay to bring the ground floor into use but given that the expected occupier would be the Council, and it would be the landlord under the proposed financing arrangement, then it would be more appropriate for the Council to carry out the necessary works (the alternative would be for the Pension Fund to carry out works and for the Council to pay a higher price for the building). At this stage it was recommended that a sum of £1.4m be set aside in the capital investment programme for these works. A future report would be considered by the Council if the sale was approved. The development of the ground floor was beneficial to the Fund's occupation from a security and public realm perspective.

From Tameside's perspective as the administering authority for GMPF, it was a major risk that occupation of Guardsman Tony Downes House by GMPF would not be secured in the form of a binding lease agreement. This was because the Council could not enter into legal agreements with itself. There was the possibility that at some point over the next 25 years the Pension Fund no longer wished to occupy the building. In order to protect its position, the Council would be seeking a commitment from the Pension Fund that if it moved out of Guardsman Tony Downes House it would pay Tameside Council a sum equivalent to the NPV of the total annual passing rent for the period beginning on the date of vacation of the building to the 25th anniversary of the date the Council 'purchased' the building (currently assumed to be 1 January 2043 and discount rate for NPV purposes 5.2%).

The proposal had been tested with the external auditor for the Fund and Council and they did not object to the proposals in principle, but it would be confirmed with them when final terms were agreed.

The report concluded that the construction of the Pension Fund building had been completed broadly on time and on cost and the building had been well received.

The environment since the original plan for the financing of the building and the use of the ground floor space had changed significantly.

The options of the Council taking the building onto its balance sheet and charging GMPF a rent for use whilst GMPF completed ground floor space in advance of the specific occupier fit out requirements had a number of compelling advantages

- Provided a practical solution for use of remaining space within the building;
- Provided a financial benefit to the Fund; and
- Provided a financial benefit to the Council.

The rationale and implications of this proposal had been discussed with the Council's and Fund's auditors. Neither auditor had objected to the proposal set out in the report in principle, subject to final confirmation of terms.

Members and Advisors sought assurances in respect of contingency plans in place should the building not be occupied for 25 years. The Assistant Director explained that, in those circumstances, the Fund would pay the outstanding rent discounted by investment returns and that a quasi lease was to be drawn up to include an early termination clause.

Ms Brown stated that she was reassured by the GVA report, (appended to the report) and sought further clarification with regard to the involvement of external auditors. The Assistant Director confirmed that the auditors had been involved throughout the process.

Mr Bowie echoed Ms Brown's comments and advised that additional governance would be beneficial to address any unforeseen change in circumstance in the future.

RESOLVED
The sale of Guardsman Tony Downes House for £7.0 million to the administering authority, Tameside Metropolitan Borough Council, be approved and the Fund committing:

(a) To the payment of an annual rent with effect from the 1 January 2018 to the Council of £384,250 per annum, with upward annual reviews linked to RPI, plus service charges for the running of the building and for cyclical maintenance of plant and equipment; and

(b) That in the event that the Fund vacates the building before the expiry of 25 years, it will pay the Council a sum equivalent to the total annual passing rent for the period beginning on the date of vacation of the building to the 25th anniversary of the date the Council 'purchased' the building (currently assumed to be 1 January 2043 and discount rate for NPV purposes 5.2%).

53. REVIEW OF INVESTMENT MANAGEMENT ARRANGEMENTS

The Assistant Director of Pensions, Investments, submitted a report and delivered a presentation in relation to the Fund's consideration of Investment Management arrangements and the appointments of the Fund's external active Securities Managers.

Mr Dickson of Hymans Robertson then delivered a presentation which gave details of Stage 3 of the Fund's review of the investment structure, with Stages 1 and 2 having been discussed at the Fund's July and September Panel meetings respectively.

Mr Dickson explained that Stage 2 had been the main element of the overall structure review and Stage 3 covered a number of areas relating to the Fund that did not directly sit within the main element. One of the main aims of Stage 3 was to highlight a number of areas for potential further analysis by the Fund, as follows:

Employer Framework
Panel Members were informed that recent ALM studies carried out on behalf of the Fund showed there was scope to develop specific investment strategies for specific employers and groups of employers. The criteria for separate investment strategies would be linked to the funding position and maturity of a given employer. It was recommended that a framework and policy be developed that set out; (a) when separate employer strategies were to be used; and (b) when bespoke solutions would be offered to employers.

Scenario Triggers
No immediate changes were proposed to the existing scenario triggers at this time. Instead it was recommended that the width of the ranges around the triggers be considered in more detail.

Special Opportunities Portfolio ('SOP')
Mr Dickson explained that Hymans Robertson supported the existing remit for the SOP and recommended adopting points of reference for making investments in the SOP. In time, as the Main Fund became more diversified and the exposure to yielding assets increased, there was scope to spin investments out of the SOP and into explicit allocations within the Fund. As a first step, a 5% allocation to private debt was recommended.

Environmental, Social and Governance ('ESG') considerations
It was recommended that a clear business plan be developed to deliver on ESG related aspects. Focus should be on two main elements: sustainable investment and effective stewardship.

Governance
Progress made in this area to date was supported, e.g. established business plan, defined objectives etc. The introduction of an annual review of the investments decisions that had been made over the preceding 12 months was recommended. This would provide a feedback mechanism to maintain efficient and effective decision making going forward.

Mr Moizer made reference to developing bespoke employer strategies and sought clarification that this would be fund led rather than employer led. Mr Dickson answered in the affirmative.

Ms Brown requested details of the returns on private debt to date, in the SOP. The Chair agreed that this information would be provided separately.

Mr Powers commented on the need to diversify, given the increased number of strategies, however expressed the view that this needed to be done in a way that did not overcomplicate the governance of the Fund going forward.

RECOMMENDED
As specified in the report.

54. LGPS PERFORMANCE UPDATE

David Cullinan of PIRC attended before Members and gave a presentation for training purposes, in respect of LGPS Investment Performance.

The presentation covered the following areas:

- Universe Results;
- Latest Year Results;
- Longer Term Results;
- Risk and Return;
- Northern Pool;
- Size Perspective; and
- GMPF in context.

The Chair thanked Mr Cullinan for an informative presentation.

RECOMMENDED
That the content of the presentation be noted.

55. PERFORMANCE DASHBOARD

Consideration was given to a report of the Assistant Director of Pensions, Investments, providing high level, investment performance information, including the value of the Pension Fund Investment Portfolio, the performance of the Main Fund, and the over/under performance of the external Fund Managers against benchmark.

The key information from the Quarter 3 Performance Dashboard was summarised. Global Equity markets had increased in value over the quarter, with Europe and Emerging Markets being the sand out performers. Volatility continued to be low relative to historical averages and returns from bond markets were mixed although Government bond yields ended the quarter higher. Total Main Fund assets had increased and continued to maintain an overweight position to equities and an underweight position to property.

On a cumulative basis, over the period since September 1987, the Main Fund had outperformed the average LGPS by over £3 billion and had outperformed its benchmark over the quarter and all periods (1, 3, 5 and 10 years) mainly due to stock selection. The active risk of the Main Fund was consistent at around 1% but risk in absolute terms (for both portfolio and benchmark) was lower than that observed historically. At the end of Quarter 3, each of the active managers had achieved positive performance on an absolute and relative basis over 1 year.

RECOMMENDED
That the content of the report be noted.

56. UPDATE ON INVESTMENT MANAGEMENT COSTS BENCHMARKING

Consideration was given to a report of the Assistant Director of Pensions, Investments, providing Members with an update on investment management costs.

RECOMMENDED
That the content of the report be noted.

57. REPORTS OF THE MANAGERS

The Chair introduced Stephen Lee, Jonathan Parker and Christine Baalham from Investec Asset Management, who would be presenting before Panel today.

Mr Parker began by outlining Investec's adopted a '4Factor' investment philosophy and process to managing GMPF's portfolio. Companies were scored against the four factors of; Strategy, Earnings, Technicals and Value. Those companies who scored highly against these were subject to detailed fundamental, bottom-up research by an experienced team of analysts and portfolio managers and reviewed on a weekly basis for possible purchase, which should drive portfolio outperformance in the long term. He added that results were improved when at least 3 out of the 4 factors had been performing.

Mr Parker went on to detail the current themes in the portfolio, the top five positive and top five negative stock contributions over the six month period to 30 September 2017 and sector positions and regional allocations were also outlined. He explained that the portfolio had achieved positive performance on both an absolute and relative basis over the 1 year period. The team remained confident in the 4 factor system as the best way to achieve outperformance in the long term.

Ms Baalham then gave a presentation in respect of gender diversity in Asset Management. Ms Baalham explained that, in general, business leadership lacked gender diversity with only 10% of executive and board positions within asset management being filled by women and just 9% of Fund Managers were women.

Ms Baalham further explained how diversity reduced the likelihood of 'group think' i.e. 'where the desire for harmony overrides rational decision making'; and how an inclusive workplace enhanced talent retention and business performance.
The ongoing work of Investec Asset Management to address diversity issues was outlined and the Investec Diversity principles were detailed and discussed.

In respect of gender diversity, Mr Moizer made reference to the outperformance of women at university level and questioned why this talent was not being recruited in the industry. He also commented on the definite male bias in the asset management industry, which made it difficult for women to succeed.

The Chair thanked Investec for a very interesting and informative presentation.

RECOMMENDED
That the content of the presentation be noted.

58. UPDATE ON GMPF'S APPROACH TO RESPONSIBLE INVESTMENT

The Assistant Director of Pensions, Investments, submitted a report giving details of a three-level framework, created by PIRC, specialist advisor to the Fund, which set out potential approaches to Responsible Investment for LGPS Administering Authorities.

The report contained details of the Fund's initial self assessment against the framework and highlighted potential actions to enhance the fund's approach.

A summary was also given of feedback from the Fund's Stewardship Event of 19 October 2017, which would also inform the Fund's approach to Responsible Investment.

Mr MacDougall of PIRC attended before Members and also commented on the self assessment of the Fund's status level against the framework and on the Stewardship Event.

Mr MacDougall explained that the Stewardship Event had been a unique and very successful day. He made reference to the feedback from the survey, in particular the relatively few negative comments on the Fund's carbon risk strategy and the massive support for the Fund's approach to investment in housing.

In response to questions from Members, the Director of Pensions explained that approximately 200 people attended the event and, to date, a quarter had completed the survey, with responses still coming in, which were being collated and processed.

RECOMMENDED
That the content of the report be noted.

59. PENSIONS ADMINISTRATION UPDATE

Consideration was given to a report of the Pensions Policy Manager providing an update on recent administration activities, in particular:

- Key work and projects progressed over the last quarter;
- Work planned for the next quarter;
- Comments on current workload and performance.

The report also gave details of an intended wide-ranging review of the administration section and its workloads, to be carried out over the coming months. This was to ensure the section was well placed to manage work effectively going forward. Further updates would be provided as work on the review progressed.
RECOMMENDED
That the content of the report be noted.

60. FUTURE TRAINING DATES

Trustee Training Opportunities were noted as follows:

Investec Trustee Training Day Location to be confirmed.	**4 December 2017**
Fundamentals Training Day 3 Park Plaza Hotel, Leeds	**5 December 2017**
LAPFF Annual Conference Highcliffe Marriott, Bournemouth	**6-8 December 2017**
CIPFA Barnett Waddingham Seminars for Local Board Members	**26 February 2018 – London 28 February 2018 – Wolverhampton 2 March 2018 - Leeds**
PLSA Investment Conference EICC Edinburgh	**7-9 March 2018**
PLSA Local Authority Conference Cotswold Water Park Hotel, Gloucestershire	**21-23 May 2018**
CIPFA Barnett Waddingham Annual Event for Local Board Members London	**27 June 2018**
PLSA Annual Conference Liverpool	**17-19 October 2018**

61. 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 March 2018
Local Pensions Board	14 December 2017 29 March 2018
Pensions Administration Working Group	19 January 2018 6 April 2018
Investment Monitoring & ESG Working Group	19 January 2018 6 April 2018
Alternative Investments Working Group	26 January 2018 13 April 2018
Property Working Group	2 February 2018 20 April 2018
Policy and Development Working Group	1 February 2018 22 March 2018
Employer Funding Viability Working Group	2 February 2018 20 April 2018

62. PRESENTATION TO RONNIE BOWIE AND PETER MOIZER

The Chair informed Members that Mr Bowie and Mr Moizer had each served 30 years as Advisors to the Fund. He thanked them both for their hard work, support and excellent advice over the years, which had undoubtedly contributed significantly to the success of the Fund.

The Chair then presented Mr Bowie and Mr Moizer with a gift.

Mr Bowie and Mr Moizer thanked the Chair and Members and responded in kind.

CHAIR

GREATER MANCHESTER PENSION FUND MANAGEMENT PANEL

17 November 2017

Commenced:	**9.30am**	**Terminated:12.30pm**
Present:	**Councillor K Quinn (Chair)**	
	Councillors: Barnes (Salford), Brett (Rochdale), Cooney, J Fitzpatrick, Grimshaw (Bury), Halliwell (Wigan), J Lane, Mitchell (Trafford), Pantall, (Stockport) S Quinn, Ricci, M Smith, Taylor, Ward and Ms Herbert (MoJ)	
Apologies for Absence:	**Councillors Patrick and Jabbar (Oldham). Mr Flatley (GMB)**	

40. CHAIR'S OPENING REMARKS

The Chair welcomed everyone to the meeting and announced that Mr Moizer and Mr Bowie had each served as Advisors to the Panel for 30 years. He thanked Mr Moizer and Mr Bowie for their long service and explained that this would be formally recognised with a presentation at the end of the meeting.

Members were informed that the Fund's value was currently £22 billion, an increase of over £400 million or 0.4 billion over the quarter since the last meeting of the Panel, and had more than doubled since 2010, when he had become Chair. It was noted that in the last 30 years, the Fund had achieved £3 billion above what would have been achieved if it had operated at the level of performance of the average Local Government Fund.

The Chair outlined key issues on the agenda, as follows:

- An update on pooling;
- The third and final stage of the 'root and branch' review of Investment Management arrangements;
- Training items on investment performance within the LGPS, followed by an update on Fund performance;
- An update on investment management costs;
- A presentation from Investec, Global Equities Manager for the Fund; and
- An update on the Fund's approach to Responsible Investment and feedback from the successful stakeholder day.

The Chair made reference to emails received by many Local Authorities across Greater Manchester regarding climate change and fossil fuel holdings. He described the ground-breaking investments being made in clean energy, which were vital to an orderly transition from fossil fuels to renewable energy, and, in terms of fossil fuel holdings, reaffirmed the Fund's commitment to using influence and engaging with companies to assess their business plans for alignment with a two degree warming scenario. He added that a draft response would be prepared.

41. DECLARATIONS OF INTEREST

There were no declarations of interest submitted by Members.

42. MINUTES

The Minutes of the proceedings of the meeting of the Pension Fund Advisory Panel held on 22 September 2017 were signed as a correct record.

The Minutes of the proceedings of the meeting of the Pension Fund Management Panel held on 22 September 2017 were signed as a correct record.

The Minutes of the proceedings of the Annual General Meeting held on 22 September 2017 were signed as a correct record.

43. 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**
8, 9, 10, 11, 12, 13, 14, 15, 16	**3&10, 3&10, 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.**

44. POLICY AND DEVELOPMENT WORKING GROUP

That the Minutes of the proceedings of the meeting of the Policy and Development Working Group held on 5 October 2017 were considered.

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

45. INVESTMENT MONITORING AND ESG WORKING GROUP

The Minutes of the proceedings of the meeting of the Investment Monitoring and ESG Working Group held on 13 October 2017 were considered.

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

46. PENSIONS ADMINISTRATION WORKING GROUP

The Minutes of the proceedings of the meeting of the Pensions Administration Working Group held on 13 October 2017 were considered.

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

47. ALTERNATIVE INVESTMENTS WORKING GROUP

The Minutes of the proceedings of the meeting of the Alternative Investments Working Group held on 20 October 2017 were considered.

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

48. EMPLOYER FUNDING VIABILITY WORKING GROUP

The Minutes of the proceedings of the meeting of the Employer Funding Viability Working Group held on 27 October 2017 were considered.

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

49. PROPERTY WORKING GROUP

The Minutes of the proceedings of the Property Working Group held on 27 October 2017 were considered.

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

50. MANAGEMENT SUMMARY

A report of the Director of Pensions was submitted and a presentation delivered.

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

51. LGPS POOLING UPDATE

A report of the Assistant Director of Pensions, Funding and Business Development was submitted.

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

52. FINANCING ARRANGEMENTS FOR GUARDSMAN TONY DOWNES HOUSE

A report of the Assistant Director of Pension, Local Investments and Property, was submitted.

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

53. REVIEW OF INVESTMENT MANAGEMENT ARRANGEMENTS

A report of the Assistant Director of Pensions, Investments, was submitted and a presentation delivered.

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

54. LGPS PERFORMANCE UPDATE

David Cullinan of PIRC attended before Members and gave a presentation for training purposes, in respect of LGPS Investment Performance.

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

55. PERFORMANCE DASHBOARD

A report of the Assistant Director of Pensions, Investments, was submitted.

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

56. UPDATE ON INVESTMENT MANAGEMENT COSTS BENCHMARKING

A report of the Assistant Director of Pensions, Investments, was submitted.

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

57. REPORTS OF THE MANAGERS

A report of the Assistant Director of Pensions, Investments, was submitted and a presentation of Investec Asset Management was delivered.

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

58. UPDATE ON GMPF'S APPROACH TO RESPONSIBLE INVESTMENT

A report of the Assistant Director of Pensions, Investments, was submitted.

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

59. PENSIONS ADMINISTRATION UPDATE

A report of the Pensions Policy Manager was submitted.

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

60. FUTURE TRAINING DATES

Trustee Training opportunities were noted as follows:

Investec Trustee Training Day Location to be confirmed.	**4 December 2017**
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62. PRESENTATION TO RONNIE BOWIE AND PETER MOIZER

The Chair informed Members that Mr Bowie and Mr Moizer had each served 30 years as Advisors to the Fund. He thanked them both for their hard work, support and excellent advice over the years, which had undoubtedly contributed significantly to the success of the Fund.

The Chair then presented Mr Bowie and Mr Moizer with a gift.

Mr Bowie and Mr Moizer thanked the Chair and Members and responded in kind.

CHAIR

GREATER MANCHESTER PENSION FUND

LOCAL PENSIONS BOARD

14 December 2017

Commenced: 3.00pm **Terminated: 4.45pm**

Present:	**Councillor Fairfoull (Chair)**	**Employer Representative**
	Councillor Cooper	**Employer Representative**
	Paul Taylor	**Employer Representative**
	Chris Goodwin	**Employee Representative**
	Catherine Lloyd	**Employee Representative**
	Pat Catterall	**Employee Representative**

Apologies for absence: **Richard Paver, Mark Rayner and David Schofield**

13. DECLARATIONS OF INTEREST

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

14. MINUTES

The Minutes of the meeting of the Local Pensions Board held on 24 July 2017, having been circulated, were signed by the Chair as a correct record.

15. UPDATE FROM GMPF MANAGEMENT PANEL

The Assistant Director of Pensions, Funding and Business Development, submitted a report summarising the decisions made by the GMPF Management Panel at its September and November meetings and the recommendations of six GMPF working groups, most of which had met twice over the period since the last Local Board meeting.

It was explained that Tameside MBC delegated its decision making in respect of GMPF to the Management Panel, which in turn permitted the Director of Pensions to implement its strategy via delegated powers. The Pension Fund Advisory Panel worked closely with the Management Panel, and advised them in all areas. Each local authority was represented on the Advisory Panel, and there were five employee representatives nominated by the North West TUC.

Four external advisors assisted the Advisory Panel, in particular regarding investment related issues. A key element was helping it to question the Fund's investment managers on their activities. GMPF also had six permanent working groups, which considered particular areas of its activities and made recommendations to the Management Panel. The Working Groups covered:-

- Alternative Investments;
- Policy and Development;
- Employer Funding Viability;
- Investment Monitoring and Environmental, Social and Governance (ESG);
- Pensions Administration; and
- Property.

The Panels and Working Groups met quarterly and the recommendations of each of the working groups from the meetings that had taken place since the last meeting of the Local Board, were set out in the report.

The Assistant Director highlighted the decision taken by the Management Panel at its meeting on 22 September 2017 in respect of the review of Investment Management arrangements and the approved continued appointment of UBS, L&G and Investec in their current mandates and the termination of the Fund's mandate with Capital International.

The Chair suggested that manager monitoring may be an area for consideration for Local Board going forward. The Assistant Director added that reports of the managers are submitted to the Management/Advisory Panel meetings, to which Local Board members had access.

RESOLVED
That the content of the report be noted.

16. LGPS POOLING UPDATE

The Assistant Director of Pensions, Funding and Business Development, 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.

It was reported that all pools were required to submit their pooling proposals to Government in July 2016 and progress updates on the delivery of these proposals were submitted in April 2017.

All pools received a letter from Government over the summer requesting submission of a further progress update covering the period to 30 September 2017. DCLG issued a template for the autumn progress update, which was very similar to the template for the submission made by pools in April.

The Northern Pool's progress report and supporting documents were appended to the report.

It was explained the main ongoing work streams for the Northern Pool were progressing well as follows:

- Developing a vehicle to make private equity investments on a collective basis. The governance of this was vehicle was expected to operate in a similar manner to the GLIL infrastructure vehicle.
- Procurement of an FCA regulated custodian for the pool. A review of how the pool could develop its risk, cost and performance reporting would be undertaken alongside the procurement.
- Work was underway to procure an FCA regulated operator for the GLIL infrastructure vehicle. This would allow other pools to join. GLIL currently had commitment of £1.3 bn to direct infrastructure in the UK, with investments of almost £300m made to date. There was currently little evidence of other pools having made significant progress on developing the capacity for direct infrastructure investments.
- The democratic services functions of each of the administering authorities were progressing the creation of the Pool joint committee, with Tameside MBC acting as lead authority. This joint committee would oversee the Pool and provide a democratic link back to the individual funds. The legal agreements setting out the governance framework of the Pool were not yet finalised as work was being undertaken to ensure that they were aligned with the governance framework of the private equity vehicle.

It was noted that Northern Pool costs to 30 September 2017 were approximately £200,000 compared to the original estimate of implementation costs which was £1.8 million

Details of GMPF's housing investments were included in the infrastructure section of the response to demonstrate progress against the Pool's target of building 10,000 homes. Up to 30 September 2017, GMPF had financed 284 completed homes, with a further 236 under construction. Due diligence was currently being undertaken on 9 further projects which would deliver another 3,863 homes. It was hoped that the rate of delivery could be increased via joint ventures with other funds in the Pool.

Following discussion with Jeff Houston of the LGA at the meeting of the Shadow Joint Committee held on 24 October 2017, the progress update provided further clarity for Government on how the plans for the Northern Pool had evolved since the July 2016 submission was made to Government and how, in the opinion of the participating funds, the pooling Criteria and Guidance were met. This was set out in the report and in an appendix to the report.

A update was also given of developments nationally, of the 8 pools across the LGPS.

In respect of Governance arrangements, the Assistant Director informed Board members that it was expected that a report be submitted to the meeting of Full Council in February 2018, setting out the governance arrangements of the Northern Pool.

Detailed discussion ensued in respect of the above and the Pooling agenda in general and it was agreed that the governance arrangements for the Northern Pool be submitted to the next meeting of the Local Board, following its consideration by Full Council.

RESOLVED

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

(ii) That a report be submitted to the next meeting of the Local Board in respect of the governance arrangements for the Northern Pool.

17. LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985 – 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
7 & 8	**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.**

18. FINANCING ARRANGEMENTS FOR GUARDSMAN TONY DOWNES HOUSE

A report of the Assistant Director of Pensions, Local Investments and Property, was submitted, advising Members that an opportunity existed for the Fund to 'sell' Guardsman Tony Downes House to the administering authority and for the Pension Fund to be the tenant on a long lease-type of arrangement.

The report explained how this could bring financial advantages to both parties.

It was further explained that if the Council were to take ownership of the building on its balance sheet and receive rent from the Fund for its occupation, as opposed to it being a Fund investment owned by Tameside as administering authority, there would be a financial benefit to both the Fund and Council. This was essentially due to the cost of capital for the Pension Fund (i.e. its expected rate of return being higher than the rate at which the Council could borrow and much higher than the return than the Council received on its reserves).

Discussion and negotiation had been carried out between officers with a joint desire to find an arrangement that offered reasonable financial returns for each party. The Council and the Pension Fund had jointly commissioned an independent valuation of the building. The indicative value was around £14-£15psqft for the office accommodation and £7 million for the capital value. A copy of the formal confirmation from the external valuer was appended to the report.

Members were further informed that the ground floor had not yet been developed. It was originally planned that the Pension Fund would pay to bring the ground floor into use but given that the expected occupier would be the Council, and it would be the landlord under the proposed financing arrangement, then it would be more appropriate for the Council to carry out the necessary works (the alternative would be for the Pension Fund to carry out works and for the Council to pay a higher price for the building). At this stage it was recommended that a sum of £1.4m be set aside in the capital investment programme for these works. A future report would be considered by the Council if the sale was approved. The development of the ground floor was beneficial to the Fund's occupation from a security and public realm perspective.

From Tameside's perspective as the administering authority for GMPF, it was a major risk that occupation of Guardsman Tony Downes House by GMPF would not be secured in the form of a binding lease agreement. This was because the Council could not enter into legal agreements with itself. There was the possibility that at some point over the next 25 years the Pension Fund no longer wished to occupy the building. In order to protect its position, the Council would be seeking a commitment from the Pension Fund that if it moved out of Guardsman Tony Downes House it would pay Tameside Council a sum equivalent to the NPV of the total annual passing rent for the period beginning on the date of vacation of the building to the 25th anniversary of the date the Council 'purchased' the building (currently assumed to be 1 January 2043 and discount rate for NPV purposes 5.2%).

The proposal had been tested with the external auditor for the Fund and Council and they did not object to the proposals in principle, but it would be confirmed with them when final terms were agreed.

The report concluded that the construction of the Pension Fund building had been completed broadly on time and on cost and the building had been well received.

The environment since the original plan for the financing of the building and the use of the ground floor space had changed significantly.

The options of the Council taking the building onto its balance sheet and charging GMPF a rent for use whilst GMPF completed ground floor space in advance of the specific occupier fit out requirements had a number of compelling advantages

- Provided a practical solution for use of remaining space within the building;
- Provided a financial benefit to the Fund; and
- Provided a financial benefit to the Council.

The rationale and implications of this proposal had been discussed with the Council's and Fund's auditors. Neither auditor had objected to the proposal set out in the report in principle, subject to final confirmation of terms.

The Assistant Director explained that, when the report was submitted to the Management Panel, Members had sought assurances in respect of contingency plans in place should the building not be occupied for 25 years. Fund Advisers had also sought further information in respect of this issue. Panel Members had been informed that, in those circumstances, the Fund would pay the outstanding rent discounted by investment returns and that a quasi lease was to be drawn up to include an early termination clause.

Local Board members sought clarification with regard to availability of the building for community use. The Assistant Director responded that at the present time the public space was vacant and there was a commitment from the Administering Authority that £1.4 million would be set aside for the development of the public space.

RESOLVED
That the recommendations approved by the GMPF Management Panel on 17 November 2017 be noted as follows:

The sale of Guardsman Tony Downes House for £7.0 million to the administering authority, Tameside Metropolitan Borough Council, be approved and the Fund committing:

(a) To the payment of an annual rent with effect from the 1 January 2018 to the Council of £384,250 per annum, with upward annual reviews linked to RPI, plus service charges for the running of the building and for cyclical maintenance of plant and equipment; and

(b) That in the event that the Fund vacates the building before the expiry of 25 years, it will pay the Council a sum equivalent to the total annual passing rent for the period beginning on the date of vacation of the building to the 25th anniversary of the date the Council 'purchased' the building (currently assumed to be 1 January 2043 and discount rate for NPV purposed 5.2%).

19. FIRST BUS CONSOLIDATION

Consideration was given to a report of the Assistant Director of Pensions, Funding and Business Development, explaining that First Group, one of GMPF's largest private-sector employers had chosen to consolidate its two other English LGPS arrangements into GMPF with effect form 1 November 2017.

The report provided an update on progress in relation to the project, including:

- Administration;
- Asset Transfers;
- Funding;
- Pre 86 pension increase liabilities transferring from WYPF; and
- Press coverage.

In terms of next steps, it was explained that whilst many of the key administration tasks had been completed, significant work would continue over the forthcoming year. In particular, GMPF would continue to work on the following:

- Reaching agreement with WYCA and WYPF on the funding of the pension increases on pre 1986 service for first West Yorkshire members;
- Amending the First West Yorkshire member records to clearly split out the pre-1986 pension increase amounts in advance of the 2019 actuarial valuation so that liabilities could be accurately allocated between First West Yorkshire and WYCA;
- Agreeing longer-term investment strategy with First Group; and
- Agreeing asset transfer dates and transfer amounts with WYPF.

RESOLVED
That the content of the report be noted.

20. ADMINISTRATION BUSINESS AND PROJECT PLANS

A report of the Pensions Policy Manager was submitted providing Local Board members with a summary of:

- Progress made on the 2017/18 business planning objectives set by the Administration section;
- A summary of the other strategic or service improvement administration projects being worked on currently; and
- Regular and other items of work currently being undertaken by the section.

Local Board Members thanked Emma for the very informative and detailed report and sought further information in respect of the testing of the disaster recovery arrangements.

Members also sought clarification with regard to issues arising from Pensions Tapering and Scheme Pay rules. The Pensions Policy Manager, responded that this was a key item for consideration and improving communication on this matter was being addressed.

The Chair enquired if risk exercises were undertaken for new projects. The Pensions Policy Manager responded in the affirmative.

RESOLVED
That the content of the report be noted.

21. GUARANTEED MINIMUM PENSION RECONCILIATION

Consideration was given to a report of the Pensions Policy Manager providing the Local Board with background information about Guaranteed Minimum Pension (GMP) Reconciliation together with an update on the progress made by GMPF on this project.

The report summarised that this was a large-scale and reasonably long-term project. Work was underway and tasks were being completed in-line with the target dates set.

There were a number of risks and issues to be managed as part of carrying out the project. These included addressing the underpayments and overpayments that would be uncovered.

The project team were aware of the possibility for HMRC to change their guidance around GMP Reconciliation and that this could affect decisions already taken or potentially cause the Fund to revise its approach.

Progress updates would continue to be taken to future Pension Administration Working Group meetings until the project was completed in December 2018.

RESOLVED
That the content of the report be noted.

22. RISK MANAGEMENT AND AUDIT SERVICES 2017/2018

Consideration was given to a report of the Head of Risk Management and Audit Services summarising the work of the work of the Risk Management and Audit Service for the period to November 2017.

Details were given of final reports issued during the period as follows:

- Review of Fund Manager – Investec
- Advance Contributions Scheme
- Visits to Contributing Bodies – National Probation Service (NPS)
- Private Equity

Draft reports were also issued as follows:

- GM Property Venture Fund – Review of First Street Development
- VAT

Details were also given of post audit reviews completed in the period as follows:

- Visit to contributing Bodies – Manchester Airport
- Visit to contributing Bodies – Stockport College

Details were also given of other work carried out in the period, including the Transfer of First bus to Greater Manchester Pension Fund.

Audits/work currently in progress were outlined as follows:

- Transfer of assets to Stone Harbor (New Credit Manager) and
- National Fraud Initiative exercise.

It was further reported that a report was taken to Council on 10 October 2017, providing an update on the appointment of the External Auditors. The Council agreed that it was satisfied with the proposed appointment of Mazars LLP to audit the accounts of Tameside Metropolitan Borough Council for five years from 2018/19, following the procurement process undertaken by Public Sector Audit Appointments Limited (PSAA). Official notification would be received in December confirming the appointment of Mazars. Once officially appointed, officers within the Council would work with both Grant Thornton and Mazars to ensure a smooth transition.

Local Board members were informed that discussions had taken place with managers in relation to the audits remaining in the Audit Plan, whether the timing was still appropriate for this year's plan and whether there are any new emerging risks and audits that needed to be added. Details of the days spent against the 2017/18 Internal Audit Plan up to 17 November 2017, including the adjustments to the plan, were appended to the report.

The Assistant Director of Pensions, Funding and Business Development, circulated a letter received from the Pensions Regulator in respect of administration and governance issues within the Scheme relating to members employed or previously employed by the National Probation Service. He explained that the Regulator had taken the decision to open a case to investigate these concerns and was seeking to gain a better understanding of the issues in order to determine the most appropriate next steps.

The Assistant Director also circulated a copy of his response to the Regulator, explaining that the key issue was caused by a payroll system error rather than officer error at SSCL (the employer). He added that he was confident with the assurance provided by the employer that they had sufficient plans in place to resolve the issue. However, GMPF would be working with them over the coming months to ensure any further work needed to prevent similar issues occurring again in the future was carried out. In addition, any actions linked to the internal audit work would be followed up and procedures would be reviewed and checks enhanced to identify where enhancements might be made.

RESOLVED
That the content of the report be noted.

23. DATE OF NEXT MEETING

It was noted that the next meeting of the Local Board would be held on Thursday 29 March 2018 at 3.00pm.

CHAIR

GREATER MANCHESTER PENSION FUND - INVESTMENT MONITORING AND ESG WORKING GROUP

19 January 2018

Commenced: 10.00 am **Terminated:** 11.20 am

Present:	Councillors Taylor (Chair), Ricci, Andrews, Brett, Grimshaw, Mitchell and Mr Allsop	
In Attendance:	Sandra Stewart	Director of Pensions
	Tom Harrington	Assistant Director of Pensions (Investments)
	Steven Taylor	Assistant Director of Pensions (Investments)
	Michael Ashworth	Investments Manager
	Abdul Bashir	Investments Manager
	Iain Campbell	Investments Manager
	Raymond Holdsworth	Investments Manager
Apologies for Absence:	Councillor Pantall	

In opening the meeting, those in attendance joined the Chair in a one minutes silence in memory of Councillor Kieran Quinn, Executive Leader of Tameside Council and Chair of the Greater Manchester Pension Fund, who sadly passed away on 25 December 2017.

20. DECLARATIONS OF INTEREST

There were no declarations of interest.

21. MINUTES

The Minutes of the Investment Monitoring and ESG Working Group held on 13 October 2017 were approved as a correct record.

22. LEGAL & GENERAL CORPORATE GOVERNANCE REVIEW

The Working Group welcomed James Sparshott and Sacha Sadan from Legal & General who attended the meeting to present their corporate governance activity over the last 12 months.

Mr Sadan told the Working Group that two new analysts had been appointed to the Sustainability and Responsible Investment Strategy team and there were two new non-Executive Director Roles in the Corporate Governance team.

It was reported that Legal & General achieved long-term returns for clients by using their scale to influence and change behaviour, by integrating ESG to make better investment decisions, by building trust and long-term relationships and escalating concerns where necessary.

Long term ESG topics were outlined and included: remuneration; diversity; and climate change. Legal & General had not abstained from voting on UK shareholder resolutions for six years and opposed the election of 89 UK board directors and 136 UK remuneration resolutions in 2016.

Legal & General were committed to encourage the transition to a low carbon economy for the long-term benefit of all companies and their investors and had engaged with the world's largest companies to address climate change on behalf of all L&G clients.

Two case studies were outlined and discussed with the Group.

A discussion ensued on diversity issues, climate change and audit tenure.

RECOMMENDED:
That the presentation be noted.

23. ROUTINE PIRC UPDATE

Alan MacDougall and Janice Hayward of PIRC Ltd, attended the meeting to present PIRC's report "2017 UK Annual Corporate Governance Review". The report provided an analysis of good corporate governance practice and proxy voting trends amongst the FTSE 350 during 2016/17.

It was reported that the key areas of PIRC's Annual Corporate Governance Review were:-

- Boards of Directors
- Executive Remuneration
- Audit Issues
- Capital Structure

Director elections and Board structure were a central element of annual general meetings with re-election for FTSE 350 companies being a requirement of the UK Corporate Governance Code. The review looked into board composition, focusing on AGM votes, gender diversity and tenure. Data showed that female representation in FTSE 350 firms increased by 1% but there had been no change to females in a leadership position and, similar to last year, only 7.7% of Executive Directors were women.

With regards to remuneration, data showed that the level of opposition on companies' remuneration reports was similar to the previous year and the majority of the FTSE 350 companies renewed their remuneration policy during the year, which was a marked increase compared to 2015/16. The average pay ratio of CEOs to average employees was slightly lower than the previous year.

In relation to audit, the review showed that the four biggest audit companies were responsible for auditing almost all of the FTSE 350 companies and highlighted the difference and similarities in terms of average tenure where there had been a positive reduction in tenure above 10 years. For the 2017 proxy season, PIRC had made the decision to withdraw support for share repurchase authorities unless a clear and cogent rationale was provided by the company.

In conclusion, PIRC vote recommendations had an impact on poor governance practices in the FTSE 350 market, by targeting the same resolution each year companies had responded by changing their approach.

RECOMMENDED:
That the report be noted.

24. INVESTMENT STRATEGY STATEMENT

The Assistant Director of Pensions (Investments) submitted a report, which considered comments received on the draft Investment Strategy Statement following a public consultation period. An updated draft Investment Strategy Statement was appended to the report.

It was reported that an interim Investment Strategy Statement had been agreed and adopted by Panel at their meeting of 10 March 2017 to reflect the 2016 Regulations. Following a detailed review, a draft Statement was considered and endorsed by the Working Group at their last meeting on 13 October 2017. A public consultation on the draft Statement was held in-between 19 October and 19 November 2017 and members of the public were able to submit any comments or feedback via a form on the website.

The Fund received 30 responses to the consultation, 29 of which related to climate change, with the main focus being for the Fund to reduce or divest its holdings in fossil fuel companies, and one related to poverty and the Living Wage. A number of Greater Manchester Councillors received template emails calling on the Fund to disinvest from fossil fuel holdings. A copy of the Chair of the Pension Fund's response was appended to the report. In addition to the public consultation the Fund held a Stakeholder Engagement event on 19 October 2017 at Gorton Monastery, which was an opportunity to learn about the Funds current approach to Responsible Investment and have an input into shaping the evolution of the future approach.

Following the public consultation and feedback from the Stakeholder event a number of changes were made to Section 9 of the draft Investment Strategy Statement.

RECOMMENDED:
That the Working Group endorses the updated draft Investment Strategy Statement and supports its adoption by the Panel.

25. CDP (FORMERLY THE CARBON DISCLOSURE PROJECT)

The Assistant Executive Director of Pensions (Investments) submitted a report outlining an invitation from the CDP, which was formerly the Carbon Disclosure Project (CDP), to become a signatory to four CDP information requests - the CDP, the CDP Water Disclosure, the CDP Carbon Action and the CDP Forest Footprint Disclosure.

It was reported that the CDP was an independent not-for-profit organisation, which held the largest database in the world of primary information on company policies and practices relating to climate change. The CDP sent out information requests to organisations on an annual basis. In order to encourage them to voluntarily respond, financial institutions were invited to become signatories to the information requests. Last year the Fund accepted an invitation to become a signatory.

RECOMMENDED:
That the working group accept the invitation to become a signatory subject to an annual administration fee of £745 plus VAT to the four Carbon Disclosure Project information requests outlined in the report.

26. UNDERWRITING, STOCKLENDING AND COMMISSION RECAPTURE

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

It was reported that Capital International did not participate in underwriting activity and the Fund did not participate in any sub-underwriting via UBS in the quarter ended September 2017. Stocklending income during the quarter was £92,926, compared to £104,568 in the same quarter of 2016, and Commission 'recaptured' was £16,969, compared to £31,148 in the same quarter of 2016.

The report outlined that income generated from these activities was 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.

27. UPDATE ON ACTIVE PARTICIPATION IN CLASS ACTIONS

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

A quarterly update explaining active Class Actions, which remain outstanding, was presented to Members, and recent developments relating to each action was provided.

It was reported that the Fund had recently joined litigation and, due to the short deadline for participation, approval to join the litigation was given by the Director of Pensions who had delegated authority under the Constitution.

RECOMMENDED:
That the report be noted.

28. URGENT ITEMS

There were no urgent items.

GREATER MANCHESTER PENSION FUND - PENSIONS ADMINISTRATION WORKING GROUP

19 January 2018

Commenced: 9.00 am **Terminated:** 10.05 am

Present:	Councillors J Lane (Chair), Patrick, S Quinn, Andrews, Brett, Grimshaw and Mr Flatley	
In Attendance:	Sandra Stewart	Director of Pensions
	Euan Miller	Assistant Director of Pensions (Funding and Business Development)
	Emma Mayall	Pensions Policy Manager
	Victoria Plackett	Pensions Operations Manager

In opening the meeting, those in attendance joined the Chair in a one minutes silence in memory of Councillor Kieran Quinn, Executive Leader of Tameside Council and Chair of the Greater Manchester Pension Fund, who sadly passed away on 25 December 2017.

23. DECLARATIONS OF INTEREST

There were no declarations of interest.

24. MINUTES

The Minutes of the Pensions Administration Working Group held on 13 October 2017 were approved as a correct record.

25. SCHEME ADDITIONAL VOLUNTARY CONTRIBUTIONS

The Assistant Director of Pensions (Funding and Business Development) submitted a report detailing the review of Scheme Additional Voluntary Contributions. A report from benefit consultants JLT had been commissioned, which considered the GMPF arrangements in the context of the current landscape for defined contribution pensions and the changes to legislation in this area in recent years. A copy of JLT's report was appended and considered by the Working Group.

A representative of JLT attended the meeting and discussed the conclusions of the report and potential next steps. The current scheme had been compared against modern workplace pension arrangements and other Additional Voluntary Contribution providers in terms of online functionality, member services, investments, access to pension freedoms and value for money.

The Working Group were notified that Prudential were reducing their fund charges, with the exception of the 'Cash Deposit' fund and the 'With Profits' fund, which was currently the default fund. The recommendations of the review were to liaise with Prudential regarding the potential to improve value for money for members and to review investment objectives and the suitability of 'With Profits' as the default fund.

RECOMMENDED:
That the report and the content of the presentation be noted.

26. AQUILA HEYWOOD UPDATE

The Pensions Policy Manager submitted a report, which provided the Working Group with an update from the Fund's main pension software supplier, Aquila Heywood, for the period July to December 2017, a copy of the report was appended.

It was reported that Aquila Heywood had appointed a new Chief Executive Officer and the Pensions Policy Manager had taken on the role of CLASS Group Chairperson. Preparations were underway for testing and implementing the next Altair software release to be issued in early 2018 and GMPF and Aquila Heywood were working on a number of projects together, including the implementation of Java Payroll and Enhanced Admin to Payroll functionality.

RECOMMENDED:
That the report be noted.

27. CIPFA BENCHMARKING

The Pensions Policy Manager submitted a report, which detailed the costs associated with GMPF's administration function for 2016/17, as calculated following CIPFA benchmarking guidelines.

Key points of comparison between the Fund and other LGPS funds for 2016/17 were highlighted. The cost per member for the Fund was below average at £16.83 per year, placing GMPF at the mid to lower end of the spectrum, although this was an increase on the previous year's figure of £15.26. The indirect costs were higher than average, mainly due to higher accommodation costs and other central charges such as facilities management, payroll and HR costs. A time analysis of the Fund's total costs since 2012 was appended to the report, which showed that GMPF's costs had remained stable over a number of years.

It was reported that the number of funds participating in the CIPFA exercise continued to decrease and only 32 LGPS funds participated this year (compared to 37 last year). Assessing GMPF's position relative to other funds was becoming increasingly difficult as fewer funds took part. Officers were aiming to work with colleagues from the other metropolitan funds to investigate other options for benchmarking going forward.

Members requested a comparison against GMPF's pooling partners (Merseyside Pension Fund and West Yorkshire Pension Fund). It was confirmed that Merseyside did not participate in the CIPFA benchmarking exercise and officers would provide Members with a comparison against West Yorkshire.

RECOMMENDED:
(i) That the report be noted; and
(ii) That GMPF work with colleagues from other metropolitan funds to investigate other options for benchmarking going forward.

28. ADMINISTRATION BUSINESS & PROJECT PLANS

The Pensions Operations Manager submitted a report, which provided a summary on the progress made on the 2017/18 business planning objectives, other strategic or service improvement projects currently being worked on, objectives and projects identified for the 2018/19 plan and regular or topical items of work currently being undertaken by the section.

It was reported that in March 2017 six key business plan items were established for the administration section as follows:-

1. Guaranteed Minimum Pension Reconciliation
2. Year-end Processes
3. Employer Support
4. Business Continuity Plan and Disaster Recovery Provision
5. Data Cleansing
6. Member Communication

During the third quarter of the year work had focussed on Guaranteed Minimum Pension Reconciliation. The Year-end Process had ended and there remained a small number of minor tasks to complete. Various improvements had been made to the process such as holding webinars and applying the new escalation procedure, both of which had helped to increase the number of returns received by the deadline. Officers were continuing to work with employers to resolve a number of outstanding queries.

Work had commenced on Employer Support and Member Communication. Meetings had been held with all Local Authority employers and other employers where issues had been identified. The meetings identified problems with performance or other barriers to service delivery and a plan had been put in place to resolve the issues, which had proved successful. It was anticipated that the meetings would continue to be held. A new communications and engagement strategy was currently underway. In order to further deliver the work needed relating to both of these business plan items, the structure of the section needed to be reviewed and changes made to ensure it was best placed to progress the tasks.

With regard to Business Continuity Plan and Disaster Recovery Provision, work had commenced in November with an initial meeting with Tameside Council IT Department and detailed analysis of the possible options was being drafted for further consideration. Work on Data Cleansing had progressed and would continue.

The Working Group was informed that the section was also working on other strategic and service improvement projects as follows:- Valuation, Assumed Pensionable Pay Strategy, Trivial Commutation, Death Grant Process Review, Data and The Pensions Regulator, Enhanced Admin to Payroll Interface, Payroll Sign-off, Benchmarking and Key Performance Indicators, Java Payroll, First Bus Transfer and General Data Protection Regulation.

The key business plan items and projects for 2018/19 were outlined as follows:-

1. Structure Review and Staff Engagement
2. Employer Support
3. Member Communication
4. Altair Developments and Workflow Reform
5. Move to Monthly Pay and Contribution Returns

A number of existing projects would continue into 2018/19, namely General Data Protection Regulation, Business Continuity Plan and Disaster Recovery Provision, Data and The Pensions Regulator and Guaranteed Minimum Pension Reconciliation. This was in addition to the establishment of three new projects: 2018 Year-end Processing, Preparation for the 2019 Valuation and Tax and Pension Savings Statements.

With regards to regular work items the report contained a performance record of the Pensions Administration section for the 12 months ending November 2017, performance of the ten Local Authorities in respect of notification of new starters and early leavers and a table of outstanding tasks, which detailed the age of the tasks in relation to their completion date. It was reported that since the previous meeting of the Working Group officers had held meetings with Manchester City Council, Trafford MBC and The Chief Constable of Greater Manchester to discuss issues with employer performance, GMPF performance and what challenges employers are facing. Feedback had been positive and outstanding tasks from most of the Local Authorities had reduced significantly.

RECOMMENDED:
That the report be noted.

29. THE PENSIONS REGULATOR (TPR)

The Pensions Policy Manager submitted a report updating the Working Group on work currently being undertaken relating to The Pensions Regulator's Code of Practice 14.

It was reported that a project plan, as appended to the report, had been established in order to conduct an annual review of compliance with the Code and to take into account the new guidance that had been issued by The Pensions Regulator in September 2017. Four work streams, that grouped together related tasks, had been created to be progressed before 31 May 2018:-

- Reviewing and updating Code of Practice 14 compliance
- Data improvement plan
- Recording and reporting breaches of the law
- Annual report information

The Code required that all breaches in the law were logged and reported to The Pensions Regulator where appropriate. GMPF had logged a number of breaches of the law so far during 2017/18, which were detailed in the report. The Pensions Regulator had contacted GMPF in December 2017 regarding a potential breach in the law by one of its employers. A copy of the letter was appended to the report and officers had provided information to The Pensions Regulator to assist them with their investigations.

RECOMMENDED:
That the information contained within the report be noted.

30. COMMUNICATION ACTIVITIES

The Pensions Operations Manager submitted a report detailing the communication activities undertaken by the Fund over the last quarter. Website statistics, data on emails and telephone calls to the Helpline, Twitter statistics and information on roadshows and presentations over the period were appended to the report. The main communication related tasks for the next quarter related to preparations for issuing P60s and the annual Grapevine newsletter to pensioners.

It was reported that work on developing a new communication and engagement strategy had continued over the last quarter and the latest version of the document was appended to the report. The document outlined the core values on which the strategy was to be based, the purpose of the strategy and it listed GMPF's stakeholders. A continual improvement team was examining customer service and feedback and had begun to identify gaps in GMPF's current procedures. The team were also developing a questionnaire that could be issued to employers to try and establish the number and type of complaint received.

RECOMMENDED:
That the report be noted.

31. GENERAL DATA PROTECTION REGULATION

The Pensions Operations Manager submitted a report, which provided the Working group with an overview of the new General Data Protection Regulation, an update on a legal opinion obtained by the Local Government Association and confirmed the work currently being undertaken to ensure GMPF's compliance.

It was reported that the new General Data Protection Regulation rules would strengthen data protection requirements by introducing new contractual obligations, increase the amount of information that needed to be given to individuals, enhance reporting obligations in the event of a breach and impose heavier sanctions for non-compliance. It had been confirmed that the General Data Protection Regulation would apply in the UK from 25 May 2018.

It was further reported that a number of LGPS funds had approached the Local Government Association for advice and guidance on the impact of General Data Protection Regulation. A legal opinion had been sought and issued to funds in November 2017, which provided clarity on certain aspects (a copy was appended to the report).

In order to ensure GMPF were compliant with the General Data Protection Regulation, a project team had been established who were concentrating on four key work streams as follows:-

1. Planning and preparation
2. Data identification and associated documentation
3. Data discovery, retention and communication
4. Assurance and review

Full project plans and timelines for the four work streams were appended to the report and outlined to the Group.

RECOMMENDED:
That the report be noted.

32. GUARANTEED MINIMUM PENSION RECONCILIATION

The Pensions Policy Manager submitted a report, which provided the Working Group with an update on the Guaranteed Minimum Pension Reconciliation project including statistics on the reconciliation matches and mismatches as at mid-December 2017.

It was reported that the project team had continued to investigate mismatches and had started to submit queries to HMRC. The team were on schedule to complete the investigation of all high and medium priority mismatches by the end of February 2018 and fortnightly progress meetings were being held. Resource requirements for investigating low priority errors needed to be considered once HMRC responses to queries had been received.

An updated project milestone plan and statistical analysis of the number of matches, mismatches and queries were appended to the report and explained to the Group.

RECOMMENDED:
That the report be noted.

33. FIRST BUS TRANSFER

The Pensions Policy Manager submitted a report, which provided the Working Group with an update on the First Bus Transfer, specifically in respect of the 'implementation' and 'communication' work streams.

It was reported that the tasks relating to the two work streams had been completed. Member data from the ceding two funds had been successfully transferred into the GMPF Altair database in October 2017 and new members were paid for the first time in November 2017. Additional

Voluntary Contribution provision was also successfully agreed and the associated tasks had been completed. In relation to 'communication', Pensioners were sent a letter two weeks before their first payment was due confirming that their November 2017 payment would be paid by the Fund. Deferred and contributing members were sent a letter in November and December 2017 confirming that GMPF was the administering authority for their First Bus pension.

It was further reported that an internal post-project review meeting had been held in November 2017 to identify learning points and a similar meeting had been held with Aquila Heywood. Although the work had been completed there were some additional tasks to be completed linked to the 'governance' work stream, firstly the completion of admission arrangements and secondly assisting to identify and quantify the liabilities relating to First West Yorkshire members that remain attributable to West Yorkshire Combined Authority as a result of a historic agreement.

Final project milestone plans for the 'implementation' and 'communication' work streams were appended to the report.

RECOMMENDED:
That the report be noted.

34. URGENT ITEMS

There were no urgent items.

GREATER MANCHESTER PENSION FUND - ALTERNATIVE INVESTMENTS WORKING GROUP

2 February 2018

Commenced: 11.00 am **Terminated:** 12.35 pm

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

In Attendance:	Sandra Stewart	Director of Pensions
	Tom Harrington	Assistant Director of Pensions (Investments)
	Steven Taylor	Assistant Director of Pensions (Investments)
	Neil Cooper	Senior Investments Manager
	Nigel Frisby	Investments Manager
	Raymond Holdsworth	Investments Manager
	Nick Livingstone	Investments Manager

Apologies for Absence: Councillors Ricci and Barnes

Those in attendance joined the Chair in a one minutes silence in memory of Councillor Kieran Quinn, Executive Leader of Tameside Council and Chair of the Greater Manchester Pension Fund, who sadly passed away on 25 December 2017.

15. DECLARATIONS OF INTEREST

There were no declarations of interest.

16. MINUTES

The Minutes of the meeting of the Alternative Investments Working Group held on 20 October 2017 were approved as a correct record.

17. INFRARED CAPITAL PARTNERS

The Working Group welcomed Sandra Lowe of InfraRed Capital Partners who attended the meeting to present an overview of the firm's investment activities and of infrastructure generally.

The Working Group was informed that InfraRed Capital Partners was an independent, global investment manager focused on infrastructure and real estate. The business started in 1990 as part of Charterhouse Bank, investing initially in real estate and expanded to encompass infrastructure in 1997. In 2000, the business was acquired by HSBC and became, when the team completed its spin-out in 2011, was re-branded as InfraRed.

The firm had over 130 professionals operating out of offices in London, Hong Kong, New York, Sydney and Seoul. The team managed over $10 billion of equity across a number of global funds, had launched 17 funds and realised six of these. GMPF committed to InfraRed's first institutional infrastructure fund in 2001 and had subsequently committed to other funds, including one that closed in March 2017.

InfraRed had developed a strong approach to Responsible Investment and was firmly committed to Environmental, Social and Corporate Governance best practice as they believed such principles and sustainable investing were fundamental drivers of long term investment performance. InfraRed was also a signatory to the Principles of Responsible Investment and its infrastructure business had achieved an A+ rating.

The types of projects that InfraRed invested in fell within three main investment themes:-

1. Transportation, economic, social infrastructure
2. Renewable, low carbon energy generation
3. Energy-supporting infrastructure

InfraRed had an extensive and proven track record in adding value throughout every step of the investment cycle, from sourcing through to exit.

A case study was outlined and discussed with the Working Group.

RECOMMENDED:
That the information provided be noted.

18. ABERDEEN STANDARD INVESTMENTS - GLOBAL ABSOLUTE RETURN STRATEGIES FUND (GARS)

The Working Group welcomed Fraser Macnair and David Bint of Aberdeen Standard Investments who attended the meeting to present an overview of its Global Absolute Return Strategies Fund activities and investments generally.

Standard Life Investments merged with Aberdeen Asset Management in August 2017 to become Standard Life Aberdeen, one of the world's largest investment companies, and the largest active investment manager in the UK. Aberdeen Standard Investments was the initial brand of the investment businesses of the merged company and was located in Edinburgh with key locations globally. The firm was a long term responsible investor and Environmental, Social and Governance factors were embedded across its investment processes.

GMPF invested in the Global Absolute Return Strategies Fund in January 2016, which had a target of Cash + 5% per annum over a rolling three year period with low volatility. With robust and comprehensive risk controls it provided greater stability when compared to traditional equity-heavy portfolios. There were four broad components: market, security selection, relative value and directional, each of which were explained to the Group.

The investment performance of the Global Absolute Return Strategies Fund was presented. The gross return to GMPF since investment was 2% per annum, which was below the target of Cash + 5%. The key reasons for this relative underperformance were outlined. Since 2016 the performance of the fund had recovered and was now performing broadly in line with the long term target. Two case studies were detailed and discussed with the Working Group.

RECOMMENDED:
That the information provided be noted.

19. URGENT ITEMS

There were no urgent items.

GREATER MANCHESTER PENSION FUND - EMPLOYER FUNDING VIABILITY WORKING GROUP

2 February 2018

Commenced: 10.00 am **Terminated:** 11.00 am

Present:	Councillors J Fitzpatrick (Chair), Cooney, Patrick, Jabbar, Mitchell, Mr Allsop, Mr Flatley and Mr Llewellyn	
In Attendance:	Sandra Stewart	Director of Pensions
	Paddy Dowdall	Assistant Director of Pensions (Local Investments and Property)
	Tom Harrington	Assistant Director of Pensions (Investments)
	Euan Miller	Assistant Director of Pensions (Funding and Business Development)
	Steven Taylor	Assistant Director of Pensions (Investments)
	Tracey Boyle	Head of Pensions Accountancy
	Emma Mayall	Pensions Policy Manager

17. DECLARATIONS OF INTEREST

There were no declarations of interest.

18. MINUTES

The Minutes of the Employer Funding Viability Working Group meeting held on 27 October 2017 were approved as a correct record.

19. BESPOKE EMPLOYER INVESTMENT STRATEGIES

The Working Group welcomed William Marshall and Barry McKay of Hymans Robertson who attended the meeting to present the analysis conducted to date on bespoke employer investment strategies and outline the proposed next steps and key areas of focus over the coming months.

It was reported that investment strategy could be considered in terms of 4 key components: equities, enhanced yield (collectively known as 'growth assets'), credit (i.e. income) and hedging and protection. It was explained that growth, income and protection were the core building blocks that were used for the Main Fund and would be adopted for the bespoke investment strategy. Three charts detailing liability profiles of different groups of employers were shown and explained to the Group. The charts had been produced using output from the 'Asset Liability Modelling' work undertaken.

Mr Marshall told the Group that the structure needed to be manageable and meet existing governance demands. In theory, employers could be offered differing combinations of the three core building blocks. However, consideration needed to be given to the number of strategies offered to employers. With the Fund having over 900 employers with differing characteristics, a generic strategy was unlikely to be suitable for all employers. It was advisable to follow a framework and group employers that shared similar features such as employer type, funding target, whether they were open or closed to new entrants and the maturity of their liability profile. Diagrams showing the current framework and the proposed framework were shown and explained to the Group.

An overview of the analysis carried out to date was provided. A table detailing a summary of the sample employers considered was outlined alongside a table summarising the potential changes in investment strategies that would maintain a strong probability of achieving full funding by 2036 and reducing the risk of a shortfall emerging at a future actuarial valuation. There was evidence that suggested that some employers would benefit from an investment strategy with lower risk.

Examples were given on a range of investment strategies that would achieve a good balance between retaining the Main Fund as the highest risk / highest expected return component, offering employers a way to manage their risks (both in terms of a growing deficit and keeping contributions affordable) and retaining a pragmatic offering.

The next steps were outlined and included:-

- Consideration of what the structure of the offering would look like, taking into account the number of strategies, degree of flexibility, employer groupings, governance process and communications.
- Consideration of the nature of the underlying components (protection and income).
- Consideration of the practical aspects of running more than one strategy including cash flow management and banking.

RECOMMENDED:
That the content of the presentation be noted.

20. GMPF ADMINISTRATION EXPENDITURE MONITORING STATEMENT FOR THE 8 MONTHS TO NOVEMBER 2017

The Assistant Director of Pensions (Local Investments and Property) submitted a report comparing the administration expenses budget against the actual results for the eight months to November 2017.

It was reported that there was an under-spend of £2.23 million against the budget of £18.951 million. The main reasons for the variation related to lower than expected investment management fees, lower than expected professional and legal costs associated with the ongoing pooling exercise and lower than budgeted staffing costs.

RECOMMENDED:
That the report be noted.

21. GMPF EXPENDITURE BUDGET 2018/2019

The Assistant Executive Director of Pensions (Local Investments and Property) submitted a report seeking approval for the GMPF 2018/19 expenditure budget, which would be sent to the Management Panel along with a medium term financial plan.

It was reported that the budget had been compiled following a review of current staffing and contractual arrangements alongside projected requirements for 2018/19. The budget would feed into the Medium Term Financial Plan, which reflected the Funding Strategy Statement. The assumptions were the same as the previous year with the Fund investment return at 4.2% per annum over the long term and inflation based on the Consumer Price Index Bank of England forecast.

The report detailed the changes in the 2018/19 budget compared to the 2017/18 budget. The changes reflected the implementation of policies approved by the Management Panel including changes to investment management arrangements, which made up the vast majority of the changes. Other changes included staffing costs, a reduction in charges associated with premises and a reduction in actuary and professional fees.

RECOMMENDED:
(i) That the 2018/19 expenditure budget be approved; and
(ii) That the medium term financial plan be presented at the Management Panel.

22. GMPF AGED DEBT AS AT 19 DECEMBER 2017

The Assistant Director of Pensions (Local Investments and Property) submitted a report summarising the aged debt for the Fund as at 19 December 2017. Aged debt typically consisted of rent arrears from tenants of GMPF property, outstanding contributions and overpayment of pensions to members, which had not yet been repaid.

A summary of debt across the four separate areas of Property Main Fund, Property Venture Fund, Employer Related and Overpayment of Pensions was detailed. A 'red' status was currently in place for Employer Related aged debt as the outstanding amount was above the agreed threshold of £100,000. The largest component of Employer Related aged debt was unpaid contributions, much of which was in respect of strain costs associated with early retirement or member transfer. It also included fees for the production of actuarial work and administration fees charged to newly admitted bodies to the Fund.

The report detailed all aged debt (31 days and over) as at 19 December 2017 alongside comparison to the previous quarter; total aged debt was £3.369 million at 19 December 2017 compared to £2.647 million at 19 September 2017. The majority of this debt related to invoices issued to participating employers in the Fund. Payment plans had been agreed for some of the outstanding debt.

The key trends were highlighted; property aged debt had decreased from £0.367 million at September 2017 to £0.264 million at December 2017 and Employer and Overpaid Pension Aged Debt had increased from £2.279 million to £3.106 million. Although debt had increased there had been a significant reduction in the long term outstanding debt aged over 150 days.

For the 12 months to December 2017 5.08% of debt was outstanding, the proportion of the debt considered at risk of non-payment was 0.4%. Tables which showed the highest value invoices within the Employers, Property Main Fund and the Property Venture Fund category were appended to the report and were discussed with the Group.

RECOMMENDED:
That the report be noted.

23. INSOLVENCY REGIME FOR FURTHER EDUCATION AND SIXTH-FORM COLLEGES

The Assistant Director of Pensions (Funding and Business Development) submitted a report that outlined the consultation for the insolvency regime for further education and sixth form colleges.

It was reported that during 2016 the Department for Business, Innovation and Skills undertook a consultation on developing an insolvency regime for the further education and sixth form college sector. A copy of GMPF's response to the 2016 Consultation was appended to the report. Following the consultation, the Technical and Further Education Act 2017 received Royal Assent. The Government was now preparing draft secondary legislation to implement the Act and a further consultation document had been issued, which sought to explain the insolvency provisions established by the 2017 Act, outline the proposals for the technical detail of the regime and set out practical proposals for dealing with colleges at risk of or in insolvency. It was proposed that GMPF submit a similar response to that given to the 2016 consultation.

Whilst there were no specific references to pensions in the consultation, LGPS funds would be one of the biggest creditors for many colleges and therefore had a material interest in the insolvency regime. GMPF had 11 sixth form college employers and 10 further education colleges participating in the Fund generally. The sixth form colleges were relatively well funded in GMPF therefore contribution rates were towards the lower end of the range and total liabilities were approximately 0.3% of GMPF in total. The average funding level for further education colleges was 94% and the total value of liabilities was around 2.5% of GMPF total liabilities. It was important for GMPF to consider the potential impact of the new insolvency regime and whether any mitigating actions needed to be implemented.

RECOMMENDED:
That the report be noted and a response to the consultation be submitted.

24. URGENT ITEMS

There were no urgent items.

GREATER MANCHESTER PENSION FUND - PROPERTY WORKING GROUP

2 February 2018

Commenced: 9.00 am **Terminated:** 9.55 am

Present:	Councillors J Fitzpatrick, J Lane, M Smith, Ward, Grimshaw, Halliwell, Mr Allsop and Mr Drury	
In Attendance:	Sandra Stewart	Director of Pensions
	Paddy Dowdall	Assistant Director of Pensions (Local Investments and Property)
	Tracey Boyle	Head of Pensions Accountancy
	Daniel Hobson	Senior Investments Manager
	Andrew Hall	Investment Manager
	Misodzi Dent	Investment Officer
Apologies for Absence:	Councillors S Quinn and Barnes	

ELECTION OF CHAIR

RESOLVED:
That in the absence of the Chair, Councillor J Lane be appointed Chair for the duration of the meeting.

Councillor J Lane in the Chair.

Those in attendance joined the Chair in a one minutes silence in memory of Councillor Kieran Quinn, Executive Leader of Tameside Council and Chair of the Greater Manchester Pension Fund, who sadly passed away on 25 December 2017.

15. DECLARATIONS OF INTEREST

There were no declarations of interest.

16. MINUTES

The Minutes of the meeting of the Property Working Group held on 27 October 2017 were approved as a correct record.

17. MANAGEMENT SUMMARY

The Assistant Director of Pensions (Local Investments and Property) submitted a report, which provided an overview of property investment and a commentary on issues and matters of interest arising over the last quarter in relation to the Fund's property investments.

The allocations to property investments and their current weightings as at 31 December 2017 were outlined to the Group. It was noted that the pace of deployment in Property investment against its overall allocation continued to be considered carefully by the Fund's management team and its external investment managers and advisers. A meeting had been held with LaSalle and the investment managers for the balanced indirect investment taking into account the views of the Fund's investment advisers. It was concluded that:-

- The deployment of investment in property had not kept pace with allocation due to the strong performance of the Fund.
- GMPF needed a clear plan to meet its allocation to property investments in the medium term in all property portfolios.
- A pacing model for overseas investment had been approved by the Panel.
- LaSalle and the balanced indirect portfolios needed to be considered alongside each other.

Following consideration of these conclusions a draft four year pacing strategy had been produced across all portfolios, which would be reviewed on an annual basis (a copy of the strategy was appended to the report). It was intended to redeem the investments in indirect balanced funds over the medium term and for LaSalle to increase the deployment of investment to meet the targeted allocation. It was proposed that the pacing model form part of the Asset Allocation report to be considered by Panel in June 2018.

RECOMMENDED:
That the report be noted.

18. PROPERTY RELATED AGED DEBT AS AT 19 DECEMBER 2017

The Assistant Director of Pensions (Local Investments 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) as at 19 December 2017.

An overview of the debt position was given including a summary of debt across the two areas and totals. Total debt had decreased slightly from £0.368 million as at 19 September 2017 to £0.264 million as at 19 December 2017.

It was noted that procedures for collection of debt were complied with and were working well, Greater Manchester Property Venture Fund 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. It was reported that two of the ten highest value debtors in the Greater Manchester Property Venture Fund had paid their outstanding amounts, which demonstrated that the processes were working well. The policies for debt recovery were unchanged and there were currently no payment plans in place.

A risk profile was provided, which showed that across the two funds, raised debtor invoices totalled just over £35 million with 0.75% of this outstanding at 19 December 2017.

RECOMMENDED:
That the report be noted.

19. GVA QUARTERLY REPORT

The Working Group welcomed Jonathan Stanlake and Gareth Conroy of GVA who attended the meeting to present the GVA quarterly report for Quarter 4 2017. A report had also been submitted, which summarised the financial allocation to the committed projects and the indicative allocation required for projects currently undergoing due diligence. The report also contained an update on

progress achieved during the quarter and actions to be undertaken for the forthcoming quarter across all Greater Manchester Property Venture Fund development sites.
Mr Stanlake began by informing the Working Group that there had been a slight change in GVA's ownership structure in that they had separated from their parent company. This change would not affect clients and they would continue to deal with the same members of staff who would continue to work from the same office. An update on fire safety was provided. It was confirmed that a number of minor issues had been identified during the review of fire safety, which continued to be addressed by GVA, but there had been no inherent or structural problems identified.

A review of 2017 was provided and it was highlighted that £175 million had been invested in five sites over the year with 500,000 square feet of workspace created and 1,841 residential dwellings.

The presentation focussed on the performance of the Greater Manchester Property Venture Fund, 2018 priorities and the progress to date on new and existing opportunities. The investments were outlined to the Working Group and split into 'committed sites' 'advanced due diligence' and 'active review'. It was reported that there had been a significant increase in sites under 'active review' and 'committed sites' when compared to Quarter 4 2016. A year by year portfolio investment projection was shown, which detailed a steady increase to 2021 in capital deployed.

Charts detailing the portfolio overview by sector showed greater diversification over the four sectors (office, suburban residential, city centre residential and other) with a substantial increase in committed and pipeline sites. The 'committed sites' chart detailed an overweight position in terms of offices but this was equally split when 'pipeline sites' were taken into account. Members commented that there had been an increase in city centre residential and it was confirmed that this had been a priority area for the last few years. Officers added that The University of Salford were conducting a research paper on city centre residential development and the results would be shared with members in due course. Members enquired what types of developments were included in the other category. It was confirmed that the other category contained industrial, leisure and car parking developments.

Priorities for the forthcoming year were outlined and included a continued focus on residential investment in particular suburban opportunities, monitoring the city centre residential market, asset management of Greater Manchester Property Venture Fund investments to maximise income and development, monitoring debt and equity projects with partners, continuing to seek new opportunities in all market sectors and support the Greater Manchester economy. There had been one rejected opportunity during the quarter and the reasons for that rejection were outlined.

New and progressing opportunities were presented and discussed with the Working Group, including First Street Manchester, Circle Square, Chorlton, Island Site, Pomona Island Manchester and Globe Park Rochdale.

The report detailed financial performance information for each site to show the current market valuation when compared to the cost value to the Fund, together with the Internal Rate of Return from the date of acquisition, taking into account all income and expenditure to date. It was expected that sites would not show a positive return until development had been completed. A fee expenditure incurred on development activity during the quarter was also shown for each site.

The Working Group was also provided with a RAG (Red, Amber, Green) analysis showing the progress of development activity undertaken during the last three quarters to September 2017 and the current prediction on final viability.

RECOMMENDED:
That the report be noted.

20. LASALLE QUARTERLY REPORT

The Working Group welcomed Rebecca Gates and Tom Rose, La Salle Investment Management, who attended the meeting to present the GMPF main property portfolio quarterly report for Quarter 4 2017. An update was provided on portfolio composition and value, transactional activity, key estate management issues, including rent reviews, lease renewals and capital expenditure, and a general market overview.

Mr Rose began by providing a capital market dashboard for UK property. The overall risk assessment for the UK remained stable with a low probability of an imminent downturn. Potential economic and political risks remained with uncertainty surrounding the UK's departure from the EU with softening occupier demand. Market conditions were cautiously optimistic and seven of the nine Red, Amber, Green indicators were green (positive) with caution surrounding Retail Funds Capital Flows, although there were signs of improvement in this area and it was anticipated that the indicator would turn green. There were signs of potential disruption to Cumulative Investment Property Databank Real Capital Growth, which would be closely monitored.

With regards to portfolio performance, it was reported that the value of the portfolio had increased since the previous quarter and contained 49 assets with a value of £814 million, which increased to £976 million when commitments were included. The vacancy rate had decreased to 6.4%, which was below the benchmark of 6.8%, and the net initial yield was in-line with the market at 4.5%. It was confirmed that fire and safety assessments for all holdings were up to date and there was no aluminium cladding in the portfolio.

Ms Gates provided a definition for "the right retail". She told the Working Group that LaSalle chose to invest in accessible stores that were flexible and affordable and able to compete in a digital world. There were three types outlined, as below:-

- Experiential Destination
- Strong Urban Centre
- Convenience Centre

An update on portfolio progress was provided. There had been two acquisitions in "the right retail" and one sale during the quarter. In terms of asset management, over £400,000 had been added to annual rent, 30 new EPC ratings had been obtained and a number of lettings had been completed. There had been a continued focus on indirect holdings and progress during the quarter was outlined.

In conclusion, LaSalle would continue with a cautious investment approach focusing on alternatives and logistics and sell secondary assets. Work would continue on managing the existing portfolio and on the indirect exit programme.

RECOMMENDED:
That the report be noted.

21. URGENT ITEMS

There were no urgent items.

Report To:	**PENSION FUND MANAGEMENT PANEL / ADVISORY PANEL**
Date:	23 March 2018
Reporting Officer:	Sandra Stewart - Director of Pensions Emma Mayall - Pensions Policy Manager
Subject :	**PENSIONS ADMINISTRATION UPDATE**
Report Summary:	This report provides a summary of the work of the administration section over the last twelve months and the key tasks planned for the next year. In particular, it covers: - Achievements and key initiatives - Analysis and statistics - Future objectives
Recommendation(s):	That the Panel note the report and the intention to attain PASA Accreditation which is the gold standard for high-quality pensions administration within the next 6 months.
Financial Implications: **(Authorised by the Section 151 Officer)**	One of the key objectives of the administration section is to provide value for money, delivering a service that is both meeting its member's needs and its legal obligations whilst doing so in an efficient and cost-effective way.
Legal Implications: **(Authorised by the Solicitor to the Fund)**	Whilst striving to deliver a value for money service, GMPF must ensure compliance with the LGPS regulations and other relevant statutory guidance. It must also have regard to The Pension Regulator's Code of Practice and guidance.
Risk Management:	There are no key risks to highlight.
ACCESS TO INFORMATION:	**NON-CONFIDENTIAL** **This report does not contain information that warrants its consideration in the absence of the Press or members of the public.**
Background Papers:	Further information can be obtained by contacting Emma Mayall, Greater Manchester Pension Fund, Guardsman Tony Downes House, 5 Manchester Road, Droylsden Telephone: 0161 301 7242 e-mail: emma.mayall@gmpf.org.uk

1. BACKGROUND AND INTRODUCTION

1.1 This report provides a brief update on the work of the Pensions Administration section over the last twelve months.

1.2 Analysis and statistics of the Fund's membership and its employers is provided, along with details of the section's performance levels.

1.3 The report also confirms the key objectives set for the next twelve months.

2. ACHIEVEMENTS OVER THE LAST TWELVE MONTHS AND KEY INITIATIVES

2.1 Over the last twelve months, the Administration section has completed a number of projects and begun a number of key initiatives to ensure GMPF delivers a modern, efficient and value for money administration service. These are summarised in the table below:

PROJECT / INITIATIVE	COMMENTS
First Bus Transfer	The administration part of this project, which involved transferring the benefits of over 5000 members from the West Yorkshire Pension Fund and South Yorkshire Pensions Authority to GMPF, was completed successfully and on time. All new pensioner members were paid by GMPF for the first time in November 2017 and data cleansing was carried out on all records to ensure accuracy and compliance by March 2018.
Guaranteed Minimum Pension Reconciliation	Work on this large-scale project continues and is on course to be completed by the December 2018 deadline. This project involves reconciling over 253,000 data mismatches generated by comparing the Guaranteed Minimum Pension (GMP) data held by HMRC against GMPF's own records. Phase 1 of this project was completed at the end of February 2018, with work on phase 2 now commencing.
Year-end processes and the move to monthly returns	A number of improvements to the year-end pay and contribution returns exercise were made last year, including the application of a new escalation process and holding training webinars for employers. Development work has continued and further improvements have been put in place ready for 2017/18 year-end. In addition, discussions with the service's main software provider around electronic data transfer have continued and developments are planned that will enable GMPF to receive monthly returns from employers in the near future. This will be a key project for the section over the next twelve months.
Employer support	Support for employers has continued to increase and regular meetings or conference calls have been held with all large employers including all ten Local Authorities and the National Probation Service. Monthly bulletins continue to be issued by e-mail every month to provide employers with key information, reminders and updates on pension matters and an employer focus group was held earlier in the year that has helped to inform all aspects of employer support work.
Business continuity plan and disaster recovery provision	Work began in the autumn to revise the Fund's disaster recovery provision, in conjunction with Tameside MBC IT department. Options to ensure the Fund's IT infrastructure is hosted on modern and resilient platforms located in a high specification data centre are currently being explored.
TPR and Data cleansing	Work to ensure that GMPF meets the requirements of The Pensions Regulator (TPR) Code of Practice has continued. A new project was established in January 2018 to review all aspects of TPR compliance

	and explore new areas for improvement. In addition, GMPF has been working with colleagues at South Yorkshire Pension Authority to improve our methods of data cleansing, and with its main software provider to produce standard common and conditional data quality reports, the output of which can be reported to TPR annually.
Member communication	The Fund has continued to provide face-to-face support to members through holding regular roadshows, seminars held in conjunction with one of its partners, Prudential, and through its key stakeholder event 'Shaping Your Future' conference held in October. Feedback for all of these events was very positive and all have been very well attended. A Helpline service, member's website and Twitter feed continue to provide members with informative and topical information, alongside responding to individual member queries. Annual Benefit Statements and Pensions Savings Statements were issued on time. Work on developing a three-year communications strategy has also been undertaken.
GDPR	General Data Protection Regulations (GDPR) will come into effect in May 2018. Work to ensure the Fund is compliant is well underway, with all staff having received training and all processes being data mapped. Work will continue throughout the year to ensure steps are taken to further improve compliance and minimise risk.
Staff training and development	A staff training and development project was successfully completed ensuring that all induction, training and future progression plans were in place for all administration staff. All Managers have completed the Tameside MBC STRIVE leadership course. All Team Leaders and Senior Pensions Officers either have completed or are scheduled to attend, the STRIVE Aspiring Leaders course. Officers have also been working with the Fund's main software supplier on the development of on-line training modules. Finally, a Star awards recognition initiative is being put together to recognise and reward staff and teams that go 'above and beyond' when delivering the service.

Pensions Administration Standards Association (PASA) accreditation

2.2 The Pensions Regulator and the Department for Work and Pensions (DWP) have both identified that good administration can be demonstrated by independent accreditation. PASA Accreditation recognises the organisations in our industry who have evidenced compliance with the PASA Standards.

2.3 Attaining PASA Accreditation is the gold standard for high-quality pensions administration.

As a PASA Accredited organisation we will:

- Achieve public recognition of the quality of our operation and our commitment to continuous improvement;
- Gain a means to help trustees and clients discharge their fiduciary responsibilities, by "locking-in" to a recognised and credible framework;
- Demonstrate that the performance and capabilities of our administration service are in line with those of the highest-quality organisations providing pensions administration services;
- Differentiate yourself in the market and for our employers and members;
- Build a high-performing pensions administration team through the PASA framework and guidance.

2.4 Officers are currently liaising with colleagues at PASA, an organisation that exists to promote and improve the quality of pension administration services for UK pension schemes.

2.5 PASA introduced an independently assessed accreditation programme to recognise high standards of administration and GMPF will be working with PASA over the coming months in order to attain this accreditation.

3. MEMBERSHIP, EMPLOYER AND PERFORMANCE ANALYSIS AND STATISTICS

3.1 Detailed analysis of the Fund's membership profile, employer profile and administration performance levels are provided in **Appendix 1**.

3.2 Overall, membership of the Fund continues to grow. The trends in membership levels seen in recent years also continues as anticipated, with auto-enrolment having an impact of the number of contributing members, and the First Bus Transfer leading to a slightly higher than expected increase in the number of pensioners.

3.3 The number of new employers also continues to increase in line with that seen in recent years, with the majority of admissions being due to schools converting to academies.

3.4 Administration performance has also continued to improve, with the measurements against 28 key performance indicators improving for over half compared to the figures for the previous year.

3.5 Workloads from month to month can be volatile and the teams have excelled at agile working and collaboration in order to effectively deal with changes in volume. Temporary and flexible 'Data Quality Teams' have been used successfully to undertake one-off project workloads, such as those generated by the First Bus transfers and the GMP reconciliation project.

4. FUTURE OBJECTIVES

4.1 The key business plan objectives outlined below have been set for 2018/19 in order to reflect the work GMPF is doing to improve and transform how it delivers services to its members and other stakeholders.

SUMMARY TITLE	OBJECTIVES
Structure review and staff engagement	To review and revise the structure of the administration section to ensure it is best placed to manage current and anticipated future workloads and projects. In addition, to ensure that all members of the team are fully engaged to deliver the best possible service.
Employer support	To improve the support provided to all fund employers, including improved communication, training, website and reference material and exchange of information
Member communication	To improve and develop our communication methods and increase our use of on-line tools (such as MSS and on-line videos)
Altair developments and workflow reform	To maximise use of the Altair administration system, to ensure processes are as efficient as possible and enabling an excellent service to be provided to members. In addition, to review and reform the use of Altair workflow, to take advantage of system developments and improve management data output.

Move to monthly pay and contribution returns	To investigate a switch from receiving annual pay and contribution returns from employers to receiving them monthly, with a view to implementing this at some point in the future.

4.2 A number of existing projects will continue into 2018/19, including the following key projects that are currently underway:-

- GDPR
- Disaster Recovery and Business Continuity Planning
- The Pensions Regulator and data quality
- GMP Reconciliation

4.3 In addition, the following three new projects will be established:-

- 2018 Year-end processing
- Preparation for the 2019 Valuation
- Tax and Pension Savings Statements

5. CONCLUSION

5.1 A number of key projects and initiatives have been completed successfully over the last twelve months. Several other projects are underway and will be completed over the next twelve months.

5.2 GMPF will be working towards obtaining PASA accreditation over the coming months in order to gain independent recognition for its high standards of administration.

5.3 Membership and employer levels both continue to grow in line with expectations.

5.4 Overall, administration performance continues to improve and this is reflected in the analysis against 28 key performance indicators.

5.5 Business planning objectives have been set for the next twelve months with the aim of further improving and transforming GMPF's administration services.

6. RECOMMENDATION

6.1 As set out at the front of the report..

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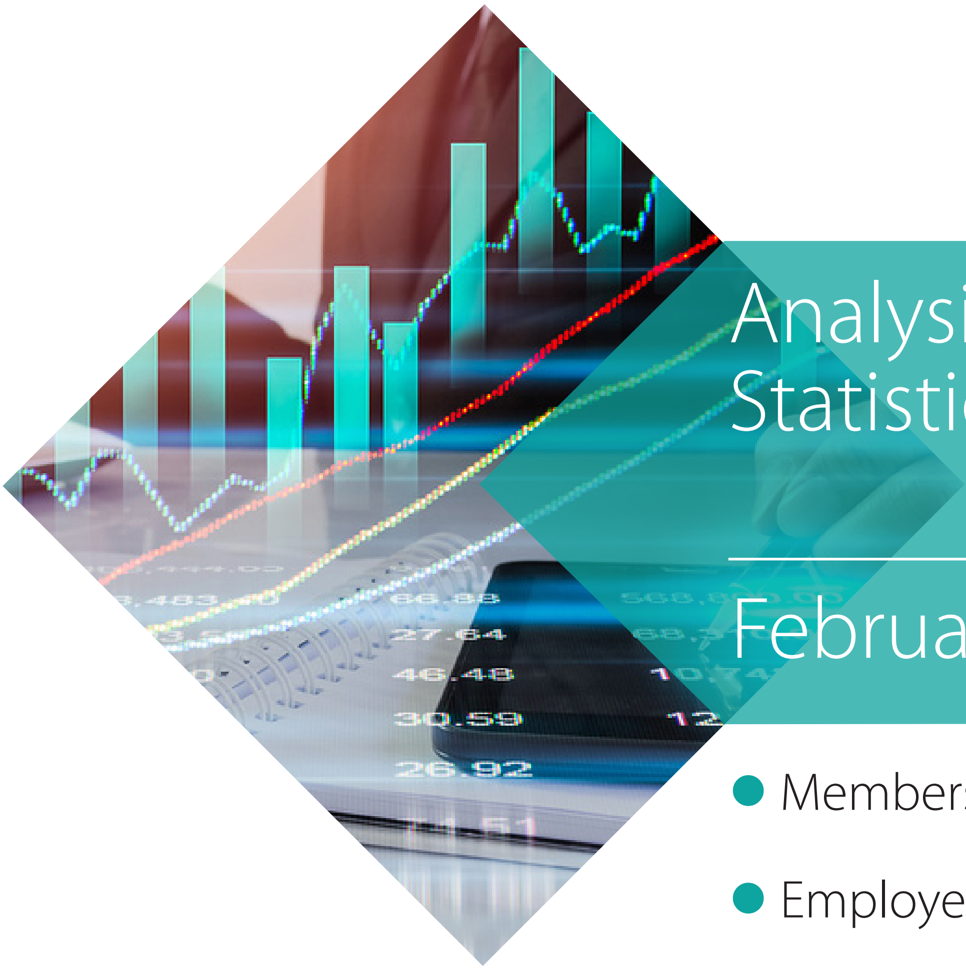


Analysis and Statistics

February 2018

- Membership
- Employers
- Administration performance

gmpf

Administered by

Tameside Metropolitan Borough

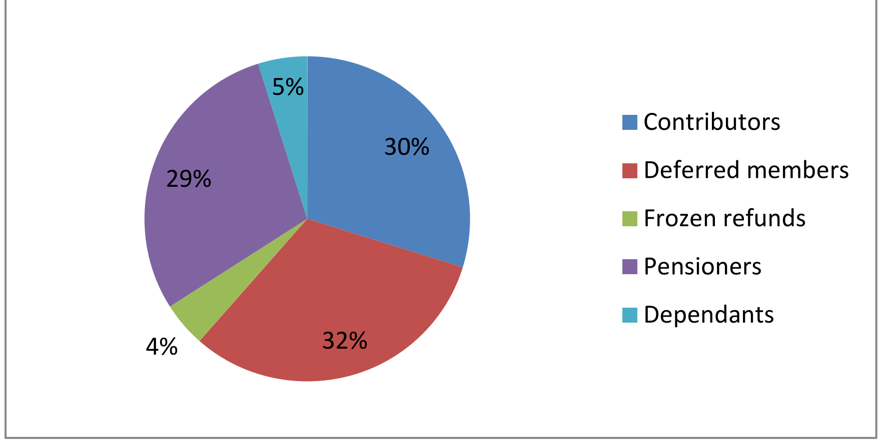
Membership analysis

- Overall, membership has continued to increase. There are more deferred members and pensioner members in GMPF than ever before.
- 5,806 members joined GMPF in November as part of the consolidation of First Bus liabilities. Records were transferred from West Yorkshire Pension Fund and South Yorkshire Pensions Authority
- The majority of the membership (68%) is female.
- Most contributing members (97%) pay a contribution rate of 6.8% or less
- The amount of annual pension being paid to the majority of pensioners is less than £5,000. 13% of pensioners receive a pension of £10,000 per year or more.

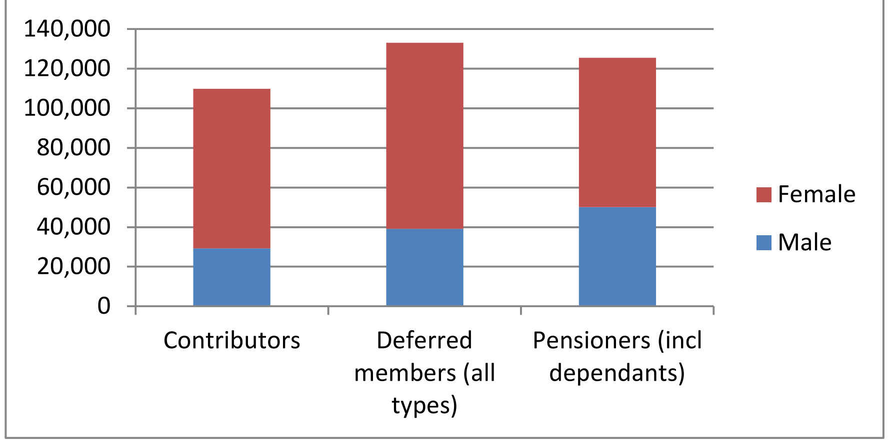
Key membership information at February 2018

368,469 Members with liabilities	**2.85%** Increase in membership over the past 12 months	**125,496** Pensions in payment
£5,465 Average annual pension in payment (excl. dependants)	**4,917** New pensions paid in the last twelve months	**21 years** Average time a current pension is in payment

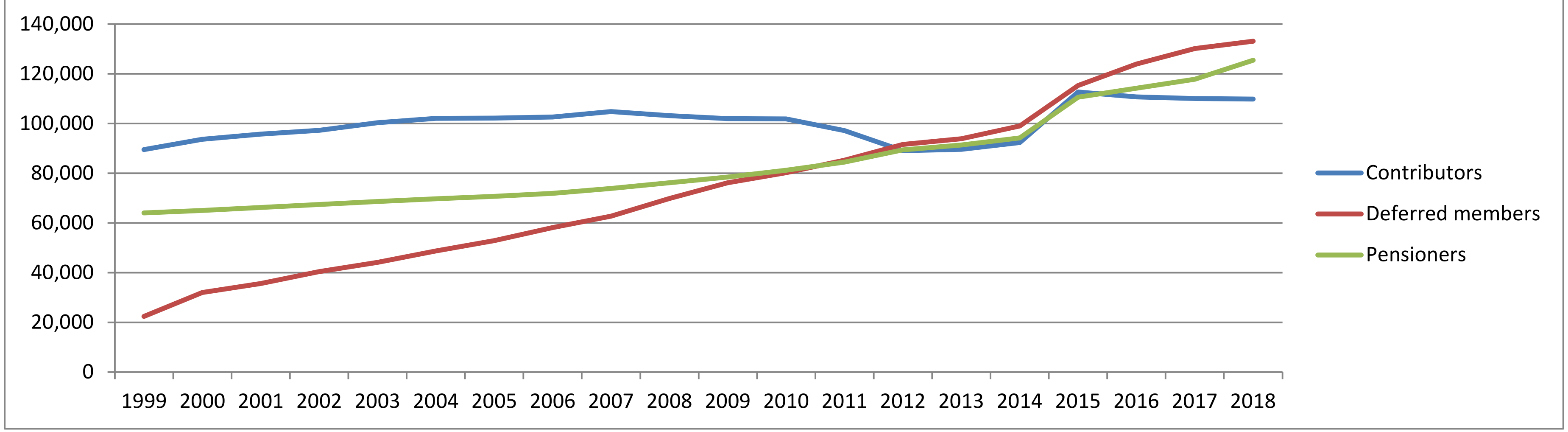
Membership statistics



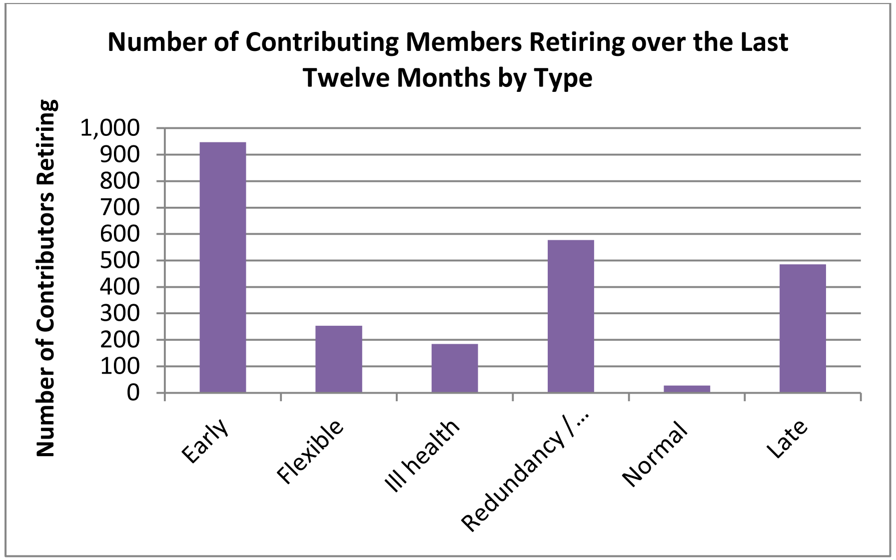
Current Membership by Type



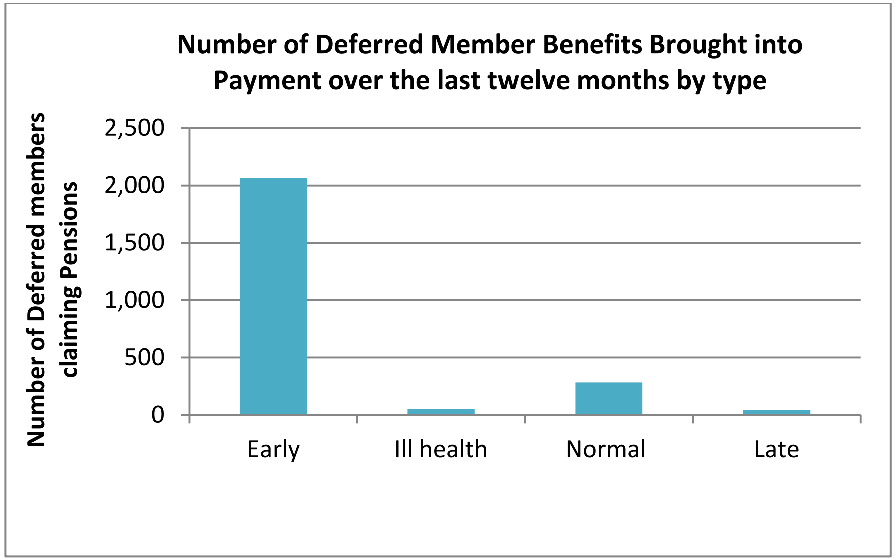
Current Membership by Type & Gender



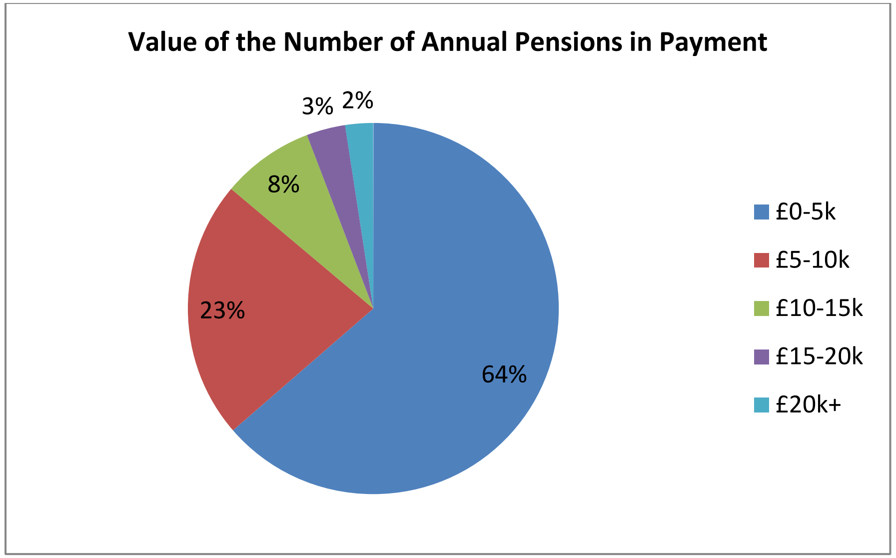
Historial Analysis of Membership over the Last 20 Years



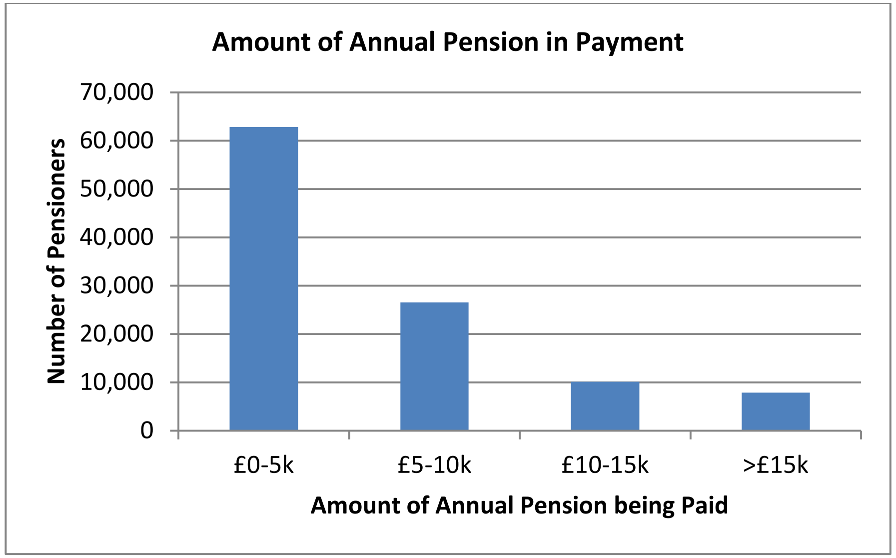
Number of Contributing Members Retiring over the Last Twelve Months by Type
Number of Contributors Retiring
1,000
900
800
700
600
500
400
300
200
100
0
Early
Flexible
Ill health
Redundancy / ...
Normal
Late



Number of Deferred Member Benefits Brought into Payment over the last twelve months by type
Number of Deferred members claiming Pensions
2,500
2,000
1,500
1,000
500
0
Early
Ill health
Normal
Late



Value of the Number of Annual Pensions in Payment
3%
2%
8%
23%
64%
£0-5k
£5-10k
£10-15k
£15-20k
£20k+



Amount of Annual Pension in Payment
Number of Pensioners
70,000
60,000
50,000
40,000
30,000
20,000
10,000
0
£0-5k
£5-10k
£10-15k
>£15k
Amount of Annual Pension being Paid

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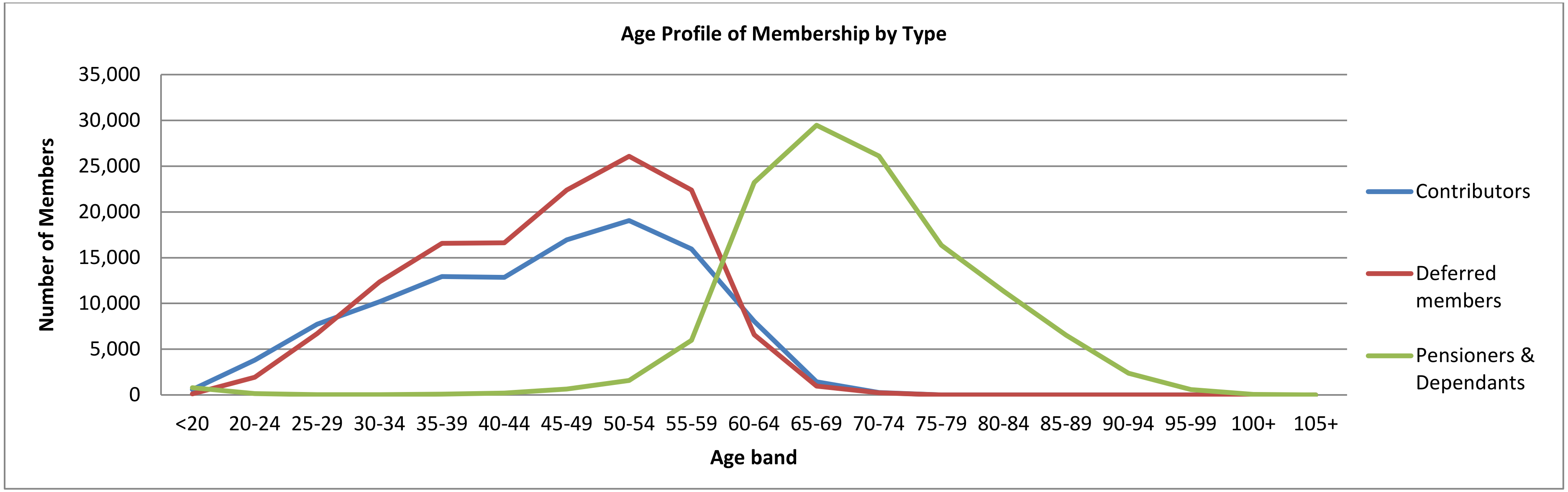
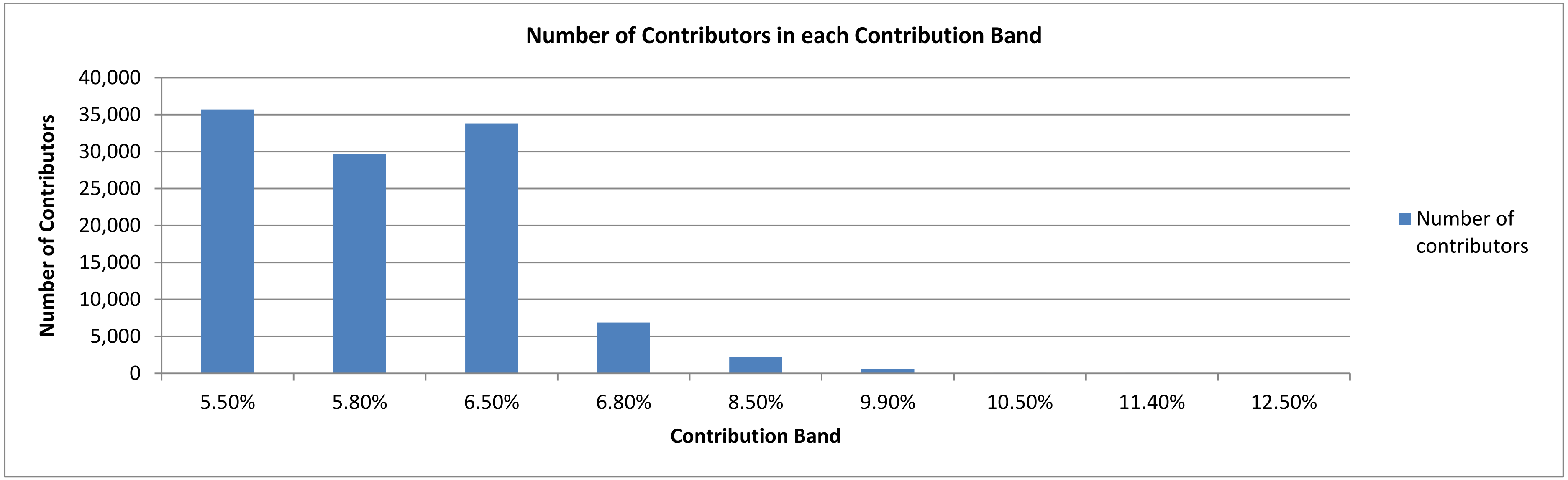

Age Profile of Membership by Type
Number of Members
35,000
30,000
25,000
20,000
15,000
10,000
5,000
0
<20
20-24
25-29
30-34
35-39
40-44
45-49
50-54
55-59
60-64
65-69
70-74
75-79
80-84
85-89
90-94
95-99
100+
105+
Age band
Contributors
Deferred members
Pensioners & Dependants


Number of Contributors in each Contribution Band
Number of Contributors
40,000
35,000
30,000
25,000
20,000
15,000
10,000
5,000
0
5.50%
5.80%
6.50%
6.80%
8.50%
9.90%
10.50%
11.40%
12.50%
Contribution Band
Number of contributors

Employer analysis

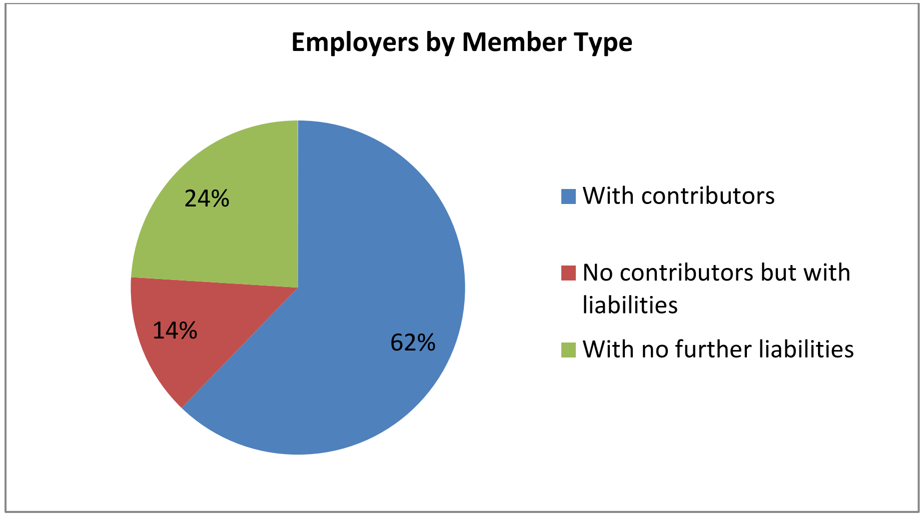
Employer analysis is carried out by allocating each admission an 'employer code'. One employer may have members recorded on several employer codes depending on the contract under which that member is employed or for reporting and analysis purposes. Therefore, 'employer' as referred to in this analysis actually means 'employer codes'.

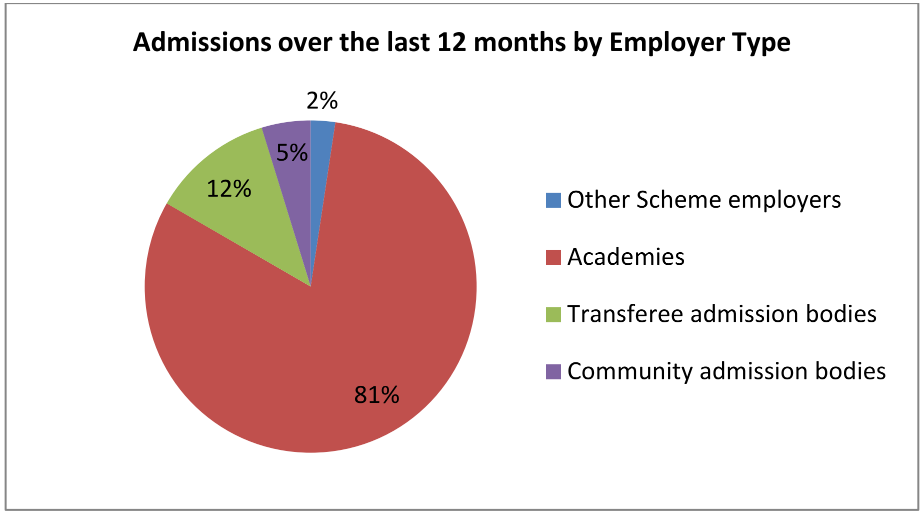
- The number of employers within the fund continues to increase, with 42 admission processes completed in the last 12 months.
- The majority of new admissions are due to schools converting to academy status.
- Just over half (54%) of contributing members are employed by one of the ten Greater Manchester Local Authorities.

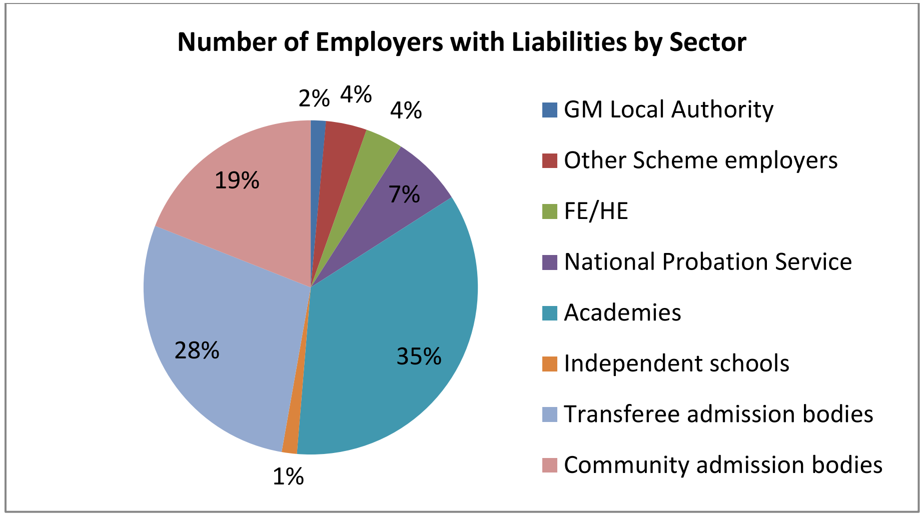
Key employer information at February 2018

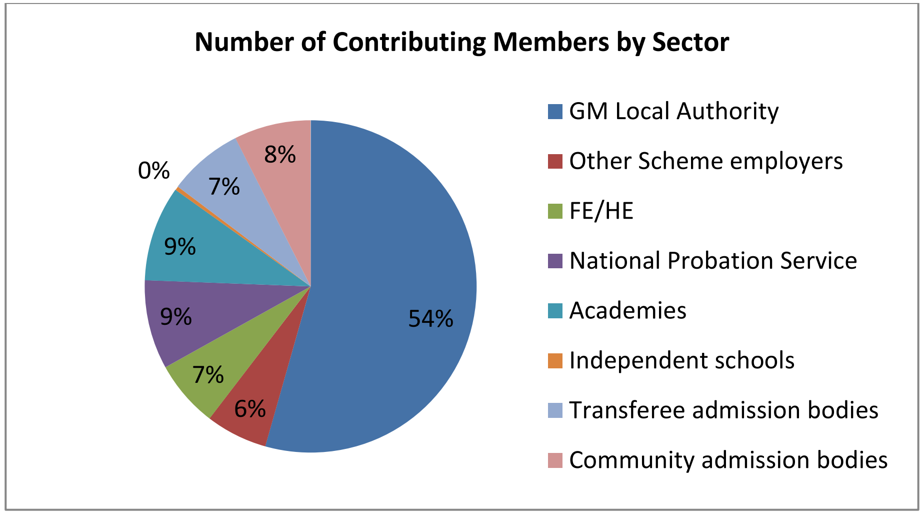
684 Employers who have members with liabilities	**560** Employers with contributing members	**42** Number of new employers admitted in the last twelve months
3 Employers who have terminated their admission the last twelve months	**54%** Contributors employed by a GM Local Authority	**9%** Contributors employed by Academies

Employer statistics









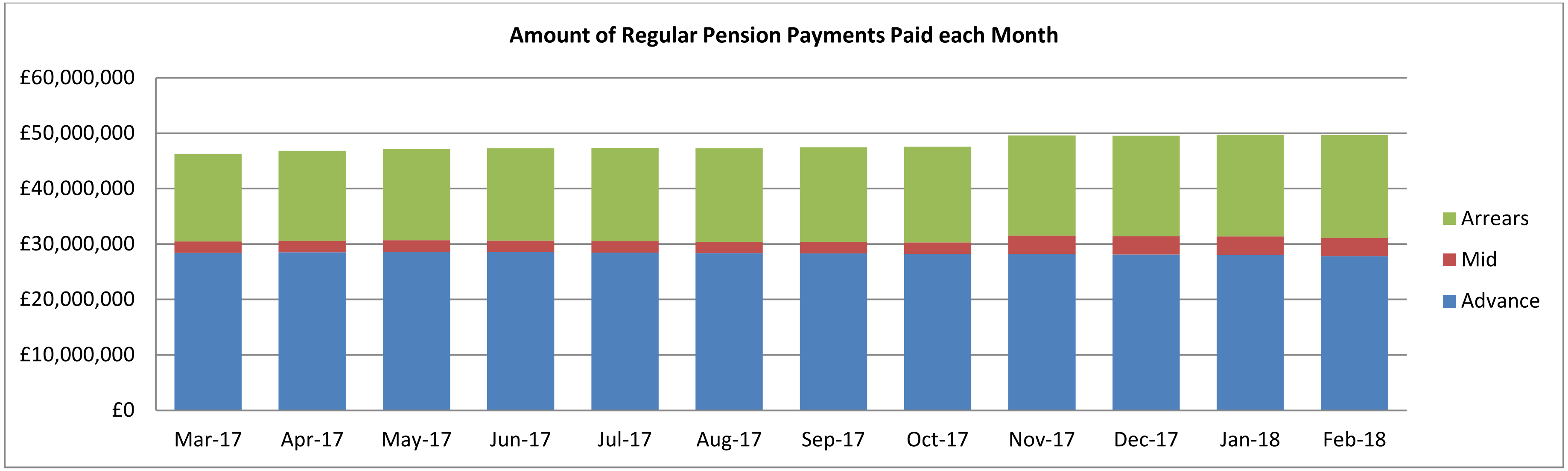
Administration performance analysis

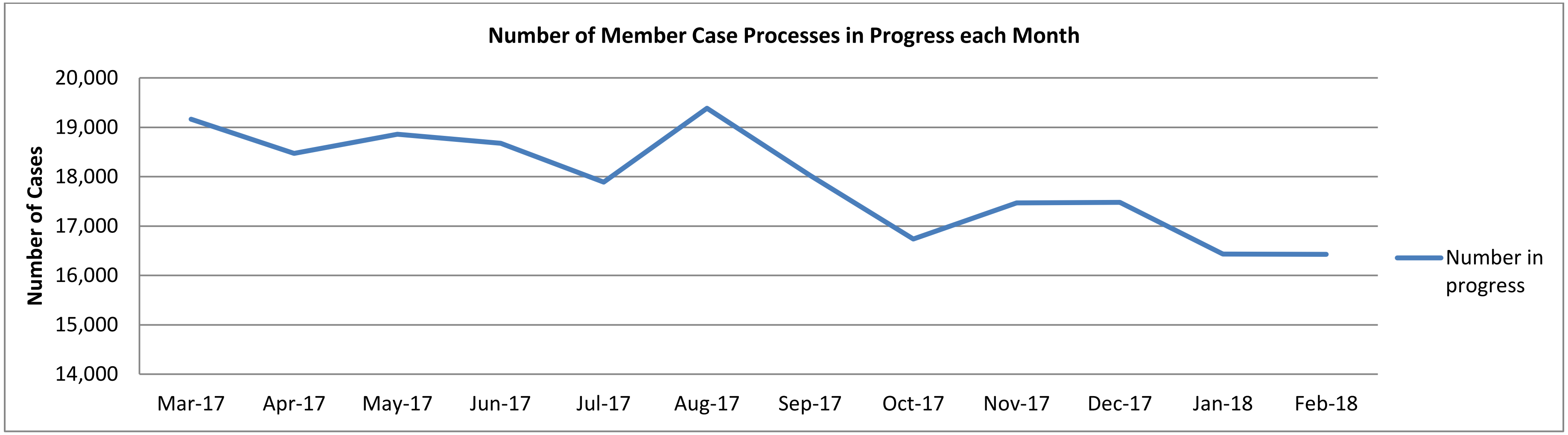
- Performance levels continue to improve and performance, as measured against 28 key performance indicators, show service delivery times improving year on year.
- GMPF pays out each month over £49m in regular pension payments. It also pays around £14m each month in one-off payments such as retirement lump sums, death grant payments, transfer values and refunds.
- There are currently around 16,000 member case processes in progress (so new joiner processes, leaver processes, retirements and so on).
- Over 253,000 mismatches analysed and over 53,000 cases individually reviewed since August as part of the GMP Reconciliation exercise. This project is currently on track to be completed in line with HMRC guidelines.

Key administration performance information at February 2018

£16.83 CIPFA Benchmarked cost of administration per member	**£49.7m** Amount of retirement pensions paid out in February 2018	**100%** Monthly pension payments paid on time
£50.6m Employer and employee contribution payments receipted in February 2018	**16,428** Current number of processes in progress	**253,049** GMP mismatches analysed

Administration performance statistics





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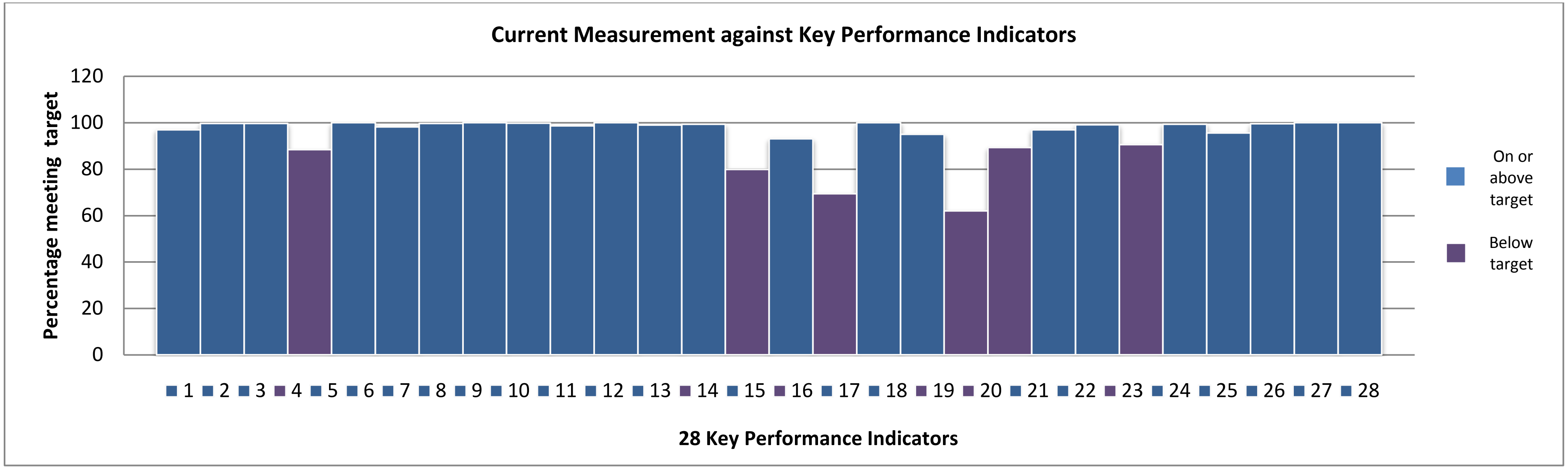
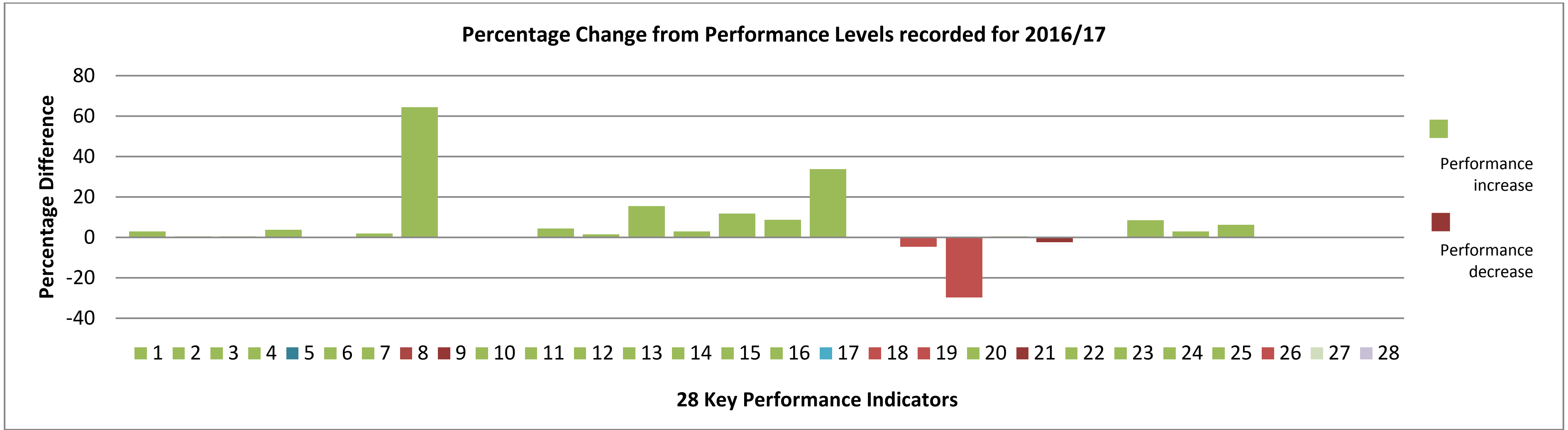
Key Performance Indicators – Measured at January 2018





Key Performance Indicators

Ref	Key Performance Indicator	12-month Compliance at January 18	Percentage difference to 2016/17
1	Written queries answered or acknowledged	97.0%	+3.0
2	New starters processed	99.7%	+0.5
3	Changes in details processed	99.7%	+0.6
4	Helpline telephone calls answered in office hours	88.4%	+3.8
5	Pensions forecasts for deferred members	100.0%	0.0
6	Pension forecasts for active members	98.2%	+1.9
7	Postings queries for employers issued	99.7%	+64.4
8	Technical guidance issued to employers	100.0%	0.0
9	Pension savings statements	99.8%	-0.2
10	Estimates for divorce purposes	98.6%	+4.5
11	Non LGPS transfers in processed	100.0%	+1.5
12	Non LGPS transfer out quotations processed	99.0%	+15.5
13	Non LGPS transfer out payments processed	99.3%	+3.1
14	Internal and concurrent transfers processed	79.9%	+11.7
15	Refund payments made	93.1%	+8.7
16	Deferred benefits calculated	69.4%	+33.8
17	Annuity quotations calculated	100.0%	0.0
18	APC illustrations calculated	95.0%	-4.6
19	AVC amendments noted on Altair	62.0%	-29.7
20	New retirements benefit options sent	89.3%	+0.6
21	New retirements processed for payment	97.0%	-2.4
22	Deferred benefits processed for payment	99.1%	+0.3
23	Notifications of death processed	90.6%	+8.6
24	Dependant's pensions processed for payment	99.3%	+3.1
25	Death grants processed for payment	95.6%	+6.3
26	Retirement lump sum processed for payment	99.6%	-0.1
27	Payments recalled due to death	100.0%	0.0
28	Changes to bank details made	100.0%	0.0

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Agenda Item 8

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Report to:	**PENSION FUND MANAGEMENT PANEL**
Date:	23 March 2018
Reporting Officer:	Sandra Stewart, Director of Pensions Tom Harrington, Assistant Director of Pensions (Investments)
Subject:	**THE GMPF "CORE BELIEF STATEMENT"**
Report Summary:	The Fund has its own Core Belief Statement (the "Statement"), which was developed after extensive consultation, and is now approaching ten years old. The current Statement was recently circulated to the Fund Managers, Investment Consultant and Advisors for feedback. This feedback has been incorporated into an updated draft Statement which is attached as an **Appendix**.
Recommendation(s):	That the Pension Fund Management Panel adopts the updated Statement.
Financial Implications: **(Authorised by the Section 151 Officer)**	There are no material direct financial implications as a consequence of this report.
Legal Implications: **(Authorised by the Solicitor to the Fund)**	Good decision making is fundamental to good governance. It is important to be able to justify and explain the balance of competing risks.
Risk Management:	Routine investment monitoring and consideration of investment issues facilitates timely action to address investment under-performance and changes in the world economic environment.
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 to this report may be inspected by contacting: Michael Ashworth, Investments Manager, on 0161 301 7257 (email: michael.ashworth@gmpf.org.uk).

1. BACKGROUND

1.1 The Fund has its own Core Belief Statement (the "Statement"), which was developed after extensive consultation, and is now approaching ten years old. At the time it was first drafted, there were relatively few other models, and the Fund was the first LGPS fund to adopt such a statement.

1.2 Whilst it is recognised that the Statement has not been formally reviewed for some time, this reflects the nature of the content, which is not expected to change radically. In that context, there is consensus that the Statement has stood the test of time, and helped to guide and permeate the investment decisions that the Fund has taken.

1.3 Going forward, it is proposed that the Statement be reviewed at least every three years, in parallel with the Fund's legal requirement to review the separate Investment Strategy Statement, to ensure that it remains fit for purpose and appropriate.

2. GMPF'S UPDATED STATEMENT

2.1 The current Statement was recently circulated to the Fund Managers, Investment Consultant and Advisors for feedback. This feedback has been incorporated into an updated draft Statement which is attached as an **Appendix**. The amendments proposed are relatively limited, and accord with an overarching ambition to maintain a concise and highly focussed set of beliefs.

2.2 Officers believe that it is critical that when the Fund makes any investment decisions, the Fund should be able to relate that decision to the relevant belief(s), and Officers believe that there is scope for the Fund to be more explicit in how it evidences this.

2.3 After the updated core beliefs have been adopted, and as a separate exercise, Officers will propose recommendations for an Appendix which would form part of the Core Belief Statement and would provide greater detail and context behind each core belief thus facilitating clearer linkages between each belief and the Fund's decisions regarding its adopted investment arrangements.

3. RECOMMENDATION

3.1 That the Pension Fund Management Panel adopts the updated Statement.

APPENDIX

CORE BELIEF STATEMENT

This is the Core Belief Statement ("the Statement") of the Greater Manchester Pension Fund ("the Fund" or "GMPF"), which is administered by Tameside MBC ("the Administering Authority").

It has been prepared by the Administering Authority in collaboration with the Fund Actuary, Hymans Robertson LLP, and after consultation with the Fund's investment Advisors and Managers.

The objective of the Statement is to set out the Fund's key investment beliefs. Strategic decisions are taken in the context of the relevant Fund objectives. These beliefs will form the foundation of discussions, and assist decisions, regarding the structure of the Fund, strategic asset allocation and the selection of investment managers.

1. INVESTMENT GOVERNANCE

1.1 The Fund has the necessary skills, expertise, diversity and resources to internally manage some assets, such as infrastructure, private equity, local investments and cash.

1.2 Investment consultants, independent advisors and officers are a source of expertise and research to inform Management Panel decisions.

1.3 The Fund has a governance structure that enables it to implement tactical views readily, but acknowledges that market timing is very difficult.

1.4 There can be benefits from collaboration with other like-minded Pension Funds.

2. LONG TERM APPROACH

2.1 The strength of the employers' covenant allows a longer term deficit recovery period and for the Fund to take a long term view of investment strategy.

2.2 The most important aspect of risk is not the volatility of returns but the risk of absolute loss and of not meeting the objective of facilitating low, stable contribution rates for employers and taxpayers alike.

2.3 Illiquidity and volatility are shorter term risks which offer potential sources of additional compensation to the long term investor. Moreover, it is important to avoid being a forced seller in short term markets.

2.4 Participation in economic growth is a major source of long term equity return.

2.5 Over the long term, equities are expected to outperform other liquid assets, particularly government bonds.

2.6 Well governed companies that manage their business in a responsible and sustainable manner will produce higher returns over the long term.

3. APPROPRIATE INVESTMENTS

3.1 Allocations to asset classes other than equities and government bonds (eg corporate bonds, private equity and property) offer the Fund other forms of risk premia (eg additional solvency risk/illiquidity risk).

3.2 Diversification across asset classes and asset types will tend to reduce the volatility of the overall Fund return.

3.3 In general, allocations to bonds are made to achieve additional diversification. However, for a number of those scheme employers with mature liabilities, a bond allocation may have other benefits such as liability hedging.

4. MANAGEMENT STRATEGIES

4.1 Passive management provides low cost exposure to equities and bonds and is especially attractive in highly researched markets.

4.2 Active managers can add value over the long-term, particularly in relatively under researched markets and by following a rigorous approach it is possible to identify managers who are likely to add value.

4.3 The case for value investing is compelling, but it may result in prolonged periods of over and underperformance in comparison to a style neutral approach.

4.4 The fees paid to active managers should be aligned to the interests of the Fund rather than performance of the market, thereby ensuring the delivery of value for money to the Fund.

4.5 Active management performance should be monitored over multi-year rolling cycles and assessed to confirm that the original investment process on appointment is being delivered and that continued appointment is appropriate.

4.6 Employing a range of management styles can reduce the volatility of overall Fund returns but can also reduce overall outperformance.

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Report to:	**PENSION FUND MANAGEMENT PANEL**
Date:	23 March 2018
Reporting Office:	Sandra Stewart, Director of Pensions Tom Harrington, Assistant Director of Pensions (Investments)
Subject:	**INVESTMENT STRATEGY STATEMENT**
Report Summary:	The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 came into force on 1 November 2016. The Regulations required that the Fund publish an Investment Strategy Statement by 1 April 2017. An ‘interim’ Investment Strategy Statement was agreed and adopted following consideration by the Panel at their meeting of 10 March 2017. Following a detailed review, a draft Investment Strategy Statement was considered by the Working Group at their meetings on 13 October 2017 and 19 January 2018. At their meeting on 19 January 2018, the Working Group considered comments received on the draft Investment Strategy Statement following a public consultation period and subsequent changes proposed to the draft Investment Strategy Statement. The Working Group has endorsed the draft Investment Strategy Statement. A small number of additional minor amendments have subsequently been made to the draft Investment Strategy Statement to reflect recent changes in management arrangements. The draft Investment Strategy Statement is attached as **Appendix A**.
Recommendation(s):	That the Panel adopt the updated draft Investment Strategy Statement.
Financial Implications: **(Authorised by the Section 151 Officer)**	Maintaining a low, stable employer contribution rate is dependent upon good absolute and relative performance from the Fund’s investments. The Investment Strategy Statement documents how GMPF addresses achieving this objective.
Legal Implications: **(Authorised by the Solicitor to the Fund)**	The Fund has a duty to review the Investment Strategy Statement when necessary and to consult as appropriate on the content thereof. This report assists in fulfilling that duty.
Risk Management:	The Investment Strategy Statement has at its heart an in-depth consideration of risk as faced by the Fund.

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 to this report may be inspected by contacting: Abdul Bashir, Investments Manager, on 0161-301 7154 (email: abdul.bashir@gmpf.org.uk).

1. BACKGROUND – GMPF'S INVESTMENT STRATEGY STATEMENT

1.1 A report was submitted to the 10 March 2017 meeting of the Pension Fund Management Panel, which advised Members that an Investment Strategy Statement was required to reflect the 2016 Regulations, replacing the previous Statement of Investment Principles.

1.2 Given the short timeframe provided by Government, an interim Investment Strategy Statement was agreed and adopted following consideration by the Panel at their meeting of 10 March 2017. At that time, it was intended that a more detailed review of the Investment Strategy Statement would take place over the following 6 to 9 months.

1.3 A detailed review took place prior to the 13 October 2017 meeting of the Working Group. A number of changes were proposed to the Investment Strategy Statement, which are summarised below:

i. Minor changes to account for the appointment and recent funding of the new multi-asset credit manager, Stone Harbor.

ii. Additional wording was included in Section 9 of the draft Investment Strategy Statement to better reflect the policies of the Fund regarding climate change, in particular, the Fund's view on climate risk and the collaborative approach taken to mitigate it.

iii. Section 10 of the draft Investment Strategy Statement was amended to reflect the decision of the Management Panel at its meeting of 22 September 2017 to adopt PIRC's voting guidelines and to delegate execution of proxy voting rights to PIRC. This approach will be implemented over the coming months.

iv. The Appendix to the draft Investment Strategy Statement was updated. The previous limits on Fund investments by investment type have been replaced by prudent asset class limits. The new limits have been specifically designed to provide 'headroom' for the Fund's already approved investment programmes (e.g. alternative investments), and for 'drift' as a result of market movements.

1.4 The draft Investment Strategy Statement considered at the 13 October 2017 meeting was endorsed by the Working Group.

1.5 Following endorsement by this Working Group, a public consultation on the draft Investment Strategy Statement was held. The draft Investment Strategy Statement was placed on a newly created web page of the Fund's website with alerts and links placed on the 'News and Updates' section as well as the 'Investments' home page. An email alert was sent to all Employers and added to the Employer website. In addition, an alert was sent via the Fund's Twitter account.

1.6 Members of the public were able to submit any comments or feedback via a simple form placed on the newly created webpage for consultation of the Investment Strategy Statement. The consultation ran from 19 October 2017 to 19 November 2017 (inclusive).

1.7 During the consultation period, and following the publication of a report on LGPS holdings in fossil fuel companies by Friends of the Earth and other special interest groups, a number of Greater Manchester Councillors received template emails, calling on the Fund to disinvest from fossil fuel holdings. A copy of the Chair's response to these letters, which comprehensively sets out the context and the Fund's plans in relation to climate change, is attached as **Appendix B**.

1.8 The Fund held a Stakeholder Engagement event on 19 October 2017 at Gorton Monastery. The consultation on the draft Investment Strategy Statement coincided with this event where the public consultation was also publicised.

2. CONSULTATION RESPONSES AND FEEDBACK FROM THE STAKEHOLDER EVENT

2.1 The Fund was pleased to receive 30 distinct responses to the consultation. Of the 30 responses received, 29 related predominantly to climate change, and 1 related to poverty and the Living Wage.

2.2 Of the 29 responses relating to climate change, the main focus of the responses was that the Fund reduce or divest its holdings in fossil fuel companies. There was also a (lesser) focus on the Fund to invest more in green/renewable investments and the view that engagement on climate change has either been ineffective or is not working (thereby providing support for divestment of assets).

2.3 Of the 29 responses relating to climate change, one was submitted by Fossil Free Greater Manchester (FFGM). FFGM submitted a more detailed consultation response attached at **Appendix C**, where they suggest various amendments to the Investment Strategy Statement. In summary, "Fossil Free Greater Manchester continues to call for full divestment from fossil fuel holdings by means of a phased programme of responsible divestment and reinvestment in positive alternatives."

2.4 In October 2017, the Fund held what is believed to be the first LGPS stakeholder engagement and stewardship event with support from the Pensions & Investment Research Consultants Ltd (PIRC). PIRC are Europe's largest independent corporate governance and shareholder advisory consultancy whose objective is to facilitate and support responsible capital stewardship by long-term investors. PIRC's role is to assist the Fund effectively exercise its shareowner rights and to identify and mitigate governance risk in its portfolios and set 'Environmental, Social and Governance (ESG) Criteria'.

2.5 The event, which was open to all stakeholders, provided an opportunity to learn about the Fund's current approach to Responsible Investment and to have an input into shaping the evolution of the future approach. One input was by way of completing a survey. Almost 80% of survey respondents agreed with the Fund's general approach to engage with companies rather than divest from them. There was overwhelming support to the approach that the Fund is taking. The table below sets out the response in favour of the Fund's approach:

To what extent do you agree with the Fund's:	% in support
✓ policy statements represent a positive approach to ESG issues?	83%
✓ approach to its voting policy?	86%
✓ collaborative approach to engagement?	90%
✓ general approach to engage with companies rather than disinvest from them?	76%
✓ approach to measuring climate change risk?	85%
✓ approach to managing climate risk?	85%
✓ approach to holding the Fund Managers to account for their implementation of the Fund's ESG policies?	86%
✓ approach to being transparent on its ESG policies?	91%
✓ broad approach to investing locally with the twin aims of making a positive ESG impact and achieving a commercial rate of return?	92%
✓ approach to direct UK infrastructure investing?	93%
✓ ambition to develop housing in the local area?	90%

2.6 The debate around divestment of assets versus engagement is best addressed via means other than the Investment Strategy Statement (e.g. through membership of forums such as LAPFF) as the Investment Strategy Statement records Fund policy, it does not set Fund policy.

2.7 However, we provide a brief outline of some of the arguments supporting the Fund's policy of engagement rather than divestment of assets when considering climate change in Section 3 below.

3. ARGUMENTS IN SUPPORT OF ENGAGEMENT

3.1 The Fund believes that engagement is far preferable to divesting holdings and passing the problem to somebody else, who may not share our commitment to Responsible Investment. The Fund agrees that there is a place for disinvestment and has previously done this in relation to apartheid South Africa.

3.2 The Fund believes that divestment is a blunt tool and does not necessarily improve or change matters particularly in such a complex area as carbon where every one of us, who drive cars, use washing machines, purchase food which has not been grown locally etc. is responsible to some degree.

3.3 A major influence on investment strategy is the time taken to make the transition to sustainable sources. Historically energy transitions have taken around 50 to 100 years. We believe the urgency due to climate change is likely to accelerate this transition; however, it is still likely to take many years to transition to renewable energy and a sustainable energy mix. Vehicles continue to use petrol, albeit on a reducing basis as we move towards greater use of electric powered vehicles, with a need for that power to come from sustainable sources. So the divestment strategy has to be very different to the case of tobacco where there was no reason to continue direct equity investment.

3.4 In order to move to a sustainable, low carbon energy environment, all sources of renewable energy and financing will play a part. Many of the large fossil fuel producers are already funding leading renewables companies but there is massively more funding from all (governments, institutions, private and public companies) needed.

3.5 Careful consideration needs to be given to stranded assets, in particular, those of downstream industries. The following has been taken from the Fund's Climate Risk Pamphlet:

"In reality, the majority of the fossil fuel assets that will be stranded are uneconomic or barely economic coal reserves and/or tar in places like Canada and Venezuela that wouldn't have been developed until years in the future. Energy companies are valued for their close to production 1P (proven) and 2P (probable) reserves and the near term cash flows which they generate. Therefore the loss of these reserves in even the lowest emission scenarios contemplated by the IPCC and other environmental and planning bodies is unlikely to have a major impact on company valuations."

"If CO2 emissions are limited and this leads to limits in oil production then investors should be looking at the issue of fossil fuel limitation across the entire economy rather than focusing on energy producers.

For example, a large number of consumer and particularly tourism associated business models would be compromised by lower oil consumption, with some of the obvious examples being toll roads, airports, airlines, aircraft manufacturers, and cruise lines. A very large portion of society's infrastructure and capital stock is based on petroleum. These investments have longer lead times than oil investments and could all be left stranded if oil consumption must be curtailed to prevent global warming. To give an idea of the lead times *involved, roads and bridges can last 100 years or more, while airports, aircraft and ships are built with 50 year service lives in mind. These sectors comprise a bigger portion of global market capitalization than energy (currently 7% of global stock market capitalization) and should be a much bigger issue for investors."*

3.6 The Fund acknowledges that it is transitioning and that this needs to be an orderly process to avoid stranded costs and ensure that we continue to deliver affordable and sustainable pensions for employers and taxpayers alike. Active engagement is key in achieving this and ensuring new investments in renewables continues and grows sufficiently to address climate change.

4. UPDATED DRAFT INVESTMENT STRATEGY STATEMENT

4.1 Following the public consultation and feedback from the Stakeholder event, the following changes to the draft Investment Strategy Statement were made:-

- Amendment to paragraph 9.5 (and move the remainder of paragraph 9.5 into a new paragraph 9.7):

  Climate change is a key financially material environmental risk. The Panel believe that, over the expected lifetime of the Fund, climate-related risks and opportunities will be financially material to the performance of the investment portfolio. As such, the Panel will consider climate change issues across the Fund and specifically in areas such as Strategic Asset Allocation, Investment Strategy, Investment Manager Selection and Risk Management with the aim of minimising adverse financial impacts and maximising the opportunities for long-term economic returns on the Fund's assets.

- New paragraph 9.6:

  The Fund's long-term goal is for 100% of assets to be compatible with the net zero emissions ambition by c2050 in line with the Paris Agreement. The decarbonisation goal will be regularly evaluated in line with our objective of maintaining long term financial performance.

- Amendment to paragraph 9.11 (previously shown as paragraph 9.9):

  The Fund actively invests in low carbon and renewable energy technology and will seek to increase the scale of investment in this sector where suitable opportunities arise, in order to encourage a move toward a lower carbon economy. Within the strategic asset allocation to infrastructure, a key strategy is investments in low carbon and renewable energy opportunities.

4.2 Officers believe the above proposals buttress the previous changes made regarding climate change and in particular, provide further clarity of the Fund's policy in this regard.

4.3 More specifically, the amendment to paragraph 9.11 (previously shown as paragraph 9.9) incorporates some wording suggested by FFGM, whilst providing further detail on how the commitment to invest in low carbon and renewable energy technology may be achieved.

4.4 The wording in Section 9 of the Investment Strategy Statement already addresses broader ESG issues (e.g. labour rights and working conditions) without being overly prescriptive. No further changes have been proposed to explicitly address poverty or the Living Wage.

4.5 The draft Investment Strategy Statement was endorsed by the Working Group at their meeting on 19 January 2018.

4.6 A small number of additional minor amendments have subsequently been made to the draft Investment Strategy Statement to reflect recent changes in management arrangements.

4.7 The updated draft Investment Strategy Statement is attached as **Appendix A**.

5. RECOMMENDATION

5.1 That the Management Panel adopt the revised draft Investment Strategy Statement (as Appended to this Report).

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APPENDIX A

TAMESIDE MBC

ADMINISTERING AUTHORITY OF THE GREATER MANCHESTER PENSION FUND

INVESTMENT STRATEGY STATEMENT

1. BACKGROUND

1.1 This Statement has been prepared in accordance with the *Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016* ("the Regulations"). The Regulations require administering authorities to prepare, publish, and when appropriate revise, a written statement recording the investment policy of the pension fund; they also stipulate certain key issues which must be covered in the Statement.

1.2 The terms of appointments of any external investment managers include a provision that the investment manager must take account of, and shall not contravene, this Statement in undertaking its management role. The Fund may terminate the appointment of any external investment manager by not more than one month's notice.

1.3 The Local Government Pension Scheme ("the Scheme") was established by statute to provide death and retirement benefits for all eligible employees. The Scheme is a contributory, defined benefit occupational pension scheme.

1.4 Tameside MBC ("the Council") became the administering authority of the Greater Manchester Pension Fund ("the Pension Fund" or "the Fund") in 1987 after the abolition of the Greater Manchester County Council in 1986. The Fund covers all ten district councils of Greater Manchester, the National Probation Service and numerous other smaller employers.

1.5 The Statement outlines the broad investment principles governing the investment policy of the Pension Fund. In preparing the Statement, the Council has consulted those persons it considered appropriate.

2. ORGANISATION AND MANAGEMENT ARRANGEMENTS OF THE FUND

2.1 The investment powers of the Council under the Scheme are given in the Regulations. Amongst other matters, the Regulations require the Council to have regard to both the suitability and diversification of its investments and to take proper advice in making decisions regarding the investment matters of the Fund.

2.2 The Council has delegated all its functions as administering authority of the Pension Fund to the Pension Fund Management Panel ("the Management Panel" or "the Panel") which routinely meets on a quarterly basis and whose Terms of Reference are detailed in the Council's "Constitution". Amongst other matters, the Panel decides on the investment policy most suitable to meet the liabilities under the Scheme and has ultimate responsibility for the investment strategy.

2.3 The Management Panel has in turn appointed a Pension Fund Advisory Panel and external professional Advisors, and has dedicated internal Officers of the Fund to advise it on the exercise of its delegated powers. There are also a number of Working Groups which report quarterly to the Panel on specialist matters.

2.4 The Director of Pensions exercises certain delegated powers as specified in the Constitution and provides the link between the Panel, the external professional Advisors and the Fund's investment managers. Each year a Fund "Business Plan" is submitted by the Director of Pensions to the Management Panel for consideration.

2.5 A primary objective of the Council is to maintain a low and stable employer contribution rate. This is to be achieved by attempting to maximise the long-term investment return whilst not exceeding an acceptable degree of risk.

2.6 The assets of the Fund are separated into two distinct parts – a Main Fund and a Designated Fund. This separation has been made in order to reflect a major difference in liability profiles between most of the employers of the Fund and that of a small number of other employers of the Fund.

2.7 Having taken appropriate advice, the Management Panel has decided that a bespoke benchmark, which is biased towards equity is a suitable investment benchmark for the management of the Main Fund. Detail on the Main Fund's bespoke benchmark is included in the Fund's Annual Report and Accounts. This benchmark will be reviewed annually and when appropriate in response to significant changes in the investment environment. The Designated Fund has a bespoke benchmark which is heavily orientated towards UK index linked stock.

2.8 The Management Panel has delegated the management of the majority of the Main Fund's securities portfolio, and the management of the Main Fund's direct property portfolio, to regulated, external, professional investment managers whose activities are defined and constrained by detailed Investment Management Agreements. The remainder of the Main Fund (including private equity, infrastructure, local investments, elements of the Special Opportunities Portfolio and UK cash), together with the majority of the Designated Fund, is managed internally by Officers of the Fund. The 'Treasury Management' of all UK cash is undertaken by Officers of Tameside MBC.

2.9 The Main Fund is largely actively managed but has a significant element, which is passively managed on a pooled basis. Two of the appointed external securities managers have been given individual differing active multi-asset (ex property) discretionary benchmarks reflecting their perceived skills and the relative efficiency of markets. The third appointed external securities manager has a single broad equity market benchmark reflecting its specialist mandate. The fourth appointed external securities manager has an absolute return benchmark reflecting its specialist multi-asset credit mandate. These individual benchmarks are detailed in the Investment Management Agreements and have been chosen so as to be consistent with the overall bespoke benchmark determined for the Main Fund.

2.10 Each of the Main Fund's external active securities managers has been set the target of achieving a rolling three year average performance which exceeds the average performance of their individual benchmark by at least 1% per annum. The Fund anticipates that in two years out of three the external active multi-asset securities manager’s annual performance will be within 4½% of the annual performance of their individual benchmark. The equivalent range for the specialist global equity securities manager is +/- 7% and +/- 6% for the specialist multi-asset credit securities manager.

2.11 The fees of two of the external active securities managers consist of two elements: an ad-valorem base fee together with a performance element which is capped at a prudent level of outperformance. The fees for the remaining external active securities manager consist of a fixed base fee with no performance element. The fees of the Main Fund's external passive securities manager consists of an ad-valorem base fee with no performance element. The fees of the external property manager comprise of a combination of a fixed and ad-valorem base fee with no performance element.

2.12 The Designated Fund is predominantly passively managed on a segregated basis.

2.13 The investment returns of the Main Fund, its underlying component portfolios and the Designated Fund are calculated quarterly by an external, third party professional performance measurement company appointed directly by the Council.

2.14 The Management Panel monitors the performance of the appointed external investments managers at each of its quarterly meetings. The performance of the specialist portfolios managed internally by Officers of the Fund is monitored annually by the Panel.

3. THE TYPES OF INVESTMENTS TO BE HELD

3.1 The Regulations require the Council to set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment. These maximum percentage limits are set out in an Appendix to this Statement, and are applicable only at the time the investment is made. Depending on market conditions, the allocations to specific investments or classes of investment may stray outside the maximum percentage limits before adjustments are made to rectify the situation. The Regulations also require that not more than 5% of the total value of all investments of fund money be invested in entities which are connected with the authority, within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007.

3.2 In addition to the Regulations, the Council has decided to further restrict the types of investment which the appointed external securities managers may hold and to restrict the type and extent of investment activity which they are permitted to undertake. These further detailed restrictions are extensive and are documented in a Schedule to each of the Investment Management Agreements.

3.3 Fund assets currently include a UK and overseas spread of equity, fixed interest bonds (including those issued by Governments, companies and other entities), other debt securities (eg bank loans and securitised debt), index linked bonds, private equity, infrastructure and property. The Main Fund's external active multi-asset securities managers are permitted limited use of certain derivatives. The Main Fund’s active specialist multi-asset credit manager is permitted use of certain derivatives for hedging, duration and currency management, asset allocation and security selection. The Fund supplements its investment income by participating in a Commission Recapture program.

4. THE BALANCE BETWEEN DIFFERENT TYPES OF INVESTMENTS

4.1 The Regulations require the Council to have regard to the diversification of its investments.

4.2 The overall bespoke benchmark of the Main Fund comprises a mix of different assets which is sufficient to provide adequate diversification for the Main Fund. The Fund's Annual Report and Accounts contains more detail on the overall Main Fund benchmark.

4.3 The strategic balance of investments takes account of the risk/return characteristics of each asset class and in particular the potential for enhanced long term returns from equity and the higher level of short term volatility associated with that asset class. In this context, risk in relation to any asset class is considered 'in the round' rather than being analysed into the specific components of risk (eg liquidity, foreign exchange, interest rate sensitivity etc).

Allowance is also made for the benefits of diversification across the asset class mix within the Main Fund. The overall bespoke benchmark provides a reasonable long-term balance appropriate to the liabilities relevant to the Main Fund and its funding position.

4.4 For the Main Fund, tactical asset allocation is delegated to the appointed external multi-asset securities managers who must operate within asset class and country restrictions which are documented in a Schedule to the Investment Management Agreements.

4.5 The bespoke benchmark of the Designated Fund has also been specifically chosen in the context of the relevant liabilities and funding position.

5. RISK : MEASUREMENT AND MANAGEMENT

5.1 The Management Panel recognises that risk is inherent in any investment activity. The overall approach is to seek to reduce risk to a minimum where it is possible to do so without compromising returns (eg in operational matters), and to limit risk to prudently acceptable levels otherwise (eg in investment matters).

5.2 Operational risk is minimised by :

- Having custody of the Fund's financial assets provided by a regulated, external, third party, professional custodian appointed directly by the Council with control and liability issues thoroughly addressed in a Global Custody Agreement;
- Having the deeds of direct property investments held securely by the Fund's Legal Section;
- Documenting control and liability issues relating to the relationships with the appointed external investment managers in the Investment Management Agreements;
- Having an external, third party, accounting provider independently maintain complete accounting records relating to the investment activity of the appointed external securities managers and to the entitlements (eg income) arising from the Fund's securities portfolios;
- Officers of the Council's Internal Audit and of the Fund's Investments Group receiving reports on and reviewing the internal operating procedures of the appointed external custodian, securities managers and accounting provider; and
- Subjecting internal investment management activity to close Internal Audit scrutiny.

5.3 Investment risk is constrained by :

- Diversifying across investment managers;
- Diversifying across types of investment;
- Restricting external appointed investment manager activity as documented in a Schedule to or in relevant Clauses of the Investment Management Agreements;
- Selecting appropriate investment benchmarks in order to control the risk that the assets will not be sufficient to meet the liabilities whilst also having a strong likelihood of achieving a good return;
- Taking appropriate internal and external professional advice on the investment activity of both the externally managed securities portfolios and of the internally managed portfolios;
- Quarterly, formal, Management Panel monitoring of asset allocation against the investment benchmarks and asset class restrictions; and

- Quarterly, formal, Management Panel monitoring of investment manager and overall Fund activity and performance.

5.4 Some risks lend themselves to being measured (eg using such concepts as 'Active Risk' and such techniques as 'Asset Liability Modelling') and where this is the case, the Fund employs the relevant approach to measurement. The Fund reviews new approaches to measurement as these continue to be developed.

6. THE EXPECTED RETURN ON INVESTMENTS

6.1 There is a broad expectation that in the longer term the return on equity will be greater than on other assets.

6.2 The overall Main Fund return is expected to be broadly in line with the overall bespoke benchmark. Over the last twenty years this benchmark has averaged a return which is comfortably ahead of both price and earnings inflation over the same period. However over any shorter period, such as one or five years, actual Main Fund returns may vary significantly from the benchmark and indeed benchmark returns may vary significantly from their long-term averages.

6.3 Over the long term appropriate to the liabilities of the Scheme it is expected that the investment returns of both the Main Fund and the Designated Fund will be at least in line with the assumptions underlying the actuarial valuations.

7. THE REALISATION OF INVESTMENTS

7.1 General investment principles require that issues of liquidity and marketability be considered in making any investment decision. Pension payments are expected to exceed employer and employee contributions by around £100m per year over the coming three years. During this period, investment income, outwith that which is automatically reinvested within pooled vehicles, is anticipated to generate around £300m per year of receipts to the Fund. Thus it is not expected that there will be any material need to realise investments in the near future other than to seek higher returns.

7.2 The vast majority of the Pension Fund's assets are readily marketable. However some investments, such as property, and more so private market assets, are less easy to realise in a timely manner. Such relative illiquidity is not considered to have any significant adverse consequences for the Fund. However, over the coming couple of years, Officers of the Fund will be investigating options for dealing with the deteriorating cash-flow position of the Fund.

7.3 The Council informs the appointed external investment managers of any projected need to withdraw funds in order to enable the investment managers to plan an orderly realisation of assets when this proves necessary.

8. THE FUND'S APPROACH TO POOLING INVESTMENTS

8.1 The Council has signed a memorandum of understanding with the administering authorities of the Merseyside Pension Fund and the West Yorkshire Pension Fund to create the Northern Pool ('the Pool') in order to meet the criteria for pooling investments released by Government on 25 November 2015.

8.2 The three funds submitted their pooling proposal to Government in July 2016 and the Department for Communities and Local Government provided its confirmation in January

2017 that it is content for the funds to proceed with the formation of the Pool as set out in the July 2016 proposal. A copy of the proposal is on GMPF's website.

8.3 Based on 31 March 2015 asset values, the total value of assets, across the three participating funds, to be invested in the Pool is £35.416 billion, which is in excess of the £25 billion criteria set by Government. All assets other than day-to-day cash used for scheme administration purposes will be invested via the Pool once transition is complete. Day-to-day cash is assumed to be 1% of total assets for each fund.

8.4 For the immediate future after inception of the Pool, the Fund's public-market assets will continue to be held in segregated mandates owned directly by the administering authority, but managed by the Pool. A single custodian will be appointed by the Pool, which will simplify the future consolidation of mandates.

8.5 All non-listed assets will be managed by the Pool from its formation. Subject to value for money requirements being fulfilled, new investments (i.e. those entered into after the formation of the Pool) in private market assets will be made on a shared ownership basis, via either collective investment vehicles or limited partnerships. Legacy private market assets (i.e. those entered into prior to the formation of the Pool) will be run-off on a segregated basis.

8.6 This approach will be reviewed periodically going forwards to ensure this continues to demonstrate value for money, particularly following any changes to funds' strategic asset allocations, pool management arrangements or taxation policy in the UK or internationally. The reviews will take place no less than every 3 years.

8.7 Once established it is intended that the Pool will provide the following services to the participating authorities on an in-house basis:

- Implement the strategic asset allocations of the participating authorities
- Management of UK and Overseas equities and bonds
- Selection of private equity, infrastructure & property funds
- Direct UK infrastructure investment via a collective investment vehicle
- Legal and accounting support

8.8 It is intended that the Pool will externally procure the following services:

- External fund management for certain mandates
- Common custodian for Pool (plus depositaries & fund administrators where required for any pooled funds that are established for non-listed assets)
- Investment management systems
- Audit services
- Performance analytics
- Responsible Investment advisory services
- Value for money reviews of structure

8.9 A Pool Oversight Board will be established to:

i) provide oversight of the Pool; and

ii) act as a forum for the participating authorities to express the views of their pension committees.

8.10 The Oversight Board's primary roles are to ensure that the Pool is effectively implementing the participating authorities' strategic asset allocations and to oversee reporting to the participating authorities' pension committees.

8.11 The legal structure of the Oversight Board is expected to be a joint committee. There will be clear separation of duties between the Oversight Board and the Pool. The Oversight Board will not be undertaking any regulated activities.

8.12 The Pool's governing documentation will grant the Oversight Body and each administering authority certain powers regarding the operation of the Pool, which can be used to ensure the effective performance of the Pool.

8.13 Reporting processes of the Pool will include regular written reports on the performance of Pool investments to the Oversight Body, which will be discussed at formal meetings. Officers of the Pool will also report to and present directly to the administering authorities' pension committees and local pension boards as appropriate.

8.14 A report on the progress of asset transfers will be made to the Scheme Advisory Board annually.

9. SOCIALLY RESPONSIBLE INVESTMENT

9.1 The Fund holds a general policy of not interfering in the day to day investment decisions of its investment managers. However, the Fund may choose to actively invest in or disinvest from companies for social, ethical or environmental reasons, so long as that does not risk material financial detriment to the Fund.

9.2 As a responsible investor, the Fund wishes to promote corporate social responsibility, good practice and improved company performance amongst all companies in which it invests.

9.3 The Fund endeavours to be a socially responsible investor wherever possible but does so within the duties placed upon it under statute and under general trust law principles to manage the Scheme in the best financial interests of the Scheme members and beneficiaries.

9.4 From time to time the Fund will pursue certain specific issues direct with investee companies, either individually or, more usually, collectively with other institutional investors via its membership of the 'Local Authority Pension Fund Forum' (LAPFF), its membership of the 'Institutional Investors Group on Climate Change' (IIGCC), as a signatory to the 'UN Principles for Responsible Investment' or by means of other ad-hoc groupings.

9.5 Climate change is a key financially material environmental risk. The Panel believe that, over the expected lifetime of the Fund, climate-related risks and opportunities will be financially material to the performance of the investment portfolio. As such, the Panel will consider climate change issues across the Fund and specifically in areas such as Strategic Asset Allocation, Investment Strategy, Investment Manager Selection and Risk Management with the aim of minimising adverse financial impacts and maximising the opportunities for long-term economic returns on the Fund's assets.

9.6 The Fund's long-term goal is for 100% of assets to be compatible with the net zero emissions ambition by c2050 in line with the Paris Agreement. The decarbonisation goal will be regularly evaluated in line with our objective of maintaining long term financial performance.

9.7 The Fund has undertaken a number of initiatives to enhance its approach to managing this risk. Company engagement is a key element of the Fund's approach to climate change. The Fund wishes to promote and encourage compliance with its own UK Environmental Investment Code. The Fund's appointed external securities managers are encouraged to operate a policy of constructive shareholder engagement with companies. The Fund is a Tier 1 signatory of the UK Stewardship Code.

9.8 By joining forces with over 70 other LGPS funds within LAPFF, we collectively have a very powerful voice in challenging companies to disclose their business models, and the assumptions that underpin their investment decisions, leading to greater capital discipline. This could have the dual success of enhancing shareholder value, whilst also reducing greenhouse gas emissions.

9.9 The Fund is a signatory to the Carbon Disclosure Project (CDP) which seeks information from major corporations world-wide on their Greenhouse Gas Emissions.

9.10 The Fund is a member of the IIGCC which is a forum for collaboration on climate change for European investors. The IIGCC seeks to promote a better understanding of the implications of climate change amongst its members and other institutional investors, and to encourage companies and markets in which its members invest to address any material risks and opportunities to their businesses associated with climate change and a shift to a lower carbon economy.

9.11 The Fund actively invests in low carbon and renewable energy technology and will seek to increase the scale of investment in this sector where suitable opportunities arise, in order to encourage a move toward a lower carbon economy. Within the strategic asset allocation to infrastructure, a key strategy is investments in low carbon and renewable energy opportunities.

9.12 The Panel has approved an allocation to Local Investments, which has the twin aims of generating a commercial return and delivering a positive social impact. The Fund's Annual Report and Accounts contains more detail on the specific investments within this allocation.

10. THE EXERCISE OF INVESTMENT RIGHTS

10.1 The exercise of rights which are not voting rights (eg dividend entitlements, rights issues etc) are delegated by the Council to the investment managers of the Pension Fund as part of their normal investment responsibilities.

10.2 The Fund wishes to exercise the voting rights attaching to its investments to promote and support good corporate governance principles. The Fund will report on its voting activity as part of its Annual Report.

10.3 The Fund implements its voting policy in partnership with a specialist advisor (currently PIRC Ltd) who provides appropriate research and vote execution services that cover the major markets in which shares with voting rights are held.

10.4 The Fund votes in line with the recommendations of its advisor, having judged that the advisor's voting guidelines promote high standards of corporate governance and responsibility and enable the Fund to exert a positive influence as shareholders concerned with value and values.

10.5 The appointed external passive securities manager votes in respect of the Fund at every opportunity in the UK and in respect of companies in the vast majority of overseas markets except where practicalities are a significant obstacle.

10.6 In casting votes in respect of the Fund in the UK, the appointed external passive securities manager normally implements its own 'Voting Policy'. However the passive securities manager will vote in respect of the Fund according to the Fund's instructions on a case by case basis should the Fund so require.

11. STOCKLENDING

11.1 The Fund itself has participated in a prudently structured Stocklending program via its Custodian since March 2003. However, the Fund suspended its Stocklending program between September 2008 and May 2011 in the wake of the 2008 financial crisis.

11.2 The Fund does not lend UK and US Equities and does not take Cash as collateral. The maximum volumes of stock “on loan” are set at a lower level than the Regulations permit. All loans must be pre-collateralised and be subject to recall upon demand.

11.3 Certain pooled vehicles within which the Fund invests may undertake an amount of Stocklending on behalf of the pooled vehicle investors. Where this occurs, the extent of the activity is disclosed by the pooled vehicle. The Fund considers this aspect of the pooled vehicle when making investment decisions.

APPENDIX TO INVESTMENT STRATEGY STATEMENT

TABLE OF LIMITS ON INVESTMENTS

MAIN FUND

Asset Class	Limit (%)
Total Equities	**40 – 85**
UK Equities	10 – 30
Overseas Equities	15 – 50
Global Equities	2 – 10
Total Bonds	**10 – 50**
Government Fixed Interest Bonds	2 – 17
Corporate Bonds	2 – 17
Government Index Linked Bonds	1 – 12
Multi-Asset Credit	2 – 10
Total Alternatives	**5 – 45**
Private Equity	0 – 7
Infrastructure	0 – 15
Special Opportunities	0 – 7
Local Investments	0 – 5
Property	3 – 15
Total Cash	**0 – 10**

DESIGNATED FUND

Asset Class	Limit (%)
Government Fixed Interest Bonds	0 – 100
Corporate Bonds	0 – 100
Government Index Linked Bonds	0 – 100
Other Liability Matching Assets*	0 – 100
Cash	0 – 100

*Other Liability Matching Assets include exposure to derivative instruments (eg interest rate and inflation swaps) used for liability matching purposes and are currently accessed via pooled funds.

There are a small number of employers whose liability profiles are significantly different from most of the Fund's employers. Investments in the Designated Fund reflect the specific liability profiles of these employers. The assets held in the Designated Fund have been specifically chosen in the context of the relevant liabilities and funding position. Given the nature and size of the Designated Fund, it is not considered appropriate to restrict the limits on Asset Classes. The proportion of assets within each asset class will change over time as the Fund develops its framework to meet the diverse needs of its employers.

Greater Manchester Pension Fund

Administered by Tameside Metropolitan Borough

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Date: 28 November 2017

Dear Sir/Madam,

Friends of the Earth / Fossil Free campaign for responsible investment
Our council's fossil fuel investments

Thank you for your interest in the responsible investment work of the Greater Manchester Pension Fund and, in particular, our approach to climate change.

We recognise that financial decarbonisation of our economy is a complex and challenging issue for all long term investors. The Fund's long-term goal is for 100% of assets to be compatible with the net zero emissions ambition by c2050 in line with the Paris Agreement.

I therefore make no apology for the length of my response to address the concerns raised, which I hope explains why the call by Fossil Free UK to divest from fossil fuels creates an unacceptable risk and why the pace of decarbonisation must be consistent with our risk framework, and not detract in any way from our fiduciary responsibilities to pay our pension promises to public sector workers which are affordable and sustainable to the taxpayer. All employers and the taxpayer have benefited from this outperformance of the Greater Manchester Pension Fund through lower employer contribution rates and the Fund being better funded than most LGPS funds, which will provide more long term benefits to the employers in the Fund and enables more to be spent on local services. In particular residents of Greater Manchester have benefitted significantly from our approach to local investments both in terms of benefiting the local economy and creating local homes.

To assist, I set out the key takeaways from my response below:

- We recognise that climate change poses a key financially material environmental risk, and the Fund is committed to working towards a 2 degree warming scenario and were a signatory to the Paris Pledge for action.

- We wholly support the Bank of England Governor Mark Carney's statement that *'Financial decarbonisation of our economy is a major opportunity for long-term investors'. If pension funds are genuine long term investors, then they may be well placed to benefit.'*

- We welcome the recommendations of the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (recently presented formally to the G20) to which we were a signatory and commit to including a TCFD statement in our financial reporting from 2018 as part of our on-going climate risk assessment and disclosure.

- The Fund has an excellent long term investment track record, over the last 30 years; the value of its **returns has been over £3 billion more** than would have been the case if it had achieved the average LGPS fund return. This has meant that every household in Greater Manchester has not had to pay an additional £2,500 to meet pension liabilities.

- *The Fund's long-term goal is for 100% of assets to be compatible with the net zero emissions ambition by c2050 in line with the Paris Agreement. The decarbonisation goal will be regularly evaluated in line with our objective of maintaining long term financial performance*.

- As a Local Government Pension Fund we are long-term investors with liabilities reaching way beyond the year 2100. The objective of the Fund is to meet the current and future pension benefits of public sector workers now and when they fall due.

- Independent Analysis by True Cost have found that the active decisions of the Fund managers have resulted in a less carbon intensive fund, which is better aligned with 2 degree scenario. This is because overall the equity holdings possesses lower fossil fuel proportion than the benchmark as we are less exposed to oil and coal, whilst the natural gas exposure is considerably higher than the proportions under IEA's 2 degree scenario for 2030 globally.

- The Fund acknowledges that it is transitioning and that this needs to be an orderly process to avoid stranded costs and ensure that we continue to deliver affordable and sustainable pensions for employers and taxpayers alike. The companies we invest in already produce more power through renewables than they do from coal and oil.

- Within the last two years, the Fund has increased its strategic allocation to infrastructure to 10%, unlocking over £2 billion of assets for this purpose. A key strategy within this allocation is investments in low carbon and renewable energy opportunities.

- The pace of decarbonisation must be consistent with our risk framework, and not detract in any way from our fiduciary responsibilities to pay our pension promises to public sector workers which are affordable and sustainable to the taxpayer. All employers and the taxpayer have benefited from this outperformance through lower employer contribution rates and the Fund being better funded than most LGPS funds, which will provide more long term benefits to the employers in the Fund and enables more to be spent on local services.

- The Fund is not adopting this approach from a standing start as regards climate-aware investing and much of the task now involves a scaling-up of activities. We have led the way and are the biggest direct investor in green energy.

- The Fund recognises that like all pension funds it has assets within its investment portfolio that are at risk of becoming 'stranded' in a 2 degree scenario. It will address this risk through a suitable decarbonisation plan that measures the Fund's ownership responsibility for emissions; locates the areas within the public equities portfolio of highest carbon and reserves intensity; and implements a plan for re-balancing the portfolio that substantially reduces exposure to this intensity. The decarbonisation plan will be similar to those being carried out by other leading European asset owners, such as ABP (Netherlands), AP4 (Sweden), FRR (France) and the Environment Agency Pension Fund (UK).

- Significantly 80% of survey respondents at the Funds Stakeholder event agreed with the Fund's general approach to engage with companies rather than divest from them.

The updated Fossil Free UK and Friends of the Earth report http://gofossilfree.org/uk/fuellingthefire has been shared with us to take into account in response to the Fund's consultation on our Investment Strategy Statement. The Investment Strategy Statement sets out our investment beliefs, and is reviewed tri-annually in line with statutory requirements. We are currently undertaking this review and we are grateful for the engagement with our consultation.

The strategy takes account of the investment risks described in your communication and describes our approach to identifying and mitigating these; as well as the opportunities that arise from the global transition to a low carbon economy.

There are many strands of activity to this work on climate risk – some of which form part of longstanding Fund policies on responsible ownership that see us engage with companies and policy-makers on this issue.

That said, the primary duty of the Management Panel is to pay the pension promises earned by its members.

The concerns raised are:

1. Do you agree that the council should divest its pension fund from fossil fuels and reinvest in ways that benefits the community?

2. What steps are the Council taking to end fossil fuel investments and invest responsibly?

The Greater Manchester Pension Fund is very much a long term forwarding thinking Pension Fund as recognised by the fact that we are the top performing LGPS Fund in the Country based over a 30 year rolling basis. Our strength and ability to ensure low cost pensions to employers and taxpayers alike is because of our long term sustainable approach.

The Fund has an excellent long term investment track record. It is important to note that over the last 30 years, the value of its returns has been over £3 billion more than would have been the case if it had achieved the average LGPS fund return.

Indeed, it has been the strength of our investment beliefs and strategy, which means that Greater Manchester Councils and in turn taxpayers across Greater Manchester have not had to find hundreds of millions of pounds equating to roughly an additional £2,500 household across Greater Manchester to meet Pension liabilities.

We know that climate change is one of the biggest social and economic risks the world faces today. Companies and investors are already being affected by the transition to a low carbon economy and the physical impacts of climate change, the effects of which will only increase over time.

We recognise that climate change poses a key financially material environmental risk, and the Fund is committed to working towards a 2 degree warming scenario. Indeed, the Fund joined with investors, businesses and other non-state entities from across the world in signing the Paris Pledge for Action. By joining the pledge, the Fund promised to ensure that the ambition set out by the Paris Agreement is met or exceeded to limit global temperature rise to less than 2 degrees Celsius.

As part of the consultation in reviewing our policy frame work we propose the following commitment: *The Fund's long-term goal is for 100% of assets to be compatible with the net zero emissions ambition by c2050 in line with the Paris Agreement. The decarbonisation goal will be regularly evaluated in line with our objective of maintaining long term financial performance*.

The Fund is a member of the Local Authority Pension Fund Forum (LAPFF), a collaborative shareholder engagement group which brings together over 70 local authority pension funds from across the UK with combined assets of over £200 billion.

LAPFF, which I am pleased and proud to be Chair of, is the Country's leading Shareholder Engagement Forum and our primary aim is to use our collective voice to challenge and engage with these companies on climate change.

The Greater Manchester Pension is an active participant in the work of the Local Authority Pension Fund Forum and the Institutional Investors Group on Climate Change, both of which have highly informative websites describing their influential work in this area.

We believe that this approach is far preferable to divesting our holdings and passing the problem to somebody else, who may not share our commitment to Responsible Investment. We agree that there is a place for disinvestment and we have done this in relation to those companies associated with the manufacture or distribution of cluster munitions and previously apartheid in South Africa.

However, we believe that divestment is a blunt tool and doesn't necessarily improve or change matters particularly in such complex area of carbon where every one of us, who drive cars, use washing machines, purchase food which has not been grown locally etc. is responsible to some degree. A major influence on investment strategy is the time taken to make the transition to sustainable sources. Vehicles continue to use petrol, albeit it on a reducing basis as we move towards greater use of electric powered vehicles, with a need for that power to come from sustainable sources. So the divestment strategy has to be very different to the case of tobacco where there was no reason to continue direct equity investment. The most recent failure of the disinvestment approach can be seen in relation to the poor working standards and corporate governance arrangements at Sports Direct, where the Chairman agreed to stand down if he received less than half independent vote. He ended up staying with 53% of the vote, following the disinvestment by Standard Life and Aviva of their shareholding and the new shareowners did not have the same qualms about the shocking employment practices.

By contrast the Local Authority Pension Fund Forum has seen the power of assets owners voting and engagement through its members using their share power co-filing and support strategic resilience resolutions. LAPFF strongly supports mandatory carbon emission reporting in the context of how companies are factoring the relevance of climate change into their business strategy. In particular, the Forum supports the 'Aiming for A' investor coalition which co-filed shareholder resolutions at the BP and Shell 2015 AGMs on behalf of 50 global investor organisations as well as individual shareholders. The resolutions asked BP and Shell to report effectively on climate related risk in their routine annual reporting. The resolutions received 98% and 99% shareholder support respectively. LAPFF's policy is that robust engagement on a collective basis is preferable to placing restrictions on particular types of investment. This year alone has seen unprecedented number of investors support climate related resolutions with companies such as Chevron, Exxon and PPL. Boards that have previously been intransigent on addressing the strategic business implications of climate change have had to devote attention and resources to it as a result of shareholder pressure, which would not be the case with non-ethical asset owners.

We have long recognised the imperative to address climate change as a systemic and long-term investment concern for members, as it poses material financial risks across all asset classes with the potential for loss of shareholder value.

They include the impact of regulation to achieve targets for global emissions reduction set in Paris in 2015 and of the global transition to a low-carbon economy now under way. These are factors which will catalyse real world market adjustments and bring changes to energy production, supply and consumption patterns. The timing and the consequences of climate change will vary across business sectors but will impact all companies in multiple dimensions, as producers, consumers, tenants and asset owners. The likely effects will include emissions and other resource related restrictions, asset stranding, technological obsolescence, and increased costs due to natural resource scarcity. For companies unable or unwilling to recognise, plan for and adapt their business to the risks and opportunities associated with climate change, the outcome will be business failure. Investors in unsustainable companies or within exposed sectors will ultimately suffer value loss.

There is broad acknowledgement that the COP21 Paris Agreement marked a significant change in the extent and seriousness of the global commitment to taking action on climate change. It was following this that LAPFF members agreed a series of actions including the production of a 'best practice' climate change investment policy framework, which would provide support and context for the development of member funds' investment and stewardship approaches. Signatories to the Paris Agreement in summary agreed to pursue 'efforts to limit the temperature to 1.5 degrees C above pre-industrial levels', in itself a more ambitious target than expected. Signatories also agreed to aim for c.2050 as a target for net zero carbon emissions i.e. where carbon emissions caused or produced by human activity are balanced by the removal of carbon by natural sinks.

In June 2017, the Bank of England published its strategic response to climate change. This reflects the Banks increasing focus on the impact of climate related financial risks within the broader context of actions being taken by central banks and by financial regulators globally and by the wider international community. Bank of England Governor Mark Carney has stated *'Financial decarbonisation of our economy is a major opportunity for long-term investors'. If pension funds are genuine long-term investors, then they may be well placed to benefit.'*

The Financial Stability Board (FSB) Task Force on Climate-related Financial Disclosures (TCFD) was set up in 2016 to develop voluntary, consistent climate-related financial risk disclosures. It identified the need for good information from companies to address investors' needs when making decisions on capital allocation, as well as being applicable to investors themselves. The current emphasis is on voluntary standards but there is the implication that this may change in future. In June 2017, the TCFD issued its final report with recommendations (www.fsb-tcfd.org). The TCFD includes Asset Owners in the scope for reporting and highlights the importance of their role at the top of the investment chain. The disclosure framework recommended by the Taskforce is defined across four themes of: (1) Governance; (2) Strategy; (3) Risk Management; and (4) Metrics and Targets. We intend that our revised Policy Framework will incorporate these four themes, recognising that the TCFD framework will be widely recognised as the best practice guide against which the activities of investors will be compared.

The Fund is also one of the signatories to the recommendations of the FSB Task Force on Climate-related Financial Disclosures (TCFD), which recommends a framework for disclosing climate related risks and opportunities, going beyond current practices.

The Fund acknowledges that it is transitioning and that this needs to be an orderly process to avoid stranded costs and ensure that we continue to deliver affordable and sustainable pensions for employers and taxpayers alike. .

In line with the Task-Force's recommendations that organisations should report within mainstream finance reporting, we intend to summarise the Fund's policy on climate change within our Investment Strategy Statements (Statement of Investment Principles,) Investment Beliefs, Investment Policy and/or Risk Register of funds as well as their Responsible Investment Policy. Ensuring that our annual reporting reflects this Policy will facilitate the Fund being able to report in line with the Task-Force recommendations.

To help clarify, I have set out below our proposed approach in line with these four themes:

As a Local Government Pension Fund we are long-term investors with liabilities reaching way beyond the year 2100. The objective of the Fund is to meet the current and future pension benefits of our members now and when they fall due.

INVESTMENT BELIEFS

The Board and Management of the Fund believe that, over the expected lifetime of the Pension Fund, climate-related risks and opportunities will be financially material to the performance of the investment portfolio. As such, we will consider climate change issues across the Fund and specifically in areas such as Strategic Asset Allocation, Investment Strategy, Investment Manager Selection and Risk Management with the aim of minimising adverse financial impacts and maximising the opportunities for long-term economic returns on our assets.

The climate change investment policy will guide the Fund in terms of Governance, Investment Strategy, Risk Management and Metrics and Goals.

(1) Governance

The Management Panel (governing body) has responsibility for the direction of policy and has access to expert advice and have members with appropriate skills and knowledge. Responsibility for the implementation of the Fund's policy lies with the Director of Pensions and is adequately resourced. Regular monitoring of reports and impact assessments of policy implementation will be presented to the Management Panel and to the Local Pension Board (this is the statutory scrutiny committee).
We acknowledge that appropriate responses to the investment challenge of climate change are evolving rapidly and we commit to review our climate change strategy and policy every three years or otherwise as in line with the investment review cycle.

(2) Investment Strategy

We are aware that climate change will impact all asset classes over the lifetime of the fund. As a result, many assets will be re-priced but the timing of this is uncertain and the impact will vary by asset class due to geography, liquidity and the underlying life of our assets. We also recognise that there is uncertainty over the direction and speed of policy changes in this area. We aim to integrate climate change considerations into the Investment Strategy in a number of ways, as follows.

Asset Allocation

We will consider a range of alternative investment strategies available to manage risks and opportunities related to climate change. These may include active management of carbon risk which results in some reduction of exposure, such as a tilt towards low-carbon companies and assets, alongside company engagement and an increased allocation to low-carbon investment opportunities.

Investment Managers' Oversight

We will engage with our investment managers to ensure they take account of climate change in investment practices and processes. Managers will be encouraged to ensure that active portfolios include positions that maximise the investment benefits, and minimise the risks, from climate change. All Investment Managers are and will be continued to be monitored on their approach to climate change as part of the regular review process.

Use of scenario analysis

We will review a variety of research and analytical materials to encourage the use of scenario analysis which provides estimations of relative performances of asset classes and sectors under different scenarios. When we have found scenario analysis that we consider robust and meaningful, we will request such research be utilised where possible in our Asset Allocation decisions and encourage our investment advisers to do likewise.

Climate-Related Investment Opportunities

Climate-related investment opportunities are available in areas such as energy efficiency, choice of energy sources, products and services and new markets. We consider that currently there are limited climate related investment opportunities in the public markets with more opportunities existing in the private markets across private equity, private debt, infrastructure and real assets. This has asset allocation implications due to the illiquidity and complexity of some of these asset classes. Property is a significant asset class allocation and we are aware that buildings are responsible for over one-third of total green-house gas emissions in the UK. For directly-held properties, we will look to work with our property management teams on focus areas such as energy management and owner-occupier relations to reduce these emissions, and we will expect indirectly held property managers to do likewise.

Through the drive and vision of the Greater Manchester Pension Fund Management Panel, in April 2015, the Fund and the London Pensions Fund Authority formed a joint venture to invest directly in infrastructure assets, offering excellent value for money with a focus on the UK. West Yorkshire, Merseyside and Lancashire County Council pension funds joined in December 2016, increasing commitments to GLIL of **£1.3 billion**. GLIL began investing in October 2015 and has completed three transactions with a total value of more than £250 million as at 31 March 2017 and two particular key renewable energy investments include:

- *Clyde Wind Farm* - **£150m** commitment - GLIL's largest transaction was the purchase from Scottish and Southern Energy of a 21.7% stake in Clyde wind farm. Clyde is one of the largest wind farms in Europe, with 154 operational turbines capable of generating 350 megawatts. GLIL has recently exercised its option for a follow on investment in this asset to construct a further 54, more powerful turbines on the site.
- *East Anglia rail franchise* - The financing of new rolling stock of 378 new vehicles to replace old rolling stock, creating faster, more frequent and less polluting journeys.
- *Leeming Biogas Limited* – **£60m** commitment in one of the largest anaerobic digesters in the country - converting up to 80,000 tonnes of food waste a year into bio methane which will be injected direct into Northern Gas Network's pipeline and provides enough energy to power more than 2,500 homes.

Another innovative approach adopted by the Fund is an allocation of up to **£210 million** into an Impact Portfolio. This portfolio has the twin aims of generating a commercial return and delivering a <u>positive local impact</u>. Examples of investments made in renewable energy include:

- *Albion Community Power* - **£20m** commitment to a power generation company seeking to develop community-scale renewable energy projects. It is one of the largest single sources of equity funding available for projects in the sector.
- *Iona North West Investments* - **£40m** commitment into new and existing environmental infrastructure projects in the North West, which was stated to create hundreds of jobs from clean energy funding in the coming years.

Our Infrastructure Funds portfolio has a number of funds that have invested in renewable energy production in the UK, the US and in parts of Europe. The following are the main examples:

- Arclight Energy Partners VI - **$45m** commitment in US wind and hydroelectric assets.
- I Squared Infrastructure - **$50m** commitment in US hydroelectric power assets, various wind and solar assets in the US, solar assets in Spain.

There are also two specialist renewable energy funds within the portfolio:

- Impax New Energy Investors II - **€11m** commitment - portfolio of mainly European wind assets but also a couple of solar PV assets.
- Capital Dynamics Clean Energy Infrastructure - **$32m** commitment - portfolio of wind assets in the US and the UK.

(3) Risk Management

Climate risk will be measured and managed by integrating climate change into our risk management processes. We, or our managers on our behalf, will also consider the following:

- include climate related financial risk on our risk register;
- monitor the scheme's carbon intensity;
- monitor policy dialogues for early indicators of change; and
- increase internal awareness of publicly available climate change scenarios and other risk analysis tools.

This will include seeking to reduce climate-related risks by improving the resilience of our investments where possible as well as identifying investments where appropriate in suitable low-carbon assets to rebalance the investment portfolio away from carbon intensive assets.

<u>*Company Engagement*</u>

Where shares are held directly by the Fund, we identify, with guidance from investment managers and advisers, companies in our portfolios that are at the greatest financial risk from the transition to a low-carbon economy. We use our shareholder rights to engage directly, collaboratively (including with LAPFF) and through our fund managers, with companies exposed to the greatest risks, to encourage them to adapt their business models to ones that are better aligned to a low carbon economy. We further encourage companies to take account of the Financial Stability Board Task-Force on Climate-Related Financial Disclosure (TCFD) recommendations. Company responsiveness to engagement is taken into account in voting activity and the Fund will co-file and support relevant shareholder resolutions where appropriate. Where possible, we extend this engagement to investee companies across all asset classes.

Additionally, we are a signatory to The Climate 100+ which aims for investors to primarily engage with companies in their ‘home’ markets. Outcomes are demonstrable and can be endorsed. For example, Carbon Tracker has identified that 90% of Petrobras’ reserves will be required in a 2 degree scenario because they are low cost reserves relative to the reserves of the rest of the market. If companies are able to conclusively demonstrate that their business is consistent with the below 2 degree scenario, they may be de-listed from the Climate Action 100+ initiative.

Public Policy
Policy uncertainty is a major source of climate-related risk, as policy unpredictability makes the parameters of investment decisions and forecasts of economic outcomes less certain. As such, the Fund commits to play an active role in engagement with policymakers and regulators whether directly, through its membership of LAPFF and other groups, or both. This encompasses encouraging policy makers to address market failures and to provide an appropriate strategy and policy framework, which encourages the transition to a low carbon economy. We will report on our policy objectives and activities annually in our Annual report starting with the next one due to be published in September 2018.

Collaboration
We believe collaboration with other investors helps influence and improve market best practice standards as well as strengthening the voice of asset owners and their pension beneficiaries. Consequently, through our own activities and by our membership of the Local Authority Pension Fund Forum and other organisations, we aim to support 1.5 to 2 degree business model scenarios and participate in:

- engagement with companies to improve their approaches to climate change as well as encourage them to report on their actions for future business model scenarios;
- influencing policy makers; and
- promotion of relevant research projects in areas, such as developing standardised carbon intensity measures, and investment initiatives that improve information flow and investment opportunities.

Recent significant developments to our approach include:

- Supporting the Transition Pathway Initiative (TPI), which aims to evaluate what the transition to a low carbon economy looks like for companies in high-impact sectors starting with oil and gas, mining, electricity generation, cement, iron and steel and autos. This enables asset owners and other stakeholders to make informed judgements about how companies with the biggest impact on climate change are adapting their business models to prepare for the transition to a low carbon economy.

- Partnering with the 50/50 Climate Project, which will provide research on company risks and opportunities, analysis of corporate-board climate competencies, and involvement in campaigns to refresh boardrooms as well as supporting the development of a pipeline of credible ‘climate-literate’ director candidates.

- We are also collaborating with ShareAction on a European-wide project led by the World Wide Fund for Nature (WWF) that aims to foster the alignment of investment portfolios with a below 2°C scenario. In February 2017, WWF started engaging with the 100 largest European asset owners offering each participant the opportunity assess the alignment of their public equity holdings to the 2°C climate scenario from the International Energy Agency (IEA). They are using a methodology currently being developed and tested by the Sustainable Energy Investment (SEI) metrics research consortium, led by 2 Degrees

Investing Initiative and of which WWF is a member. The SEI methodology is rapidly gaining mainstream recognition, for example:

- AXA used the SEI methodology in the report which won them "Best Investor Climate-Related Disclosures" in the contest organized by the French Minister of the Environment last October: https://cdn.axa.com/www-axa-com%2Fcb46e9f7-8b1d-4418-a8a7-a68fba088db8_axa_investor_climate_report.pdf).
- The Swiss government and 2 Degrees Investing Initiative are carrying out this assessment for approximately two-thirds of the country's insurance and pension funds https://www.ipe.com/news/esg/swiss-pension-funds-insurers-offered-2c-climate-alignment-tests/www.ipe.com/news/esg/swiss-pension-funds-insurers-offered-2c-climate-alignment-tests/10018733.fullarticle

- WWF has published the below report in July covering a sample of SEI assessment results for Nordic asset owners: http://www.wwf.eu/?303711/Biggest-EU-investors-are-partly-aligned-with-Paris-Agreement-but-more-efforts-needed.

We believe this project will be a valuable source of information for the Fund, especially in light of the current TCFD recommendations on scenario analysis.

(4) Metrics and Goals

We will report progress in our Annual Report and Accounts where possible in line with TCFD recommended metrics. We will also report additional metrics such as the number of collaborative and direct company engagement meetings held. Any measures of carbon intensity undertaken will be used to feed into investment strategy and risk management processes, to highlight specific risks and to guide company and investment manager engagement. We aim to set targets that are measureable and reportable over time. These will cover climate related training, analysis of climate risk across the portfolio, addressing climate risk with asset managers and on asset allocation, including climate-related investment opportunities across asset classes. The Fund's long-term goal is for 100% of assets to be compatible with the net zero-emissions ambition by c.2050 in line with the Paris agreement. This decarbonisation goal will be regularly evaluated in line with our objective of maintaining long-term financial performance.

The Global investor Coalition on Climate Change recommend measuring and reporting to reduce the carbon intensity of portfolios. In order to understand the sources of carbon risk the Fund engaged the leading carbon audit service provider, Trucost, to measure carbon emissions and intensity and provide a carbon footprint of the Fund's listed equity portfolios.

Carbon foot printing is widely accepted to offer a way for investors to quantify, measure and subsequently manage the carbon exposure associated with their investments. There is no agreed or accepted standard to footprint an investment portfolio and understand carbon risks. It requires a combination of quantitative and qualitative assessments. As might be expected, in some sectors, direct emissions are a key component of business drivers, while others have carbon embedded in areas over which they have limited control. Emission numbers are the simplest and most widely available quantitative data. These can outline how much carbon is emitted by each portfolio using comparable data sets. The Greenhouse Gas Protocol, the most widely used international accounting tool for government and business leaders to assess Greenhouse Gas emissions (GHG), classifies a company's direct and indirect GHG into three scopes.

- Scope 1 – All direct greenhouse gas emission from sources owned or controlled by an organisation.
- Scope 2 – Indirect greenhouse gas emissions from consumption of purchased electricity, heat or steam or other sources of energy.
- Scope 3 – Emissions that are a consequence of the operations of an organization, but are not directly owned or controlled by the organisation. Scope 3 includes a number of different sources of GHG including employee commuting, business travel, third-party distribution and

logistics, production of purchased goods, emissions from the use of sold products, and several more.

It is worth highlighting that emissions data and analysis are not flawless. While scope 1 and 2 are disclosed relatively widely and the data quality can be monitored to some extent, scope 3 is extremely patchy in disclosure and there is a lack of consistent disclosure methodologies. Disclosure can differ widely from one company/industry to another. In addition by showing the three elements at the same time (scope 1, 2 and 3) the same emission can be double or even triple counted by different companies.

Carbon footprint analysis quantifies GHG embedded within the portfolio presenting these as tonnes of carbon dioxide equivalents (tCO2e). Comparing the total GHG emissions of each holding relative to annual revenue, gives a measure of carbon intensity that enables comparison between companies, irrespective of size or geography. The carbon footprint is an analysis of the GHG embedded within the portfolio. This is achieved by carrying out a carbon footprint for each individual holding encapsulating both direct and first tier indirect impacts. Direct emissions result from a company's own operations and include GHG emissions from boilers and company owned vehicles, emissions from any manufacturing operations and waste produced. First tier indirect impacts, also termed supply chain impacts, occur because of the goods or services a company procures. This includes purchase electricity, business travel and logistics.

The two principal reasons why the carbon exposure of active equity may differ from the benchmark are industrial sector and stock allocation decisions. Sector allocation decisions will cause the carbon intensity of the portfolio to diverge markedly from the benchmark where the sector/s are either carbon intensive or low carbon. If the portfolio is overweight in carbon intensive sectors the portfolio is likely to be more carbon intensive than the benchmark. However, if the stocks within a carbon intensive sector are the most carbon efficient companies, it is possible that the portfolio may still have a lower carbon footprint than the benchmark.

The Pension Fund's alignment with a 2 degrees objective will allow us to measure and understand the pension Fund's contribution to the international goal of limiting global warming to 2 degrees Celsius by 2050.

Trucost have analysed the Fund's holdings against a benchmark of the 27 countries of the European Union and of the OECD countries (source: World Bank). The assessment has been made on companies involved in power generation in the portfolios. This is because power generation is often considered the most carbon intensive activity in a portfolio it is a good proxy for a 2 degrees alignment measurement. The results shows that the portfolio's current share of renewable power generation as well as the alternative power generation in the mix is lower than that of EU27, OECD status in 2014.

I'm pleased to say the Independent Analysis by True Cost have found that the active decisions of the Fund managers have resulted in a less carbon intensive fund, which is better aligned with 2 degree scenario. This is because overall the equity holdings possesses lower fossil fuel proportion than the benchmark as we are less exposed to oil and coal, whilst the natural gas exposure is considerably higher than the proportions under IEA's 2 degree scenario for 2030 globally.

Whilst the Fund has historically had a relatively high exposure to fossil fuel companies, it is also at the forefront of actions to finance an orderly transition to a low carbon economy. It is vital that as a society, we invest in new renewable energy capacity, to replace our historic reliance on fossil fuels.

As long term investors, we are clear that pension funds can play a crucial role in this.

Within the last two years, the Fund has increased its strategic allocation to infrastructure to 10%, unlocking over £2 billion of assets for this purpose. A key strategy within this allocation is investments in low carbon and renewable energy opportunities.

However, the pace of investment must be consistent with our risk framework, and not detract in any way from our fiduciary responsibilities to pay our pension promises to public sector workers which are affordable and sustainable to the taxpayer.

All employers and the taxpayer have benefited from this outperformance through lower employer contribution rates and the Fund being better funded than most LGPS funds, which will provide more long term benefits to the employers in the Fund and enables more to be spent on local services.

Over the shorter term, returns from our holdings in companies exposed to fossil fuels have materially enhanced the Fund returns reducing the liability impact on employer and taxpayers who ultimately meet the costs of pensions if insufficient returns are not made on investments.

Finally, the Fund is committed to transparency. In October, the Greater Manchester Pension Fund held what is believed to be the first LGPS stakeholder engagement and stewardship event with support from the Pensions & Investment Research Consultants Ltd (PIRC). PIRC are Europe's largest independent corporate governance and shareholder advisory consultancy whose objective is to facilitate and support responsible capital stewardship by long-term investors. PIRCs role is to assist the Greater Manchester Pension Fund effectively exercise its shareowner rights and to identify and mitigate governance risk in its portfolios and set 'Environmental, Social and Governance (ESG) Criteria'.

The Environmental, Social and Governance (ESG) Criteria is a set of standards for a company's operations that socially conscious investors use to screen investments. Environmental criteria looks at how a company performs as a steward of the natural environment. Social criteria examines how a company manages relationships with its employees, suppliers, customers and the communities where it operates. Governance deals with a company's leadership, executive pay, audits and internal controls, and shareholder rights.

The event which was open to all stakeholders provided an opportunity to learn about the Fund's current approach to Responsible Investment and to have an input into shaping the evolution of the future approach. Almost 80% of survey respondents agreed with the Fund's general approach to engage with companies rather than divest from them. There was overwhelming support to the approach that the Fund is taking which will enable it to continue to be the most successful local Government Fund over the last 30 years, and in particular the table below sets out the response in favour of the Fund's approach:

To what extent do you agree with the Fund's:	% in support
✓ policy statements represent a positive approach to ESG issues?	83%
✓ approach to its voting policy?	86%
✓ collaborative approach to engagement?	90%
✓ general approach to engage with companies rather than disinvest from them?	76%
✓ approach to measuring climate change risk?	85%
✓ approach to managing climate risk?	85%
✓ approach to holding the Fund Managers to account for their implementation of the Fund's ESG policies?	86%
✓ approach to being transparent on its ESG policies?	91%
✓ broad approach to investing locally with the twin aims of making a positive ESG impact and achieving a commercial rate of return?	92%
✓ approach to direct UK infrastructure investing?	93%
✓ ambition to develop housing in the local area?	90%

IN CONCLUSION

The Fund's Management Panel (governing body) intends that the Fund's Responsible Investment policy be brought into line with the goals of the 2015 Paris Agreement addressing climate change.

We are undertaking a strategic review of the Fund's exposure to climate risk to be carried out and options for a decarbonisation plan. The Fund recognises that climate change is a systemic risk and thus, a material long-term financial risk for investors who must meet long-term obligations. Our Climate Risk approach is developing in four key areas:

1. Strategic review – which looks at how climate change may be integrated into investment beliefs and investment policies.
2. Strategic asset allocation – covering the measurement and management of climate change risks and opportunities within existing asset allocation and through evolving asset allocation over time.
3. Mitigation investment actions – looks at options for reducing the carbon intensity of existing assets, along with opportunities to invest in low carbon, clean energy and energy efficient assets.
4. Adaptation investment actions – looks at options for reducing the vulnerability of existing assets to the physical impacts of climate change as well as building exposure to adaptation solutions.

The Fund is not adopting this approach from a standing start as regards climate-aware investing and much of the task now involves a scaling-up of activities.

As part of the strategic review we will use climate scenario analysis to further articulate our investment beliefs on climate and to shape these into investment strategy goals (e.g. at the asset allocation level). We welcome the recommendations of the Financial Stability Board's Taskforce on Climate-related Financial Disclosures (recently presented formally to the G20) and commit to including a TCFD statement in our financial reporting from 2017/18 as part of our on-going climate risk assessment and disclosure.

The Fund recognises that like all pension funds it has assets within its investment portfolio that are at risk of becoming 'stranded' in a 2 degree scenario. It intends to address this risk through a suitable decarbonisation plan that measures the Fund's ownership responsibility for emissions; locates the areas within the public equities portfolio of highest carbon and reserves intensity; and implements a plan for re-balancing the portfolio that substantially reduces exposure to this intensity. The decarbonisation plan may involve a partial divestment of carbon intensive assets, but full divestment of fossil fuels companies is not considered to be sufficiently in line with fulfilling the Fund's investment objectives. The decarbonisation plan will be similar to those being carried out by other leading European asset owners, such as ABP (Netherlands), AP4 (Sweden), FRR (France) and the Environment Agency Pension Fund (UK).

The Fund will continue to engage appropriately with the fossil fuel companies in its ownership to require that they adequately review and align their business models towards transition to a low carbon economic future. The engagement will be carried out collaboratively (with LAPFF & others) and informed and shaped by Carbon Tracker and the Transparency Pathway Initiative.

The Fund will continue to deploy capital at scale into renewable energy. This is being carried out primarily through the Fund's investments in Infrastructure, which is 10% of the strategic asset allocation. The projects supported include large and smaller scale wind, solar, hydro and energy-from-waste projects in the U.K. and overseas.

The Fund is considering a portfolio decarbonisation exercise, which will measure and report its portfolio carbon footprint as including carbon emissions intensity and carbon reserves. The Fund commits to reduce this footprint by changing the composition of its passive (index-tracking) public equities portfolio in such a way that significantly reduces emissions and reserves intensity from the current level. The details of how this will be implemented are in the process of being worked through, but will likely involve a process of risk-based screening of particular stocks from the passive portfolio (either by a reduction or a removal of their presence in the portfolio) over the next two years.

We believe that this exercise could be described as a 'partial divestment' using FF:UK's definition of that term, although the Fund considers this to be primarily a risk-based approach in line with our long-term strategic goals.

I hope this explains why the call by Fossil Free UK to divest from fossil fuels creates an unacceptable risk and why the pace of decarbonisation must be consistent with our risk framework, and not detract in any way from our fiduciary responsibilities to pay our pension promises to public sector workers which are affordable and sustainable to the taxpayer. All employers and the taxpayer have benefited from this outperformance of the Greater Manchester Pension Fund through lower employer contribution rates and the Fund being better funded than most LGPS funds, which will provide more long term benefits to the employers in the Fund and enables more to be spent on local services. In particular residents of Greater Manchester have benefitted significantly from our approach to local investments both in terms of benefiting the local economy and creating local homes.

Yours sincerely,

Executive Leader &
Chair of the Greater Manchester Pension Fund

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Response from Fossil Free Greater Manchester to GMPF's INVESTMENT STRATEGY STATEMENT

Our comments concern section 9: Socially Responsible Investment.

1. (9.1) We note, and welcome, the statement that *"... the Fund may choose to actively invest in or disinvest from companies for social, ethical or environmental reasons, so long as that does not risk material financial detriment to the Fund"*, a policy position adopted in 2015 in response to a previous consultation. In this connection we also note that the Fund has excluded tobacco investments on public health and reputational grounds. This is a clear precedent for divesting from other stocks detrimental to public health and well-being.

2. (9.2) We note, and welcome., the statement that *"As a responsible investor, the Fund wishes to promote corporate social responsibility, good practice and improved company performance amongst all companies in which it invests."* However, we will go on to question the Fund's strategies for doing this.

3. (9.3) We acknowledge the primary duties of the Fund's Trustees *" to manage the Scheme in the best financial interests of the Scheme members and beneficiaries"*. However we suggest that explicit reference be made to The Pensions Regulator's guidance: "*Most investments in pension schemes are exposed to long-term financial risks, which may include risks around long-term sustainability. These can relate to factors such as climate change, responsible business practices and corporate governance. We expect you to assess the financial materiality of these factors and to allow for them accordingly in the development and implementation of your investment strategy."*[1]

4. (9.4) We welcome the statement that the Fund will pursue specific issues with companies. As we argue below, this requires the deployment of a repertoire of methods and sanctions since not all these issues will yield to the same kinds of pressure.

5. (9.5) We very much welcome the inclusion in this draft of the statement, *"Climate change is a key financially material environmental risk".* However, the implication of this is not clearly stated - that the Fund must be decarbonised in order to mitigate that risk.

   We propose amending paragraph 9.5 to read as follows, and moving the rest of the current text into a new paragraph:

   Climate change is a key financially material environmental risk. The Fund recognises that it must decarbonise its portfolio in order to reduce this risk.

1 http://www.thepensionsregulator.gov.uk/trustees/db-investment-strategy.aspx

6. We note that *“Company engagement is a key element of the Fund’s approach to climate change”* and question the privileging of this method above others. We do acknowledge that engagement can be an effective means of exerting influence on company policy and practice. By “engagement” we mean shareholder activism, through proposing and supporting motions and raising questions at Annual General meetings, by convening meetings with company directors on specific issues, and by writing formally as a shareholder to request actions and changes. Engagement also requires rigorous follow-up, monitoring and evaluation and from LAPFF reports we are not convinced this is necessarily in place.

   For engagement to be effective it also requires clear objectives, timescales and sanctions should objectives not be achieved. If engagement is the only tool in the Fund's hands, then it is likely to be ineffective. As global consulting firm Mercer note in their influential 2015 Climate Risk report:

   “*Options depend on portfolio analysis, implementation considerations, and scenario signposts over time. May include exiting positions with highest climate risk exposure...”*[2]

   As the draft document stands it looks like the Fund's only strategy is engagement and we doubt if this is the case, at least given the precedent of tobacco investments. We would expect to see this reflected in the Investment Strategy Statement by adding the following new paragraph after current paragraph 9.8:

   The Fund recognises that for engagement to be effective it requires clear objectives, timescales and sanctions such as reducing exposure to the companies in question should the objectives not be achieved.

7. (9.6) This paragraph makes a claim, that GMPF, with other partners, has a powerful voice. We would want to question this, given the evidence on fossil fuel companies, for example on the ineffectiveness of the engagement strategy with the Fund's two biggest holdings, Shell[3] and BP[4] and with mining companies[5], at least in the absence of the multi-pronged strategic repertoire that we outline above. The evidence is that the fossil fuel companies have shown no moves away from strategies of further exploration and extraction of fossil hydrocarbons. There is no prospect of them becoming integrated energy companies. We therefore seriously question the privileging of “engagement” in the Fund's draft statement.

2 https://www.mercer.com/our-thinking/investing-in-a-time-of-climate-change.html

3 https://shareaction.org/wp-content/uploads/2017/10/InvestorReport-AimingForA-Shell.pdf

4 https://shareaction.org/wp-content/uploads/2017/10/InvestorReport-AimingForA-BP.pdf

5 https://www.marketforces.org.au/2017-agm-rio-tinto-ignore-community-and-climate-concerns/
http://londonminingnetwork.org/2016/04/the-real-world-is-thus-the-2016-anglo-american-agm/
https://www.carbontracker.org/glencore-seaborne-coal-demand-climate-risk-disclosure-china-india/

8. (9.9) We note with approval that, *“The Fund actively invests in low carbon and renewable energy technology where suitable opportunities arise, in order to encourage a move toward a lower carbon economy.”* However, we note that these investments remain small in comparison to the Fund's exposure to fossil fuel holdings.

   We would want to see more ambition and a focus on Greater Manchester’s low carbon economy, as prioritised in the GMCA's Strategy, by amending paragraph 9.9 as follows:

   The Fund actively invests in low carbon and renewable energy technology and will seek to increase the scale of investment in this sector, in order to encourage a move toward a lower carbon economy in Greater Manchester and beyond.

9. (9.10) We would also like to see more ambition on Local Investments, and for the criteria to be extended to include environmental as well as social impacts, as follows:

   The Panel has approved an allocation to Local Investments, which has the twin aims of generating a commercial return and delivering a positive social and/or environmental impact. The Panel will review and actively seek opportunities to increase this allocation.

Conclusion

1. We welcome the commitment from the Fund to actively decide to invest or divest for social, ethical or environmental reasons (with the necessary qualification re: financial probity). But we are concerned that this principle seems to be only partly reflected in the discussion on climate risk. This seems perverse given the high loading of fossil fuel investments in the Fund's portfolio.

2. We welcome the recognition of climate risk as a material issue for the Fund's investment strategy as well as the Fund's commitment to joint action with other investors. But we find the privileging of engagement over other elements of a viable repertoire a matter of concern, effectively impairing the Fund's effectiveness as a responsible investor.

3. We welcome, the Fund's commitments to invest in low carbon alternatives and the local economy but believe there is room for a stronger statement of commitment to these areas.

4. We urge the Fund to include the following suggested new wording within the Investment Strategy Statement:

Amendment to paragraph 9.5 (and move the remainder of paragraph 9.5 into a new paragraph):
Climate change is a key financially material environmental risk. The Fund recognises that it must decarbonise its portfolio in order to reduce this risk.

New paragraph after current paragraph 9.8:
The Fund recognises that for engagement to be effective it requires clear objectives, timescales and sanctions such as reducing exposure to the companies in question should the objectives not be achieved.

Amendment to current paragraph 9.9:
The Fund actively invests in low carbon and renewable energy technology and will seek to increase the scale of investment in this sector, in order to encourage a move toward a lower carbon economy.

Amendment to current paragraph 9.10:
The Panel has approved an allocation to Local Investments, which has the twin aims of generating a commercial return and delivering a positive social and/or environmental impact. The Panel will review and actively seek opportunities to increase this allocation.

Fossil Free Greater Manchester continues to call for full divestment from fossil fuel holdings by means of a phased programme of responsible divestment and re-investment in positive alternatives. We propose that the first divestments are from those fossil fuel companies (such as coal mining companies, and companies involved in tar sands and other unconventional oil and gas) that are most damaging to the climate and the shared futures of Fund members, citizens of Greater Manchester and the world, and future generations.

November, 2017

Fossil Free Greater Manchester
c/o Manchester Friends of the Earth
Green Fish Resource Centre
46-50 Oldham Street
Manchester
M4 1LE

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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Agenda Item 16

Report To:	**GMPF MANAGEMENT PANEL**
Date:	23 March 2018
Reporting Officer:	Paddy Dowdall, Assistant Director of Pensions, (Local Investments and Property)
Subject:	**GMPF BUDGET 2018/2019 AND FUTURE MEDIUM TERM FINANCIAL PLANNING**
Report Summary:	This report asks the Management Panel to approve an expenditure budget for GMPF for 2018/19 with a medium term financial plan. (An updated version will be included in the Annual report for 2017/18).
Recommendations:	1) That the Management Panel approves the expenditure budget for 2018/19. 2) That the Management Panel approve the Medium Term Financial Plan. 3) That it is noted that the Medium Term Financial Plan will be updated for information available including Fund value at 31 March 2018 and included in the Annual Report for 2017/18. 4) That it is noted that there is an intention to review all budgets annually and undertake a zero based budget approach.
Financial Implications: (Authorised by the Section 151 Officer)	The financial implications are set out in the report. There is a projected increase in expenditure which supports strategic change at the Fund to optimise net risk adjusted returns on investments and to provide efficient administration in order to ultimately minimise the contributions paid by employers.
Legal Implications: (Authorised by the Solicitor to the Fund)	There is a duty on the Fund to achieve best value and consequently the Panel need to ensure through such monitoring that value for money is being achieved.
Risk Management:	Failure to properly manage and monitor the Fund's budgets may lead to a reduction in service standards for scheme members or employers, or a loss of confidence in the management of the fund.
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 used in the preparation of this report were: 1. The 2017/2018 Financial Ledger

2. Budget Working Papers

Any enquiries should be directed to Tracey Boyle, 0161 301 7116 (email: tracey.boyle@tameside.gov.uk)

1. INTRODUCTION

1.1 This report asks the Management Panel to approve an expenditure budget for GMPF for 2018/19 alongside a medium term financial plan for 2018 to 2021. The Employer Funding Working Group has previously considered the budget and approved it to be taken forward to the Management Panel.

1.2 The medium term financial plan is essentially dependent upon the assumptions in the Funding Strategy Statement, and the out-turn is largely subject to financial markets and their impact on investment performance.

1.3 The medium term financial plan 2018 to 2021 will be finalised for the annual report following, approval of budget and more up to date information on position at 31 March 2018.

2. OVERVIEW AND CONTEXT

2.1 As required by CIPFA Guidance on preparing the Annual Report for Local Government Pension Scheme Funds, GMPF's annual report, following approval on assumptions and process by the Management Panel, produced a medium term financial plan in its annual report and accounts for 2016/17. This is detailed below.

Medium term Financial Plan 2017-2020 (as included in Annual Report 2016/17)

	2017/18	2018/19	2019/20
	£m	£m	£m
Fund Size at Start of Year	**21,272**	**22,065**	**22,878**
Fund Size at end of Year	**22,065**	**22,878**	**23,731**
Pensions Paid	(690)	(718)	(727)
Contributions received	619	634	648
Transfers	0	0	0
Net Cash-flow	**(71)**	**(84)**	**(79)**
Administration Costs	(30)	(30)	(30)
Investment Income	329	343	358
Increase in Value of Investments	565	584	604
Net Return from Investments	**894**	**927**	**962**
Net Change in Fund	**793**	**813**	**853**

2.2 The key observations at the time of considering the plan were that:-

- Investment returns are the key determinant of the financial position.
- The Fund has a negative cash-flow from pensions paid less contributions and the trend is for this to increase as the Fund matures.
- The management costs are small relative to Fund size and annual cash flows and are assumed to remain constant in the medium term. (This is due to uncertainty over pooling arrangements and the Fund's zero based budgeting approach)

2.3 At the time of writing the report we are still 1 month away from the end of the financial year, so it is not possible to project an out-turn, largely due to the volatility of investment returns and the profiling of some of the cash flows. This out-turn will be reported to Management Panel alongside the final accounts at the next meeting.

3. BUDGET CHANGES FROM 2017/18 BUDGET FOR 2018/19

3.1 The key changes are set out in the table overleaf and reflect the implementation of policies approved by the Management panel including changes to investment management arrangements which make up the major part of the changes

Expenditure	Changes £'000	Significant components of changes
Staff costs	142	**126** provision for 2% pay award **50** due for salary scale incremental advances **(34)** net effect of removal and introduction of several posts.
Indirect on Costs	14	Increase in provision for staff training.
Publications and Subscriptions	3	Inflation increases
Travel and Subsistence	(11)	Small reduction in provision required for staff travel.
Premises	(166)	**(30)** Reduction in expected utility charges **(115)** reduction in rent charge provision **(36)** reduction in provision required for additional security costs **15** increase in anticipated facilities management charges.
Postage, Printing, Telephone	11	Inflation increases
Office Equipment and Software	27	Small provision created to replace some existing computer hardware.
Investment Advisory Expenses	3	Inflation increases
Bank Charges and Nominee Fees	33	Increased custodian bank charges due to increase in value of Fund assets held.
Investment Management Fees	1,490	**315** increase expected due to change of global equity manager **900** increase in Credit Manager fees **275** increased fee for property manager due to increase in size and value of portfolio
Actuary and Professional Fees	(170)	**(400)** reduction in Pooling related professional costs **210** increase in expected professional costs associated with investment manager performance review and procurement **20** increase in expected employer related actuary fees
Performance Measurement Services	(1)	Minor reduction in expected fees.
Communications	7	Inflation increases
Central establishment charges	8	Inflation increases
Recovery of Management and Legal Fees	(35)	Projected increase following annual review of legal recharge rates.
Admin Fees	(36)	Projected increase in expected number of admitted bodies joining the Fund in 2018/19.
	1,319	

4. MEDIUM TERM FINANCIAL PLAN 2018-2021

4.1 The assumptions for medium term financial planning going forward are detailed in the table below.

Fund Investment Return	5.2% per annum over the long term
Inflation	CPI Bank of England Forecast (around 2.5% central case in November)
Pay Inflation	2%
Employer Payroll	From actuarial valuation
Pensioner Profile	From actuarial valuation
Budget	2018/19 taken forward

4.2 The proposed medium term financial plan for 2018-2021 is shown below.

	2018/19	2019/20	2020/21
	£m	**£m**	**£m**
Fund Size at Start of Year	**22,700**	**23,643**	**24,589**
Fund Size at end of Year	**23,642**	**24,588**	**25,534**
Pensions Paid	(816)	(861)	(910)
Contributions received	609	609	609
Transfers	0	0	0
Net Cashflow	**(207)**	**(252)**	**(301)**
Administration Costs	(31)	(31)	(31)
Investment Income	403	424	446
Increase in Value of Investments	777	805	832
Net Return from Investments	**1,180**	**1,229**	**1,278**
Net Change in Fund	**942**	**946**	**946**

4.3 Key observations to be considered are:-

- The maturity of the Fund continues and accelerates
- Investment income is still higher than outflows to pensioners net of contributions
- Investment returns are key driver of outcomes

5. RECOMMENDATIONS

5.1 As stated at the front of the report.

APPENDIX 1

Expenditure budget setting 2018-19

Type of Expenditure	(1) Original Estimate 2017/18	(2) Increase/ (decrease)	(3) Original Estimate 2018/19	(1) Projected outturn 2017/18	(2) Increase/ (decrease)	(3) Original Estimate 2018/19
	£'000	£'000	£'000	£'000	£'000	£'000
Staff Costs						
Staff costs	6,314	142	6,456	5,459	997	6,456
Indirect on Costs	100	14	114	90	24	114
	6,414	156	6,570	5,549	1,021	6,570
Direct Costs						
Publications and Subscriptions	102	3	105	103	2	105
Travel and Subsistence	106	(11)	95	89	6	95
Premises	1,110	(166)	944	1,023	(79)	944
Postage, Printing, Telephone	204	11	215	164	51	215
Office Equipment and Software	1,038	27	1,065	963	102	1,065
Investment Advisory Expenses	65	3	68	66	2	68
Bank Charges and Nominee Fees	414	33	447	434	13	447
Investment Management Fees	18,261	1,490	19,751	17,039	2,712	19,751
Actuary and Professional Fees	1,802	(170)	1,632	1,350	282	1,632
Performance Measurement Services	128	(1)	127	105	22	127
Communications	285	7	292	290	2	292
	23,515	1,226	24,741	21,626	3,115	24,741
Central Establishment Charges	395	8	403	395	8	403
Less:						
Recovery of Management and Legal Fees	(696)	(35)	(731)	(674)	(57)	(731)
Admin Fees	(20)	(36)	(56)	(52)	(4)	(56)
Commission Recapture	(100)		(100)	(68)	(32)	(100)
	29,508	**1,319**	**30,827**	**26,776**	**4,051**	**30,827**

Report To:	**PENSION FUND MANAGEMENT PANEL**
Date:	23 March 2018
Reporting Officer:	Paddy Dowdall, Assistant Director of Pensions (Local Investments and Property)
Subject:	**2017/2018 EXTERNAL AUDIT PLAN**
Report Summary:	A report of Grant Thornton is attached, which sets out the external auditor's approach to the 2017/2018 audit.
Recommendations:	That the Management Panel note the contents of the report.
Financial Implications: (Authorised by the Section 151 Officer)	The estimated audit fee for 2017/2018 is £56,341
Legal Implications: (Authorised by the Solicitor to the Fund)	It is a requirement that the Fund's accounts are externally audited.
Risk Management:	In undertaking the audit, the auditor will identify the business risks and assess the Fund's own risk management and internal control environment. The auditor will also consider the financial performance and provide reassurance that the accounts provide a "true and fair view".
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:	Any enquiries should be directed to Tracey Boyle, 0161-301-7116 (email: tracey.boyle@tameside.gov.uk)

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Grant Thornton

External Audit Plan

Year ending 31 March 2018

Greater Manchester Pension Fund

9 March 2018

Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Fund or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. 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.

Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Greater Manchester Pension Fund ('the Fund') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Greater Manchester Pension Fund]. We draw your attention to both of these documents on the PSAA website.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance the Overview (Audit) Panel of Tameside MBC.

The audit of the financial statements does not relieve management or the Overview (Audit) Panel of your responsibilities.

Our audit approach is based on a thorough understanding of the Fund's business and is risk based.

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Significant risks	Those risks requiring specific audit consideration and procedures to address the likelihood of a material financial statement error have been identified as: • Fraud in revenue recognition – This risk has been rebutted for the Fund as documented on page 5 • Management over-ride of controls • Valuation of Level 3 Investments. We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.
Materiality	We have determined planning materiality to be £212.7m (PY £212.7m), which equates to 1% of your net assets. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £10.6m (PY £10.6m).
Audit logistics	Our interim visit will take place in March 2018 and our final visit will take place in June 2018. Our key deliverables are this Audit Plan and our Audit Findings Report. Our fee for the audit will be no less than £56,341 (PY: £56,341) for the Fund. Where requests are received from other auditors of other bodies for assurance in respect of information held by the Fund and provided to the actuary to support their individual IAS 19 calculations these will be billed in addition to the audit fee on a case by case basis. We estimate this fee to be £5,996 for 2017-18.
Independence	We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements

Deep business understanding

Changes to service delivery

Pooling

Arrangements for the pooling of investments continue to develop. The DCLG have reported on the progress of pools and noted the pace of development, including the launching of procurements for pool operators, appointing senior officers and preparing applications for Financial Conduct Authority authorisation. This remains a challenging agenda, with arrangements required to be in place from 1 April 2018. These arrangements will have a significant impact on how investments are managed and monitored, with much of the operational responsibility moving to the pool operator. It remains key that administering authorities (through Pension Committees and Pension Boards) continue to operate strong governance arrangements, particularly during the transition phase where funds are likely to have a mix of investment management arrangements. We will continue to discuss with fund officers their plans for asset pooling and the implications this will have on the investment policy and governance arrangements of the fund.

Markets in Financial Instrument Directive (MiFID II)

January 2018 saw the implementation of MiFID II. The impact for the Fund is that to be able to continue to access the same investments as previously, it needed to apply to ‘opt up’ and gain election to professional status. Without this change in status some financial institutions could terminate their relationship with the Fund, which may have an adverse impact on the achievement of the investment strategy.

On-going Matters

- Indexation and equalisation of GMP in public service pensions schemes
- Reforms to public sector exit packages and the application, or not, of the 2013 Fair Deal changes to the LGPS
- SAB work on options for academies within the LGPS and review of Tier 3 employer risks

Changes to financial reporting requirements

Accounts and Audit Regulations 2015 (the Regulations)

The Department of Communities and Local Government (DCLG) is currently undertaking a review of the Regulations, which may be subject to change. The date for any proposed changes has yet to be confirmed, so it is not yet clear or whether they will apply to the 2017/18 financial statements.

Under the 2015 Regulations local authorities are required to publish their accounts along with the auditors opinion by 31 July 2018.

Changes to the CIPFA 2017/18 Accounting Code

CIPFA have introduced minor changes to the 2017/18 Code, these include a new disclosure of investment manager transaction costs and clarification on the approach to investment concentration disclosure.

Key challenges

Financial pressures

At the latest triennial valuation (31 March 2016) the fund had sufficient assets to cover 95% of liabilities. This was an improvement from 93% as at 31 March 2013. The Fund’s assets are now valued at over £21bn. The Fund has a strong approach to governance which has delivered strong financial performance over many years despite exceptionally low long term interest rates. It continues to achieve investment performance in excess of benchmark; stable contribution rates for employers whilst continuing to develop local investment opportunities.

General Data Protection Regulations (GDPR)

GDPR comes into effect in May 2018 and replaces the Data Protection Act 1998. It introduces new obligations on data controllers. The Fund is both a data controller and a data processor and needs to ensure that it has appropriate processes in place to comply with the changes being introduced.

tPR 2016 Governance and Administration Survey

Published in May 2017 whilst showing improvements in governance tPR noted that its focus for 2017/18 would be scheme governance, record keeping, internal controls and member communication and that tolerance for scheme shortcomings in these areas was reducing and that they were more likely to use their enforcement powers where scheme managers have not taken sufficient action to address issues or meet their duties.

Our response

- We will consider whether your financial position leads to uncertainty about the going concern assumption and will review any related disclosures in the financial statements.
- We will keep you informed of changes to the Regulations and any associated changes to financial reporting or public inspection requirements for 2017/18 through on-going discussions.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2017/18 CIPFA Code.

Significant risks identified

Significant risks are defined by professional standards as risks that, in the judgement of the auditor, require special audit consideration because they have a higher risk of material misstatement. Such risks often relate to significant non-routine transactions and judgmental matters. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions	Under ISA (UK) 240 there is a rebuttable 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 ISA240 and the nature of the revenue streams at the 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 • the culture and ethical frameworks of local authorities, including Tameside Metropolitan Borough Council as the Administering Authority of Greater Manchester Pension Fund, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for Greater Manchester Pension
Management over-ride of controls	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. Management over-ride of controls is a risk requiring special audit consideration.	We will: • gain an understanding of the accounting estimates, judgements applied and decisions made by management and consider their reasonableness • obtain a full listing of journal entries, identify and test unusual journal entries for appropriateness • evaluate the rationale for any changes in accounting policies or significant unusual transactions.

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Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The valuation of Level 3 investments is incorrect	Under ISA 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.	We will:. • review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments. • consider the competence, expertise and objectivity of any management experts used. • Review the qualifications of the 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. • For indirect property investments, test valuations to valuation reports and/or other supporting documentation. • For a sample of private equity investments, test valuations to fund manager valuations and/or by obtaining and reviewing the audited accounts at latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciliation of those values to the values at 31st March with reference to known movements in the intervening period.

Reasonably possible risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Contributions	Contributions from employers and employees' represents a significant percentage of the Fund's revenue.	We will: • evaluate the Fund's accounting policy for recognition of contributions for appropriateness; • gain an understanding of the Fund's system for accounting for contribution income and evaluate the design of the associated controls; • test a sample of contributions to source data to gain assurance over their accuracy and occurrence; • rationalise contributions received with reference to changes in member body payrolls and the number of contributing members to ensure that any unusual trends are satisfactorily explained.
Pension Benefits Payable	Pension benefits payable represents a significant percentage of the Fund's expenditure.	We will: • evaluate the Fund's accounting policy for recognition of pension benefits expenditure for appropriateness; • gain an understanding of the Fund's system for accounting for pension benefits expenditure and evaluate the design of the associated controls; • test a sample of individual pensions in payment by reference to member files; • rationalise pensions paid with reference to changes in pensioner numbers and pension increases applied in year to ensure that any unusual trends are satisfactorily explained.

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Reasonably possible risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The valuation of Level 2 investments is incorrect	While level 2 investments do not carry the same level of inherent risks associated with level 3 investments, there is still an element of judgement involved in their valuation as their very nature is such that they cannot be valued directly.	We will • gain an understanding of the Fund's process for valuing Level 2 investments and evaluate the design of the associated controls. • review the reconciliation of information provided by the fund managers, the custodian, the accounting partner (HSBC) and the Fund's own records and seek explanations for variances • consider the competence, expertise and objectivity of any management experts used. • review the qualifications of the expert to value the level 2 investments at year end and gain an understanding of how the valuation of these investment has been reached. • For direct property investments agree values in total to the valuer's report and undertake steps to gain reliance on the valuer as an expert • review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments.

Other matters

Other work

The Fund is administered by [ANOTHER Council] (the 'Council'), and the Fund's accounts form part of the Council's financial statements. Therefore as well as our general responsibilities under the Code of Practice a number of other audit responsibilities also follow in respect of the Fund, such as:

- We consider our other duties under the Act and the Code, as and when required, including:
  - giving electors the opportunity to raise questions about your 2017/18 financial statements, consider and decide upon any objections received in relation to the 2017/18 financial statements;
  - issue of a report in the public interest; and
  - making a written recommendation to the Council, copied to the Secretary of State.
- We carry out work to satisfy ourselves on the consistency of the Fund's financial statements included in the Fund's annual report with the audited Fund accounts.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. 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.

Materiality for planning purposes

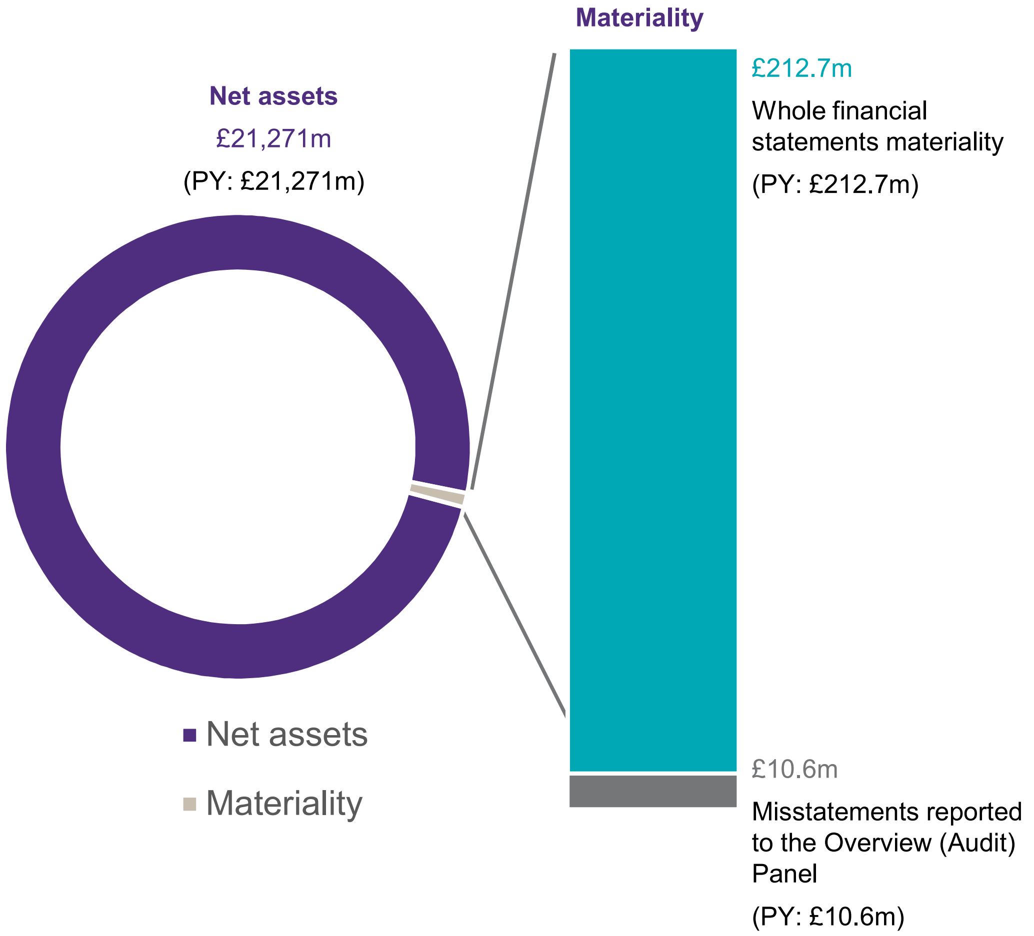
We propose to calculate financial statement materiality based on a proportion of the net assets of the Fund for the financial year. In the prior year we used the same benchmark. We have determined planning materiality (the financial statements materiality determined at the planning stage of the audit) to be £212.7m (PY £212.7m), which equates to 1% of your net assets for the prior year. We design our procedures to detect errors in specific accounts at a lower level of precision.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality

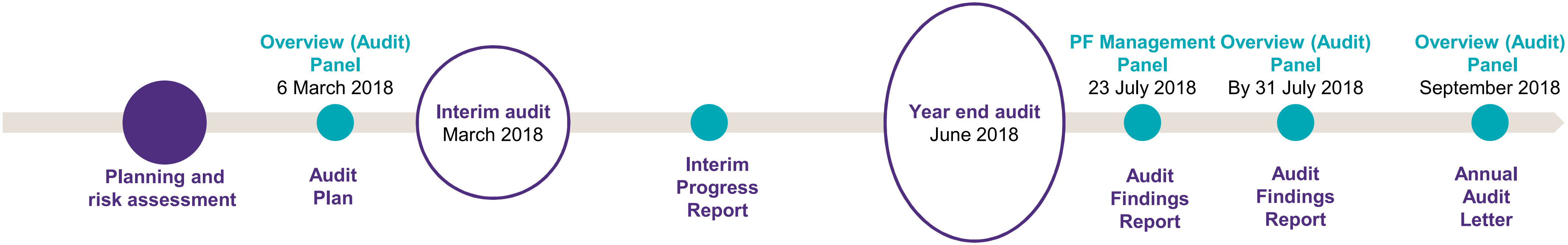
Matters we will report to the Overview (Audit) Panel

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Overview (Audit) Panel any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) ‘Communication with those charged with governance’, we are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance. ISA 260 (UK) defines ‘clearly trivial’ as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £10.6 m (PY £10.6 m).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Overview (Audit) Panel to assist it in fulfilling its governance responsibilities.



Audit logistics, team & audit fees



Mike Thomas, Engagement Lead

Mike will be the main point of contact for the, Section 151 Officer and Senior Pension Fund Executives as well as elected members.. Mike will share his knowledge and experience across the sector and ensure our audit it tailored specifically to you and is delivered efficiently. Mike will review all reports and the team's work.

Marianne Dixon, Audit Manager

Marianne will be responsible for overall management of the audit; quality assurance and quality of audit work and outputs. Marianne will attend key Management Panel meetings as well as Overview (Audit) Panel meetings and draft reports to make sure they are clear, concise and understandable to all.

Mark Stansfield, Audit Incharge

Mark will lead the onsite team and will be the day to day contact for the audit. Mark will monitor the deliverables, manage the query log with your finance team and highlight any significant issues and adjustments to senior management. Mark will undertake the more technical aspects of the audit and coach the junior members of the team.

Audit fees

The planned audit fees are no less than £56,341 (PY: £56,341) for the financial statements audit and £5,996 for the provision of IAS 19 reports to PSAA appointed auditors. In setting your fee, we have assumed that the scope of the audit, and the Fund and its activities, do not significantly change.

Where requests are received from other auditors of other bodies for assurance in respect of information held by the Fund and provided to the actuary to support their individual IAS 19 calculations these will be billed in addition to the audit fee on a case by case basis.

Grant Thornton UK LLP also provides audit services to:

- Matrix Homes Limited Partnership for audit fees totalling £10,000*;
- Plot 5 First Street GP Limited and Plot 5 First Street Partnership Limited for audit fee of £11,000*
- GLIL Infrastructure LLP for audit fee of £8,240*;
- GLIL Corporate Holdings Limited for audit fee of £2,000*
- GMPF Unit Trust £7,450*

These are separate engagements outside the remit of Public Sector Audit Appointments Limited.(* based on 2016/17 audit fees)

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Early close

Meeting the early close timeframe

Bringing forward the statutory date for publication of audited local government accounts to 31 July this year, across the whole sector, is a significant challenge for local authorities and auditors alike. For authorities, the time available to prepare the accounts is curtailed, while, as auditors we have a shorter period to complete our work and face an even more significant peak in our workload than previously.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 11). Where the elapsed time to complete an audit exceeds that agreed due to a client not meetings its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

In return, we will ensure that:

- we will notify you of a list of deliverables in advance of the audit;
- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons. relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

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 Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2016 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Fund.

Non-audit services

No non-audit services have been identified to date

Appendices

A. Revised ISAs

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Appendix A: Revised ISAs

Detailed below is a summary of the key changes impacting the auditor's report for audits of financial statement for periods commencing on or after 17 June 2016.

Section of the auditor's report	Description of the requirements
Conclusions relating to going concern	We will be required to conclude and report whether: • The directors use of the going concern basis of accounting is appropriate • The directors have disclosed identified material uncertainties that may cast significant doubt about the Fund's ability to continue as a going concern.
Material uncertainty related to going concern	We will need to include a brief description of the events or conditions identified that may cast significant doubt on the Fund's ability to continue as a going concern when a material uncertainty has been identified and adequately disclosed in the financial statements. Going concern material uncertainties are no longer reported in an Emphasis of Matter section in our audit report.
Other information	We will be required to include a section on other information which includes: • Responsibilities of management and auditors regarding other information • A statement that the opinion on the financial statements does not cover the other information unless required by law or regulation • Reporting inconsistencies or misstatements where identified
Additional responsibilities for directors and the auditor	We will be required to include the respective responsibilities for directors and us, as auditors, regarding going concern.
Format of the report	The opinion section appears first followed by the basis of opinion section.

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