Tameside Metropolitan Borough

ASHTON-UNDER-LYNE · AUDENSHAW · DENTON · DROYLSDEN · DUKINFIELD · HYDE · LONGDENDALE · MOSSLEY · STALYBRIDGE

GREATER MANCHESTER PENSION FUND MANAGEMENT/ADVISORY PANEL

Day: Friday
Date: 11 March 2016
Time: 9.45 am
Place: Guardsman Tony Downes House, Manchester Road, Droylsden, M43 6SF

Item No.	AGENDA	Page No

MEMBER TRAINING

Robert Plumb, Pensions Regulator, to attend before Members to provide information with regard to the role of the Pensions Regulator.

GENERAL BUSINESS

1. CHAIR'S OPENING REMARKS

2. APOLOGIES FOR ABSENCE

To receive any apologies for the meeting from Members of the Panel.

3. DECLARATIONS OF INTEREST

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

4. MINUTES

a) MINUTES OF THE PENSION FUND ADVISORY PANEL 1 - 12

To approve as a correct record the Minutes of the meeting of the Pension Fund Advisory Panel held on 11 December 2015.

b) MINUTES OF THE PENSION FUND MANAGEMENT PANEL 13 - 18

To approve as a correct record the Minutes of the meeting of the Pension Fund Management Panel held on 11 December 2015.

5. LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

a) URGENT ITEMS

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

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

Item No.	AGENDA	Page No
b)	**EXEMPT ITEMS**	

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

Items	Paragraphs	Justification
8, 9, 11, 12, 13	3&10, 3&10, 3&10, 3&10, 3&10	Disclosure would, or would be likely to prejudice the commercial interests of the Fund and/or its agents which could in turn affect the interests of the beneficiaries and/or tax payers.

ITEMS FOR INFORMATION

16. FUTURE TRAINING DATES

Trustee training opportunities are available as follows. Further information/details can be obtained by contacting Loretta Stowers on 0161 301 7151.

Legal and General Trustee Education Seminars **Oulton Hall, Leeds** Introductory Seminar (08.30 – 12.30) Advanced Seminar (12.30 – 17.00) Risk Management (08.30 – 12.30)	 **21 April 2016** **21 April 2016** **22 April 2016**
NAPF Local Authority Conference **Cotswold Water park** **Four Pillars Hotel** **Gloucestershire**	**16 – 18 May 2016**
UBS Member Training Day **Manchester venue to be advised**	**2 June 2016**
Annual LGPS Trustees Conference 2016 **MacDonald Hotel, Manchester**	**23 – 24 June 2016**

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

LGA Annual Conference 2016 **Bournemouth International Centre**	**5 – 7 July 2016**
NAPF Annual Conference **ACC Liverpool**	**19–21 October 2016**
Capital International Training Day **Manchester venue to be advised**	**1 December 2016**
LAPFF Annual Conference **Marriott Hotel Bournemouth**	**7–9 December 2016**

17. DATES OF FUTURE MEETINGS

Management/Advisory Panel	1 July 2016 23 September 2016 18 November 2016 10 March 2017
Local Pensions Board	30 March 2016
Pensions Administration Working Group	8 April 2016 15 July 2016 14 October 2016 27 January 2017 7 April 2017
Investment Monitoring and ESG Working Group	8 April 2016 15 July 2016 14 October 2016 27 January 2017 7 April 2017
Alternative Investments Working Group	15 April 2016 22 July 2016 21 October 2016 3 February 2017 13 April 2017
Property Working Group	5 August 2016 4 November 2016 17 February 2017 13 April 2017
Policy and Development Working Group	24 March 2016 26 May 2016 6 October 2016 2 February 2017 23 March 2017
Employer Funding Viability Working Group	22 April 2016 29 July 2016 28 October 2016 10 February 2017 21 April 2017

GREATER MANCHESTER PENSION FUND ADVISORY PANEL

11 December 2015

Commenced: 10.00am **Terminated: 12.40pm**

Present:	**Councillor K Quinn (Chair)**
	Councillors: Akbar (Manchester), Brett (Rochdale), Dean (Oldham), Francis (Bolton), Grimshaw (Bury), Halliwell (Wigan), Pantall (Stockport) and Ms Herbert (MoJ)
	Employee Representatives:
	Mr Allsop (UNISON), Mr Drury (UNITE), Mr Flatley (GMB), Mr Llewellyn (UNITE), Mr Thompson (UCATT)
	Advisors:
	Mr Bowie, Mr Moizer and Mr Powers
Apologies for Absence:	**Councillors Dennett (Salford) and Mitchell (Trafford) and Ms Baines**

43. DECLARATIONS OF INTEREST

There were no declarations of interest submitted by Members.

44. REPORTS OF THE MANAGERS

(a) Capital International

Stephen Gosztony, President, Darcy Kopcho, Equity Portfolio Manager, and Martyn Hole, Equity Investments Specialist, attended before Members to present their quarterly report.

Ms Kopcho began by detailing the 12 month results by asset class for the portfolio and explained that the biggest detractor was emerging market returns. She explained that the negative results in this area were taken very seriously and further explained that the approach to emerging markets was being reassessed.

Ms Kopcho made reference to changing objectives going forward with an increased focus on small and medium sized companies, which, it was believed, would deliver growth.

She also gave an overview of Capital's integrated resources around the world and the evolution of emerging markets research coverage and stressed Capital's determination to deliver superior returns in the future.

Ms Kopcho then detailed the asset allocation breakdown as at 30 September 2015 and commented on the superior performance of North American equities over the last 12 months.

She concluded by summarising the portfolio outlook as follows:

- Positive on the US economy and dollar but concerned about US equity valuation;
- Hopeful about Abenomics, however long term problems remained;
- Cautious in many emerging markets as earnings revisions continued to be negative and many countries were moving into deleveraging cycles;
- Belief that Europe was full of good value companies, despite the challenging geopolitical situation; and

- Looking to increase the allocation to equities as a result of shrinking fixed income yields outside the US after a fairly challenging year for equities in some regions.

The Advisors were asked to comment.

Mr Powers made reference to Capital's strong culture of long serving 'home grown' talent and the risks involved in changing a large number of personnel, i.e. the loss of experienced analysts. Mr Powers also sought clarification on how Capital would instil their culture into newly recruited staff.

Ms Kopcho explained that the personnel changes had taken place over a 3 year period. She added that the changes had been necessary and critical to Capital moving forward. She further explained the rigorous interview process, which was key to bringing the right people into the company.

Mr Moizer commented on Capital's philosophy with regard to stock picking and sought clarification in respect of a time frame for the market readjusting to Capital's view, and this then being reflected in performance.

Ms Kopcho explained that it was very difficult to give a time frame and the appointment of new personnel/analysts would take some time to influence results. She reiterated Capital's determination to improve emerging market results.

Mr Bowie made reference to Capital's positive 5 year performance, excluding emerging markets, and commented that, with hindsight, the Fund possibly should have adjusted Capital's remit in respect of emerging markets, and sought Capital's views on whether the fund should be taking away Capital's active investment management role in emerging markets.

Mr Gosztony made reference to the positive results in developed equities and added that, in his view, it was the wrong time to take away Capital's active investment management role in emerging markets, given the amount of work/time that had already been invested

(b) UBS Global Asset Management

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

Mr Barnes began by commenting on a poor quarter for the portfolio and for equity markets in particular. He further made reference to the market background and negative returns from emerging markets, particularly China.

Mr Davies detailed asset allocation positions, and commented on an underweighting in equities in North America with Europe (ex UK) equities expected to outperform North American equities. With regard to bond strategy, he expressed a preference for US bonds over UK, and inflation linked bonds over nominals.

Mr Magill gave details of a short term, disappointing underperformance for UK equities which was attributed to an overweight position in the energy and mining sectors and UBS's value style investing.

Sector positions were highlighted with an overweighting in cheap cyclical stocks and underweighting in high valuation consumer staples stocks.

The Advisors were then asked to comment.

Mr Moizer made reference to UBS's value style investing, and that UBS's best opportunities came when value was out of favour, enabling the purchase of the next generation of outperformers, and sought clarification with regard to the timing of investments.

Mr Magill, in his response, explained that UBS were constantly seeking to be better value investors, however, he agreed that they would always be 'early' in exiting stocks which appeared expensive.

Mr Powers further commented on the timing of investments, and made reference to 'disruptive' technology within the Service Industry, and sought clarification as to what extent this would feed into UBS's future investment plans given the impact such 'disruptive' technology had on inflation and on the valuation of inflation linked securities.

Mr Davies explained that inflation was predicted to increase, and although 'disruptive' technology would still continue to have an impact, it would be to a lesser degree going forward.

45. MINUTES

The Minutes of the proceedings of the meeting of the Pension Fund Advisory Panel held on 2 October 2015 were signed as a correct record.

The Minutes of the proceedings of the meeting of the Pension Fund Management Panel held on 2 October 2015 were signed as a correct record.

The Minutes of the meeting of the Annual General Meeting held on 2 October 2015 were signed as a correct record.

46. 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**
7, 8, 10, 12, 13	**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.**

47. INVESTMENT MONITORING AND ESG WORKING GROUP

The Minutes of the proceedings of the meeting of the Investment Monitoring and ESG Working Group held on 16 October 2015 were considered.

The Chair of the Working Group, Councillor Taylor, explained that a Climate Risk Pamphlet had been considered which summarised the debate on Climate Risk that the Working Group held at the 16 July meeting. He reported that the pamphlet had now been published on the Fund's website.

Capital had given a presentation to the Working Group regarding their corporate governance activity over the last 12 months. The presentation included a case study of nominating directors to the Boards of US companies, alongside a detailed analysis of the automotive industry.

RECOMMENDED
(i) That the Minutes be received as a correct record; and
(ii) With regard to the Statement of Investment Principles, that the adoption of the revised Statement of Investment Principles be supported.

48. PENSIONS ADMINISTRATION WORKING GROUP

The Minutes of the proceedings of the meeting of the Pensions Administration Working Group held on 16 October 2015 were considered.

RECOMMENDED
(i) That the Minutes be received as a correct record; and
(ii) In respect of the Pensions Administration update and the service provided to members that were affected by the revisions to the tax regime for pension saving, that the three stage approach as detailed in the report, be supported for those with larger pension savings.

49. ALTERNATIVE INVESTMENTS WORKING GROUP

The Minutes of the proceedings of the meeting of the Alternative Investments Working Group held on 23 October 2015 were considered.

RECOMMENDED
That the Minutes be received as a correct record.

50. PROPERTY WORKING GROUP

The Minutes of the proceedings of the meeting of the Property Working Group held on 6 November 2015 were considered.

The Chair of the Working Group, Councillor S Quinn, explained that La Salle had delivered their quarterly report and, although progress was mostly satisfactory, there was a problem with lettings for the Fund's newly purchased student accommodation at Bethnal Green meaning that it was only 69% let. The Working Group had expressed disappointment, but La Salle were confident that they had taken action including dismissing the managers of the building, and were confident of improvement going forward.

GVA had presented on their portfolio and focused on development opportunities at the Island site in central Manchester and a loan made to build apartments at Pamona Island.

The Working Group also recommended investment guidelines, which clarified the rules for GVA when making investments for the Fund and gave them flexibility to make different types of investments.

RECOMMENDED
(i) That the Minutes be received as a correct record; and
(ii) That the Investment Guidelines for GVA be approved.

51. EMPLOYER FUNDING VIABILITY WORKING GROUP

The Minutes of the proceedings of the meeting of the Employer Funding Viability Working Group held on 30 October 2015 were considered.

The Chair of the Working Group, Councillor J Fitzpatrick, explained that the Working Group had discussed the Government proposals for pooling assets across the LGPS and in particular the potential implications for employer funding.

The group discussed the work that had been ongoing regarding the bespoke investment strategy for Transport for Greater Manchester's section of the Fund and how these bespoke strategies could be extended to other employers.

The Fund's actuaries attended the meeting to help start the planning for next year's actuarial valuation. He added that the valuation would be a key focus of the group over the next year and would likely be an agenda item at all of next year's meetings.

RECOMMENDED
(i) That the Minutes be received as a correct record;
(ii) In respect of the Transport for Greater Manchester strategy, that approval be given to officers to continue in their discussions with Transport for Greater Manchester; and
(iii) With regard to the Actuarial Valuation 2016, that the proposed timeline and work plan for undertaking the valuation process be agreed.

52. POLICY AND DEVELOPMENT WORKING GROUP

The Chair of the Working Group, Councillor K Quinn, explained that the Working Group had met at 8.00am that morning, prior to the Panel meeting and had received updated information and presentations in respect of:

- Developments relating to the proposals for pooling investments across the LGPS in England and Wales and the recent activities of GMPF in this area. A recommendation was also made to temporarily amend the investment guidelines of the Greater Manchester and London Infrastructure Limited Liability Partnership (GLIL) for a period of 12 months, in order to allow the team to consider investment opportunities in the £100m - £150m range; and
- Investment activity undertaken by GMPF in collaboration with other LGPS Funds, and in particular, on the collaboration with LPFA on infrastructure and the North West Impact portfolio.

The Working Group had also considered an urgent item with regard to Class Actions, which summarised potential litigation in which Greater Manchester Pension Fund (GMPF) and others would seek to recover losses in the value of their shareholdings in various companies as a result of actions taken by those companies, and recommended courses of action in respect of each potential case.

Consideration was also given to the possibility of pursuing a class action as lead plaintiff in the case of a large pharmaceutical company, as opposed to the passive role presently undertaken in ongoing actions. The two law firms currently engaged to provide a monitoring role to GMPF in respect of class actions had been interviewed at the meeting, with a view to appointing one law firm to take forward the class action with GMPF undertaking the lead plaintiff role.

RECOMMENDED

(i) That the progress and developments which had taken place during the year on the two collaboration projects detailed above, be noted;

(ii) That the change to the investment guidelines for GLIL in relation to concentration limits, as set out in the report be approved; and

(iii) With regard to Class Actions:

(a) That the officer recommendations, as set out in Table 1 of the report, in respect of outstanding class actions, be approved;

(b) That a pilot case be run with GMPF seeking to act as lead plaintiff in the class action against the large pharmaceutical company identified in the report;

(c) That RGRD be engaged to undertake a pilot case with RGRD identifying this first case and SRKW be engaged to act on GMPF's behalf in seeking to be lead plaintiff in the next suitable class action recommended by SRKW.

53. QUARTERLY REPORTS OF THE EXECUTIVE DIRECTOR OF PENSIONS

(a) Summary Valuation of the Pension Fund Investment Portfolio as at 30 June 2015 and 30 September 2015

A report of the Executive Director of Pensions was submitted, detailing and comparing the market value of the Fund's investment portfolio as at 30 June 2015 and 30 September 2015.

RECOMMENDED
That the report be noted.

(b) External Managers' Performance

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

It was noted that in the quarter to 30 September 2015, Capital had underperformed by 0.4% against their benchmark index of -5.6%. UBS had also underperformed by 1.9% against their benchmark index of -4.6% and Legal and General had succeeded in tracking their benchmark for the Main Fund and for MoJ.

Performance figures for the twelve months to 30 September 2015 were detailed which showed that Capital had underperformed their benchmark by 0.2% and UBS had also underperformed their benchmark by 1.5%. Legal and General had broadly succeeded in tracking their benchmark for the Main Fund and for MoJ.

RECOMMENDED
That the content of the reports be noted.

54. POOLING OF ASSETS

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

It was explained that the LGPS across England and Wales, consisted of 89 regional Funds with total assets of almost £200bn. The average size of a regional Fund was around £2bn, but there was wide variation between the largest Fund, GMPF, at £17.6bn and the smaller Funds, such as those operated by each of the 32 London Borough, many of which had assets of less than £1bn. DCLG/HMT had been looking at options to reduce investment management costs and improve investment returns across the LGPS as a whole for a number of years.

The Chancellor announced in the summer budget that he would be seeking proposals for pooling of assets by Funds and following the budget announcement key messages emerged in discussions with DCLG/HMT officials.

Members were further informed that, at the Conservative Party Conference on 5 October 2015, the Chancellor provided a further statement as follows:

"At the moment, we have 89 different Local Government Pension Funds with 89 sets of fees and costs. It's expensive and they invest little or nothing in infrastructure. So I can tell you today we're going to work with councils to create instead half a dozen British Wealth Funds spread across the country. It will save hundreds of millions in costs, and crucially they'll invest billions in the infrastructure of their regions."

Further reference to these British Wealth Funds was also made within the Government's four-point infrastructure plan.

DCLG subsequently issued a letter to all LGPS Funds providing reassurance that the Chancellor's latest comments were not a departure from the original proposals. However there was a strong suggestion that Government saw the outcome as groups of Funds working together across all asset classes and that the ability to invest in large scale infrastructure was now one of the criteria upon which proposals would be assessed.

Following the Chancellor's spending review and Autumn Statement, the Government had published a number of documents relating to LGPS investments in England and Wales and an initial analysis of each of the documents was provided for discussion.

The criteria for evaluating pooling options was outlined, and it was explained that there were two ways in which assets could be pooled:

(i) By Funds working together and pooling their collective assets; and
(ii) By creating individual asset class pools, e.g. a UK equity pool.

An initial evaluation of these options had been presented at the October meeting of the Management Panel (Meeting of 2 October 2015, Minute 34 refers) and following discussions, views on criteria were expressed in a letter to DCLG, a copy of which was appended to the report. The criteria by which Funds proposals will be evaluated by Government were set out in the recently published – "Local Government Pension Scheme – Investment Reform Criteria and Guidance." These were as expected with the aim to reduce costs and at least maintain returns. The specific criteria were:

- Asset pools should achieve the benefits of scale;
- Strong governance and decision making;
- Reduce costs and provide excellent value for money; and
- Improve capacity to invest in infrastructure.

It was reported that a group of 25 Funds, including GMPF, had formed a joint working group to work together on a project to deliver a joined-up response to Government on options for LGPS investment pooling. The aim of the project was to deliver an authoritative and objective based assessment of options for pooling LGPS investments. All of the options for pooling would be assessed against the likely Government criteria for pooling. The Working Group aimed to deliver its report to Government in January 2016 and to share it with all administering authorities, the LGA and other interested parties.
Members were informed that, since the October meeting of the Management Panel, discussion regarding collaboration had been ongoing on a regular basis with a number of other, predominantly

northern based LGPS Funds. The Funds involved had shared information on their investment beliefs, investments management arrangements, their key strengths and the ‘red-lines’ which would prevent them being party to any agreement. GMPF’s ‘red-lines’ were broadly as set out in the Fund’s response to government on criteria which was appended to the report.

This sharing of information was designed to help Funds determine the ‘like-minded’ Funds with which they could form an asset pool. The long term vision which GMPF envisaged creating with other Funds was a pool which provided the following:

- Collective investing in alternatives and expanding capacity and skills;
- Becoming increasingly direct; and
- Increase scale and reduce risk in infrastructure.

It was reported that at this stage, GMPF was open minded to working with other pools or on a national basis for some alternative assets, for example infrastructure.

Discussion ensued with regard to implications of asset pooling and Members raised a number of issues, including; role of the Trustee, scope of investments going forward, division of assets and governance.

The Chair agreed to write to all Councillor’s in Greater Manchester setting out the Fund’s position in respect of pooling arrangements going forward.

RECOMMENDED

(i) That progress and developments, which have taken place since the October meeting of the Management Panel, be noted;

(ii) That the content of GMPF’s response to Government on criteria be noted, including details of ‘red lines’ that would prevent GMPF becoming party to an agreement with other Funds; and

(iii) That the Chair write to all Councillor’s in Greater Manchester setting out the Fund’s position in respect of pooling arrangements going forward.

55. MANAGEMENT SUMMARY

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

Pooling of Assets

It was reported that the progression of the Government’s proposal for pooling of assets (as detailed at Minute 54) was a key area of work for the Panel, Chair of the Fund and officers. This item would feature on all panel agendas for the foreseeable future.

Local Pensions Board – New Members

The Council had approved a move to 5 employee and 5 employer members for the Local Board chaired by Cllr Middleton and the appointment of 2 of the additional employee and employer representatives.

Progress was being made on filling the remaining positions as follows:

(i) A non-local authority employer – nominations were sought on the Fund’s website and expressions of interest were received form 15 potential employer representatives. A shortlist had been drawn up and interviews were being programmed for December.

(ii) Similarly, 5 expressions of interest had been received from potential pensioner representatives and again interviews were planned for December.

Actuarial Valuation

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

Discussions had been held with the Actuary regarding the timetable for the valuation process and this was appended to the report.

GMPVF – One St Peter's Square
It was reported that lease arrangements had been agreed with a large firm of solicitors.

Airport City
The President of China's visit to Manchester Airport and Airport City attracted considerable publicity for the planned developments, and this coincided with the resolution of a number of technical issues. The pace of development was now expected to accelerate.

Annual Benefit Statements 2015
The LGPS Regulations 2013 required that Annual Benefit Statements (ABSs) be sent to those who were active members and deferred members on 31 March, by 31 August 2015.

The statutory deadline for ABSs was met when complete, accurate and timely year-end returns (which contained the pay data required to calculate ABSs) were received from employers. Many were received late, leading to 29,870 ABSs being sent in November.
Some employers had difficulties in providing complete, accurate and timely year-end information for active members. An important factor for 2014/15 returns was that this was the first year when both final salary and career average information was required. These difficulties applied nationally, with the Local Government Association (the LGA) writing to the Pensions Regulator highlighting the problem, and the effect this was having on the production of ABSs on behalf of all English and Welsh LGPS Funds. The Regulator's response was appended to the report.

As part of the preparations for the 2015/16 year-end returns, a questionnaire had been sent to all employers to gauge what would help improve matters, such as more training or changes to the year-end specification. Where employers had particular problems, or had many queries outstanding, direct contact would be made.

2016 Pensions Increase and Revaluation
Pensions in payment and deferred pensions were increased in line with Pension Increase (Review) Orders. These were made when there was an increase in the September value of the Consumer Prices Index (CPI) as compared to the previous September's CPI. This year the change to September 2015 was a negative 0.1%, meaning that no Pensions Increase (Review) Order would be made. Pensions and deferred pensions would therefore not change in value.

Career average pensions being built up by active members were revalued to take account of changes in prices, by Treasury Orders. As yet, nothing had been confirmed concerning the likelihood, or otherwise, of a negative revaluation percentage being passed in law. It therefore remained to be seen for active members whether career average pensions built up thus far would reduce in value or remain the same.

Scottish Parliament Report on Pension Fund Investment in Infrastructure
It was reported that the Local Government and Regeneration Committee of the Scottish Parliament published its report on Pension Fund Investment in infrastructure and city deal spend on 30 November 2015.

A submission was made to the Committee by the Fund and members of the Committee subsequently visited Manchester to look in more detail at GMPF's approach to local investment and infrastructure. An extract from the report re: GMPF's contribution was set out in the report.

RECOMMENDED
That the report be noted.

56. SCENARIO PLANNING

A report was submitted and presentation delivered by the Executive Director of Pensions and the Senior Investments Manager explaining that, during the Investment Strategy review in May 2015, Mark Powers, Advisor to the Fund, suggested that the Fund should undertake a 'Scenario Planning' exercise to be better placed to capitalise on opportunities as they arose. The aim was to build on the Fund's current 'ad hoc' approach.

The Advisors and the Securities Managers were invited to a meeting with Officers, which took place on 22 October 2015, with a view to generating proposals for a way forward for consideration by Members at a Workshop, which was held on 17 November 2015 and the information discussed was appended to the report.

Four broad types of scenario were discussed. One of these types was already adequately considered as part of the annual Investment Strategy review, and two of these types were considered informally as part of the annual Investment Strategy review. These informal approaches would be formalised at coming reviews. The fourth type related to the implementation of trigger based tactical asset switches into, or out of, the Fund's tactical cash allocation. A number of key principles developed at the 22 October meeting in relation to the governance and implementation vis-à-vis 'Tactical Cash Scenarios' were supported at the Workshop.

The following work programme, prioritising 'Tactical Cash Scenarios', received the support of Members, Advisors and officers at the Workshop:

- Officers to develop the Fund's approach to implementation, likely by way of a segregated account with one of the Fund's existing Securities Managers;
- Hymans be commissioned to propose a 'handful' of suggested ideas/triggers (a maximum of 4 or 5), along with respective 'simple in/out' (e g price based) trigger levels, derived from analysis of fundamentals; and
- Officers to develop proposed governance arrangements around tactical asset switching, the use of triggers, and how to veto might be incorporated to block the action triggered if circumstances had changed significantly.

RECOMMENDED
(i) The approach taken and the proposed work programme as set out in the report, be approved; and
(ii) That concrete proposals be brought to the March meeting of the Management Panel.

57. COLLABORATION WITH OTHER LGPS FUNDS ON INVESTMENTS

The Executive Director of Pensions submitted a report and the Assistant Executive Director, Local Investments and Property, delivered a presentation providing an update on investment activity undertaken by GMPF in collaboration with other LGPS Funds, and in particular, on the collaboration with LPFA on infrastructure and the North West Impact portfolio.
It was reported that a significant amount of work had been undertaken in setting up the joint venture, now known as GLIL (Greater Manchester and London Infrastructure Limited Liability Partnership). The vehicle had a formal governance structure with two key Committees for decision making; the Investment Committee and the Management Committee, which meet on a regular basis. A copy of the investment guidelines were appended to the report.
Investments through infrastructure through Funds, was attracting significant commitments. It was a very competitive environment to source deals. There had been considerable investment activity with the key investments completed, or being in final due diligence.

It was explained that the pooling agenda loomed large over the project and there were significant opportunities for the vehicle to grow its assets under management as part of any future arrangements. Pending the outcome of discussions the Panel may be asked to consider increasing GMPF's commitment.

An issue facing GLIL was the investment limit of £100m set out in the investment guidelines. This was based on the 20% of the current committed capital of £500m. The team were seeing a number of investment opportunities in the £100-150m range and currently had to seek specific panel approval to fund those investments, adding governance complexity and potential delays in processes that were often highly time-sensitive.

Members were informed that it would be helpful for GLIL to be able to bid for assets up to £150m without the need for recourse to the Panel. Approval was therefore sought to temporarily amend the investment guidelines for a period of 12 months, such that the concentration limit would be the higher of 20% of commitments and £150m. At the end of the 12 month period, the concentration limit would become 20% of capital committed to GLIL.

With regard to the North West Impact Portfolio, it was reported that the team for impact investments had been built out during the year, alongside compiling investment processes. There had been a significant amount of work on investments carried out during the year as detailed in the report.

Work on attracting other LGPS Funds to work with the Fund on the North West Impact Portfolio progressed during the year with several meetings but had been impacted by the pooling agenda. A North West fund retained an interest in working with the Fund and work on the final stage of due diligence on how this would operate was currently ongoing.

RECOMMENDED
(i) That the progress and developments which had taken place during the year on the two collaboration projects detailed above, be noted; and
(ii) That the change to the investment guidelines for GLIL in relation to concentration limits, as set out in the report and detailed above, be approved.

58. STATEMENT OF INVESTMENT PRINCIPLES

Consideration was given to a report of the Executive Director of Pensions advising Members of the proposed changes to the Statement of Investment Principles required as a result of an accumulation of various changes in the investment management arrangements of the Fund and a commitment made in response to a consultation exercise undertaken.

RECOMMENDED
That the draft Statement of Investment Principles, as appended to the report and amended as set out within the report, be approved and adopted by the Fund.

59. MEMBER TRAINING

A report was submitted by the Executive Director of Pensions, setting out the Panel's current approach to developing knowledge and understanding and a report of individual members' participation in training and development was provided in line with prescribed good practice.

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

(ii) **That improvements in the recording of training be undertaken to ensure the collection of all relevant data;,**

(iii) **That a report be submitted to a future meeting reviewing existing practice and, where appropriate, recommending improvements; and**

(iv) **That the training undertaken by members be reported in the Fund's Annual Report and Accounts.**

60. FUTURE TRAINING DATES

Trustee Training opportunities were noted as follows:

330 Consulting Elected Member Educational Event The Members Dining Room, Palace of Westminster, London	27 February 2016
LGC Investment Summit Carden Park, Chester	3 – 4 March 2016
NAPF Investment Conference Edinburgh Conference Centre	9 – 11 March 2016
Legal and General Trustee Education Seminars	
Introductory Seminar (08.30 – 12.30)	21 April 2016
Advanced Seminar (12.30 – 17.00)	21 April 2016
Risk Management (08.30 – 12.30)	22 April 2016

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	11 March 2016
Local Pensions Board	19 January 2016 30 March 2016
Pensions Administration Working Group	29 January 2016 8 April 2016
Investment Monitoring & ESG Working Group	29 January 2016 8 April 2016
Alternative Investments Working Group	5 February 2016 15 April 2016
Property Working Group	19 February 2016 1 April 2016
Policy and Development Working Group	4 February 2016 24 March 2016
Employer Funding Viability Working Group	12 February 2016 22 April 2016

CHAIR

GREATER MANCHESTER PENSION FUND MANAGEMENT PANEL

11 December 2015

Commenced:	**10.00am**	**Terminated:12.40pm**
Present:	**Councillor K Quinn (Chair)**	
	Councillors: Councillors: Akbar (Manchester), Brett (Rochdale), Dean (Oldham), J Fitzpatrick, Francis (Bolton), Grimshaw (Bury), Halliwell (Wigan), J Lane, R Miah, Pantall (Stockport), S Quinn, Reid, Ricci and Taylor.	
Apologies for Absence:	**Councillors: M Smith, Cooney, Ward, Patrick, Dennett (Salford) and Mitchell (Trafford).**	

43. DECLARATIONS OF INTEREST

There were no declarations of interest submitted by Members.

44. REPORTS OF THE MANAGERS

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

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

45. MINUTES

The Minutes of the proceedings of the meeting of the Pension Fund Advisory Panel held on 2 October 2015 were signed as a correct record.

The Minutes of the proceedings of the meeting of the Pension Fund Management Panel held on 2 October 2015 were signed as a correct record.

The Minutes of the meeting of the GMPF Urgent Matters panel held on 2 October 2015 were signed as a correct record.

46. 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**
7, 8, 10, 12 & 13	**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.**

47. INVESTMENT MONITORING AND ESG WORKING GROUP

The Minutes of the proceedings of the meeting of the Investment Monitoring and ESG Working Group held on 16 October 2015 were considered.

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

48. PENSIONS ADMINISTRATION WORKING GROUP

The Minutes of the proceedings of the meeting of the Pensions Administration Working Group held on 16 October 2015 were considered.

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

49. ALTERNATIVE INVESTMENTS WORKING GROUP

The Minutes of the proceedings of the meeting of the Alternative Investments Working Group held on 23 October 2015 were considered.

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

50. PROPERTY WORKING GROUP

The Minutes of the proceedings of the meeting of the Property Working Group held on 6 November 2015 were considered.

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

51. EMPLOYER FUNDING VIABILITY WORKING GROUP

The Minutes of the proceedings of the meeting of the Employer Funding Viability Working Group held on 30 October 2015 were considered.

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

52. POLICY AND DEVELOPMENT WORKING GROUP

The Chair of the Working Group, Councillor K Quinn, explained that the Working Group had met at 8.00am that morning, prior to the Panel meeting and had received updated information and presentations in respect of:

- developments relating to the proposals for pooling investments across the LGPS in England and Wales and the recent activities of GMPF in this area;
- investment activity undertaken by GMPF in collaboration with other LGPS funds, and in particular, on the collaboration with LPFA on infrastructure and the North West Impact portfolio; and
- Ongoing Class Actions and the appointment of a law firm to take forward a class action with GMPF undertaking the lead plaintiff role.

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

53. QUARTERLY REPORTS OF THE EXECUTIVE DIRECTOR OF PENSIONS

(a) Summary Valuation of the Pension Fund Investment Portfolio as at 30 June and 30 September 2015

A report of the Executive Director of Pensions was submitted.

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

(b) External Managers' Performance

A report of the Executive Director of Pensions was submitted.

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

54. POOLING OF ASSETS

A report of the Executive Director of Pensions was submitted and a presentation of the Assistant Executive Director, Funding and Business Development, was delivered.

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

55. MANAGEMENT SUMMARY

A report of the Executive Director of Pensions was submitted.

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

56. SCENARIO PLANNING

A report of the Executive Director of Pensions was submitted and a presentation of the Senior Investments Manager was delivered.

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

57. COLLABORATION WITH OTHER LGPS FUNDS ON INVESTMENTS

A report of the Executive Director of Pensions was submitted and a presentation of the Assistant Executive Director Local Investments and Property was delivered.

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

58. STATEMENT OF INVESTMENT PRINCIPLES

A report of the Executive Director of Pensions was submitted.

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

59. MEMBER TRAINING

A report of the Executive Director of Pensions 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:

330 Consulting Elected Member Educational Event The Members Dining Room, Palace of Westminster, London	27 February 2016
LGS Investment Summit Carden Park, Chester	3 – 4 March 2016
NAPF Investment Conference Edinburgh Conference Centre	9 – 11 March 2016
Legal and General Trustee Education Seminars	
Introductory Seminar (08.30 – 12.30)	21 April 2016
Advanced Seminar (12.30 – 17.00)	21 April 2016
Risk Management (08.30 – 12.30)	22 April 2016

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	11 March 2016
Local Pensions Board	19 January 2016 30 March 2016
Pensions Administration Working Group	29 January 2016 8 April 2016
Investment Monitoring & ESG Working Group	29 January 2016 8 April 2016
Alternative Investments/Property Working Groups	5 February 2016 15 April 2016
Policy and Development Working Group	4 February 2016 24 March 2016

CHAIR

This page is intentionally left blank

GREATER MANCHESTER PENSION FUND - INVESTMENT MONITORING AND ESG WORKING GROUP

Friday, 29 January 2016

Commenced: 10.30 am **Terminated:** 12.30 pm

Present: Councillors Taylor (Chair), R Miah, Brett, M Francis, Grimshaw, Mitchell and Pantall

Apologies for Absence: Councillor Akbar and Mr Llewellyn

17. DECLARATIONS OF INTEREST

There we no declarations of interest.

18. MINUTES

The Minutes of the meeting of Investment Monitoring and ESG held on 16 October 2015 were approved as a correct record.

19. UNDERWRITING, STOCKLENDING AND COMMISSION RECAPTURE

The Executive Director of Pensions submitted a report, advising Members of the activity and income generated on underwriting, stocklending and commission recapture during the quarter.

It was reported that the Fund did not participate in any sub-underwriting via UBS in the quarter ending September 2015. Stocklending income during the quarter was £134,890 and commission 'recaptured' was £26,237.

It was noted that activities were very sensitive to market conditions therefore the amounts generated were expected to vary from one quarter to another and from one year to another.

RECOMMENDED:
That the report be noted.

20. DCLG CONSULTATION PAPER - REVOKING AND REPLACING THE LOCAL GOVERNMENT PENSION SCHEME (MANAGEMENT AND INVESTMENT OF FUNDS) REGULATIONS 2009

The Executive Director of Pensions submitted a report, advising Members of the DCLG Consultation in relation to proposed new Local Government Pension Scheme (Management and Investment of Funds) Regulations, which were intended to come into force on 1 April 2016, and the Fund's proposed response.
It was reported that in November 2015, following the Chancellor's spending review and Autumn Statement, a consultation paper, which would run until 19 February 2016, was circulated. The proposed regulations concentrated on two main areas of reform, in addition to a number of ancillary changes, which were outlined to the Group.

The Working Group heard that the first main area of proposed reform focused mainly on deregulation and adoption of a local approach to investment where a prudential approach, rather than a prescriptive list of permitted investments with a maximum limit on holdings, was suggested. There would be a requirement for Funds to produce an 'Investment Strategy Statement', which would replace the current 'Statement of Investment Principles'.

The second main area of reform related to a proposal to introduce a Secretary of State power of intervention in the investment function of an Administering Authority if they believed that it had not had regard to guidance and regulations.

The Fund's draft response, which was broadly supported by Unison, was highlighted and discussed. There were a number of comments of support and detail but apprehension about the Government's power of intervention, from Members of the Working Group.

RECOMMENDED:
That the Executive Director of Pensions submits a response to DCLG as set out in draft form as an Appendix to the Report, following consultation with the Chair of the Panel.

21. UBS REPORT ON TRADING COSTS

The Working Group welcomed Ian Barnes, Head of UK & Ireland UBS, who attended the meeting to notify the Group of a reimbursement for certain payments made by UBS out of equity dealing commissions between 2008 and 2013.

It was reported that in 2006 the Financial Services Authority introduced rules limiting the scope of items which could appropriately be purchased by Managers using client dealing commissions. Further guidance was published in 2008 and 2013, after which updated rules on the use of dealing commission came into force in June 2014.

The Working Group heard that during the course of the 2013 review it became apparent to UBS that they had been using equity dealing commissions to pay for certain services such as index data and market data services which were ineligible under the UK rules. UBS made a redress payment to GMPF based on the proportion of the commission pool used to pay for services and applied this percentage to the total equity dealing commissions on GMPF's account during the relevant time period.

The Working Group were informed that steps had been taken by UBS to prevent a recurrence by strengthening the controls and processes where required through a new equities operating model, an independent review and new policy and training. UBS are now compliant with the updated rules as of June 2014 and it should be noted, were not fined nor was any enforcement action taken against them by the Financial Conduct Authority.

It was confirmed and accepted by the Regulator that GMPF and other clients were not disadvantaged by this error, and the full service commission rates would have been identical regardless of what the commission was spent on.

RECOMMENDED:
That the report be noted.

22. UPDATE ON SHAREHOLDER LITIGATION

It was explained that two specialist law firms had been appointed by the Fund to provide portfolio monitoring services in relation to shareholder litigation. Representatives of Robbins Geller Rudman & Dowd LLP (RGRD) attended the Working Group meeting held in October 2015.

The Working Group welcomed Mark Willis, Spector Roseman Kodroff and Willis (SRKW) who attended the meeting to present their portfolio monitoring services in relation to shareholder litigation to the Working Group.

The Working Group heard that the firm had a global reach with offices in 22 cities around the world in addition to Washington and Philadelphia. The UK client base was outlined to the Group in addition to the US State Funds and Investment Managers.

The Working Group received information on the firm's focus on corporate governance, their conservative litigation philosophy and the differences between their US and non-US action approach.

RECOMMENDED:
That the report and presentation be noted.

23. LEGAL & GENERAL CORPORATE GOVERNANCE REVIEW

The Working Group welcomed James Sparshott, David Patt and Catherine Ogden from Legal & General Investment Management who attended the meeting to present their corporate governance activity over the last 12 months.

It was reported that the governance team were a dynamic and passionate team consisting of 9 people who reported directly to the CEO and believed strongly in corporate governance as this generally delivered better investment value over the long-term. The current engagement focus included diversity, executive pay, climate change and the importance of engagement and face to face dialogue.

Two case studies relating to Sports Direct and Royal Dutch Shell were outlined and discussed with the Group.

RECOMMENDED:
That the report and presentation be noted.

24. UPDATE ON MARKETS IN FINANCIAL INSTRUMENTS DIRECTIVE II (MIFID II)

The Executive Director of Pensions submitted a report, which provided members with an update on the European Commission's Markets in Financial Instruments Directive (MiFID II) which was currently progressing through the European Commission's legislative process.

It was reported that the update was built upon the groundwork set out by MiFID I, which was implemented in 2007 and sought to regulate financial markets across the EU. MiFID II was published in June 2014 after more than two years of negotiations between EU member states, with a proposed implementation date of January 2017. However, due to the complexity of the technical standards, and due to a number of unresolved issues, it was likely that the implementation date would be pushed back to January 2018.

The Working Group were informed that the implementation of MiFID II would have a direct and significant impact on GMPF in that local authorities would be automatically classified as 'retail clients'. This reclassification would provide additional protection for GMPF and similar investors across Europe but would potentially restrict the range of Fund Managers and investment products available. GMPF could seek classification as a 'professional client' once qualitative and quantitative criteria were confirmed and met.

The Financial Conduct Authority had issued a consultation paper on the MiFID II implementation in the UK during December 2015, which the LGA intended to respond to.

RECOMMENDED:
That the report be noted and further updates be submitted to the Working Group as the directive progresses.

25. CARBON DISCLOSURE PROJECT

The Executive Director of Pensions submitted a report, outlining an invitation from the Carbon Disclosure Project (CDP) to become a signatory to four CDP information requests. The Fund had previously accepted an invitation in 2015.

The Working Group heard that the CDP was an independent not-for-profit organisation which held the largest database of primary information on company policies and practices relating to climate change. The CDP sent information requests to organisations on an annual basis and in order to encourage voluntary responses, financial institutions were invited to become signatories to the requests.

It was reported that the invitation was to become a signatory for the CDP information request, the CDP Water Disclosure, the CDP Carbon Action and the CDP Forest Footprint Disclosure.

RECOMMENDED:
That the Working Group accepted the invitation to become a signatory, at no charge, to the four Carbon Disclosure Project information requests.

26. ROUTINE PIRC UPDATE

The Working Group welcomed Tim Bush, Head of Governance and Financial Analysis PIRC Ltd, who attended the meeting to present PIRC's report, entitled "Proposal for Change of Policy: Oppose All Share Buybacks".

It was reported that a large number of UK listed companies were requesting general authority to buy their own shares. It was highlighted that there was growing criticism of buybacks and the range of problems associated with them. PIRC were currently seeking client opinion on whether their policy should be changed to recommend voting against share buy-back authorities unless the board had made a clear, cogent and compelling case demonstrating the benefits for long-term shareholders, and had provided confirmation that directors were not conflicted in recommending the authority.

The Working Group heard that on the basis of finance theory, the outcome of undertaking a buyback or dividend issue was financially neutral, however, in the UK buybacks incurred a 0.5% Stamp Duty charge and also resulted in investment banking and broker fees. The report suggested that buybacks resulted in a lack of transparency on real financial performance and gave the impression of earnings growth by creating 'earnings per share' (EPS) growth, which some management remuneration performance schemes were linked to.
Examples of different buyback scenarios were outlined to the Group together with a range of potential policy outcomes.

RECOMMENDED:
That the report be noted.

27. URGENT ITEMS

The Chair reported that there were no urgent items for consideration at the meeting.

CHAIR

GREATER MANCHESTER PENSION FUND - PENSIONS ADMINISTRATION WORKING GROUP

Friday, 29 January 2016

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

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

Apologies for Absence: Councillor Akbar

15. DECLARATIONS OF INTEREST

There were no declarations of interest.

16. MINUTES

The Minutes of the meeting of Pensions Administration Working Group held on 16 October 2015 were approved as a correct record.

In relation to Minute 10 'Internal Dispute Resolution Procedure', the Assistant Executive Director, Pensions Administration, provided the group with benchmarking data. It was reported that the number of cases were small with an average of 1 stage one case per year per 14,000 members and 1 stage 1 case per year per 28,000 members for GMPF. The average stage two cases were 1 per year per 33,000 members and 1 per year per 15,000 members for GMPF.

In relation to Minute 12 'Scheme Additional Voluntary Contributions', Members enquired if the performance data for the investment options was circulated beyond the Working Group. It was confirmed that Members with additional voluntary contributions received performance data however, options would be explored to add this data to the website.

RECOMMENDED:
That the performance data for additional voluntary contributions be added to the GMPF website.

17. NOTIFICATION TO THE PENSIONS REGULATOR REGARDING LATE DESPATCH OF ANNUAL BENEFIT STATEMENTS

The Executive Director of Pensions submitted a report, outlining the problems experienced this year in providing annual benefit statements to a minority of the Fund's members.

It was reported that 2014/15 was the first year when both final salary and career average information was required with many employers having difficulties in providing complete, accurate and timely year-end information for their active members. This had led to the Local Government Association writing to the Pensions Regulator explaining the position.

The Working Group heard that GMPF had sent a questionnaire to all employers with regards to the 2015/16 year-end returns and where employers have had particular problems or many outstanding queries direct contact had been made. A letter had been sent to the Regulator setting out the mitigating circumstances and proposed actions to reduce the problem for next year.

RECOMMENDED:
That the report be noted and the plans to improve performance next year.

18. PROCEDURE FOR REPORTING BREACHES OF THE LAW TO THE PENSIONS REGULATOR

The Executive Director of Pensions submitted a report, which provided a draft procedure for reporting material breaches of the law to the Pensions Regulator.

It was reported that since 2005 all private sector occupational pension schemes in the UK had been overseen by the Pensions Regulator. Following the Public Sector Pensions Act 2013, public service pension schemes fall under the remit of the Regulator, focussing on governance and the administration of benefits.

The draft procedure was outlined to the Group including an example of a breach.

RECOMMENDED:
That the draft procedure be approved.

19. GUIDELINES FOR THE PAYMENT OF DEATH GRANTS AND ADDITIONAL VOLUNTARY CONTRIBUTION POTS

The Executive Director of Pensions submitted a report, outlining proposed revisions to the guidelines for the payment of death grants and Additional Voluntary Contribution (AVC) pots.

It was reported that death grants were due following the death of an active or deferred member and when a retired pensioner died within the pensions guarantee period. The administering authority had absolute discretion as to how death grants should be awarded to recognised potential beneficiaries. This absolute discretion also applied to AVC pots when members had started to pay AVCs after 31 March 2014.

Some examples were discussed to illustrate how the guidelines would apply that included definitions of partners and dependents.

RECOMMENDED:
That the revised guidelines be approved.

20. CIPFA BENCHMARKING

The Executive Director of Pensions submitted a report, providing information about the costs of the Fund’s administration service and compared those costs with other Local Government Pension Scheme (LGPS) funds via the CIPFA Benchmarking Club.

It was highlighted that approximately half of LGPS funds were members of the CIPFA Pensions Administration Benchmarking Club. Administration costs, membership details, workload and staff movements were reported to CIPFA who analysed and reported on the data through comparative data and graphs.

GMPF administration costs were in line with the lowest cost quartile target and the costs per member were compared with both the all fund average and the large fund average.

It was noted that in 2015 the ‘members per administrator’ figure reduced primarily due to the Ministry of Justice project, however over time improvements in systems and processes should increase this ratio meaning the Fund should return to the more favoured 2013 levels of looking after more LGPS Members per administrator than the average. Further investment is likely to be required to help deliver these improvements.

RECOMMENDED:
That the report be noted.

21. PENSIONERS FORUM 2015

The Executive Director submitted a report, detailing the 2015 Pensioners Forum event held on 9 October 2015 at Lancashire County Cricket Club. Photographs taken at the event were circulated to Working Group Members.

It was reported that approximately 330 pensioners attended the Forum, which was chaired by Councillor K Quinn, Chair of the Fund who gave an opening introduction on the key events of last year and current issues. Presentations on the annual report and accounts and other investment and administrative issues were also made.

It was confirmed that the event was open to retired members and was advertised in the pensions newsletter.

RECOMMENDED:
That the report be noted.

22. PENSIONS INCREASE ON GUARANTEED MINIMUM PENSIONS

The Executive Director of Pensions submitted a report, which provided information about a potential change regarding pensions increase and the lobbying of Government by the Local Government Association to mitigate the impact on Local Government Pension Scheme (LGPS) employers.

An explanation of the State Earnings Related Pensions Scheme was provided. It was reported that on 5 April 2016 contracting-out would end and consequently the legislation that provides for the State to pay pensions increase on guaranteed minimum pensions, meaning that this would need to be paid by LGPS funds, unless the Treasury ordered otherwise.

The Local Government Association raised this matter with the Department of Communities and Local Government and the Treasury in 2013 and is awaiting an announcement regarding alternative funding for pensions increase on guaranteed minimum pensions.

RECOMMENDED:
That a letter be sent to the Department of Communities and Local Government seeking an urgent resolution of this matter.

23. URGENT ITEMS

There were no urgent items.

CHAIR

This page is intentionally left blank

GREATER MANCHESTER PENSION FUND - ALTERNATIVE INVESTMENTS WORKING GROUP

Friday, 5 February 2016

Commenced: 9.30 am **Terminated:** 11.15 am

Present: Councillors Cooney (Chair), Reid, Ricci, Dean, Halliwell and Mr Thompson

Apologies for Absence: Councillors Ward and Dennett

13. DECLARATIONS OF INTEREST

There were no declarations of interest.

14. MINUTES

The Minutes of the previous meeting held on 23 October 2015 were approved as a correct record.

15. ECI CAPITAL PARTNERS

The Working Group welcomed Jeremy Lytle and John Hayhurst of ECI, who attended the meeting to present ECI's private equity investment activities.

The Working Group was informed that ECI is an independent, owner-managed private equity firm founded in 1976 with offices in London and Manchester. It invests in mid-market companies capitalised at £20m to £150m and has built a track record of achieving high returns across 113 mid-market buyouts completed since 1990. ECI's approach is based on partnering with management teams across a number of different industry sectors, identifying strategies that drive revenue and profit growth over the long term.

Twelve headline investments were outlined to the Working Group. Many of the companies were based in the UK and had seen employee growth during ECI's period of ownership.

RECOMMENDED:
That the report and presentation be noted.

16. STRATEGIC VALUE PARTNERS

The Working Group welcomed Michael Hewett of Strategic Value Partners (SVP), who attended the meeting to present SVP's distressed debt investment activities. SVP was established in 2001 with a focus on distressed debt and deep-value investment. It takes an active role in transactions, releasing value through the financial restructuring of companies facing bankruptcy and leading the post-restructuring turnaround of businesses by driving the strategic and operational direction of the company.

The Working Group were informed that SVP was a global firm with 97 employees, including 36 investment professionals, with offices in the US, the UK, Germany and Japan. The firm could offer a full skill set of sourcing, financial restructuring and operational restructuring with research a key part of the business. The firm concentrated on traditional middle market companies which had physical assets and opportunities where a leadership role could be obtained.

An overview of the three Special Situations funds and their performance was provided.

A definition and explanation of distressed debt through case studies was provided to the Group which illustrated themes, processes and strategies that were characteristic of SVP's investment approach. Distressed opportunities in both Europe and America were outlined and it was noted that opportunities had expanded over the last 18 months and would continue to rise.

RECOMMENDED:
That the report and presentation be noted.

17. URGENT ITEMS

The Chair reported that there were no urgent items for consideration at the meeting.

CHAIR

GREATER MANCHESTER PENSION FUND - PROPERTY WORKING GROUP

Friday, 19 February 2016

Commenced: 9.30 am **Terminated:** 11.00 am

Present: Councillors S Quinn (Chair), J Lane, R Miah, Ward, Dennett, Halliwell, Mr Drury and Mr Thompson

Apologies for Absence: Councillors J Fitzpatrick and M Smith

15. DECLARATIONS OF INTEREST

There were no declarations of interest submitted by Members of the Working Group.

16. MINUTES

The Minutes of the proceedings of the meeting of the Property Working Group held on 6 November 2015 were approved as a correct record.

17. MANAGEMENT SUMMARY

The Executive Director of Pensions submitted a report, which highlighted the current issues in the management of the Fund's property portfolios. At present, these were focussing on the two external managers and whether they were achieving their objectives and implementation of the internal portfolios including the indirect UK and the overseas property portfolios.

It was reported that pooling options for GMPF were being considered by the Panel and other Working Groups. The likely outcome for property in the GMPF pool would follow the recommendations of the evidence-based research project conducted by LGPS and supported by Hymans Robertson.

With regard to valuation, performance and allocation, the performance report from IPD was due and would be presented at the next meeting of the Working Group. The allocations to property investments and their current weightings as at 31 December 2015 were outlined to the Group.

The Working Group were notified of discussions with the manager of the Fund's largest indirect property holding regarding the likely duration of the holding period for this investment and the decision to make a further investment in this fund. These matters had been discussed with the Chair and the case for further investment.

It was reported that La Salle would be presenting their quarterly report to the Group and the key issues relating to transactional and asset management activity over the last year, prospective purchases and the current state of the market would be highlighted. GVA would also be reporting to the Group, and their presentation would focus on a new development at First Street in Manchester in addition to an update on other sites including potential housing development sites in Manchester, Rochdale and Tameside.

RECOMMENDED:
That the report be noted.

18. OVERSEAS INVESTMENTS

The Executive Director of Pensions submitted a report summarising activity in the management of the Fund's Overseas Property portfolio.

With regard to investment activity, it was reported that investments were being made in accordance with the agreed guidelines and details of commitments made to funds and draw-downs were outlined to the Group. There would be a steady, measured progress to meeting the allocation whilst controlling risk through diversification across vintage, geography, sector and other factors.

The Working Group was informed that it was still early days for the deployment of capital but progress was satisfactory. The case for overseas property remained and there was a visible pipeline of potential investments.

The original Investment Guidelines, as per appendix one of the report, were outlined to the Group and proposed amendments were highlighted, as per the revised version at appendix two of the report. The minor amendments related to changes to governance and staffing structures.

RECOMMENDED:
(i) That the report be noted; and
(ii) That the minor amendments to the Investment Guidelines as set out in the report be approved.

19. PROPERTY RELATED AGED DEBT

The Executive Director of Pensions submitted a report summarising the aged debt for the two property portfolios (Main Property Fund and Greater Manchester Property Venture Fund (GMPVF)) as at 19 December 2015. There had been a £0.505 million reduction in aged debt over the last three months.

It was reported that the value of Property Aged Debt for the fund as at 19 December 2015 was £0.252 million, compared to £0.757 million as at 19 September 2015. This was largely due to debts that had been written off in respect of the Main Property Portfolio as discussed at the 6 November 2015 meeting.

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

The highest value debts for each portfolio were detailed as per the appendices to the report. The policies for debt recovery were unchanged and there were currently no payment plans in place.

RECOMMENDED:
That the report be noted.

20. LA SALLE QUARTERLY REPORT

The Working Group welcomed Tom Rose, Fund Manager and Rebecca Gates, Head of UK Asset Management, LaSalle Investment Management, who attended the meeting to present the GMPF main property portfolio quarterly report for quarter four 2015.

Mr Rose and Ms Gates highlighted the following areas:-

- Portfolio summary
- Portfolio Composition
- Transactional Activity

- Key Asset Management Issues

It was reported that the portfolio had increased in value on a like-for-like basis in addition to an increase in value for the seven indirect holdings. IPD were finalising the calculations for the 2015 performance report. Returns of approximately 10.6% were expected which was expected to equate to underperformance of approximately 2%.

The portfolio composition was outlined and details provided of completed purchases, purchases currently under offer, completed sales and sales under offer. There were a number of upcoming potential sales, which were highlighted to the Group.

The Working Group were provided with information relating to lettings and lease renewals, rent reviews and vacancies. It was reported that there had been a marginal increase in the vacancy rate but a significant amount of space was currently under offer.

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

21. GVA QUARTERLY REPORT

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

Island Site, Manchester – it was reported that there were a number of existing occupiers together with their lease terms. Discussions had continued with Manchester City Council and architect drawings had evolved over time. The potential development opportunity for Grade A office space with restaurant and retail outlets on the ground floor was detailed. The financial viability modelling had been completed and the gross development value, total costs and anticipated GMPVF profit was highlighted.

First Street, Manchester – it was reported that this site was located within a key regeneration area of Manchester where public realm space had been completed. The site was acquired following an intensive process. Work had commenced in January 2016 with an anticipated completion date of September 2017. Working Group Members would be receiving an invitation to visit the site with a provisional date of 14 March 2016.

The building would provide 175,000 square feet of internal space, 35,000 of which had already been let. The building could accommodate 2,000 full time employees when complete. The gross development value, total costs and anticipated GMPVF profit was highlighted. The main focus for GVA was to source suitable tenants for the building.

The report also gave an update on existing assets at:
- Pomona
- Calver Park, Warrington
- Stalybridge West, Tameside
- Former Sorting Office, Stockport
- Preston East, J31 M6
- Wilmslow Road, Didsbury
- Old Haymarket, Liverpool City Centre
- Chorlton Shopping Centre, South Manchester
- Martland Park, Wigan
- Unity House, Wigan
- Globe Park, Rochdale
- One St Peter's Square, Manchester City Centre

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

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

The Working Group was also provided with a schedule of fee expenditure incurred on development activity during the previous quarter for each site and a RAG (Red, Amber, Green) analysis showing the progress of development activity undertaken during the last three quarters to June, September and December 2015 and the current prediction on final viability.

RECOMMENDED:
That the report be noted.

22. URGENT ITEMS

The Chair reported that there were no urgent items for consideration at the meeting.

CHAIR

GREATER MANCHESTER PENSION FUND - EMPLOYER FUNDING VIABILITY WORKING GROUP

Friday, 12 February 2016

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

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

Apologies for Absence: Councillors Cooney, Patrick, Ms Herbert and Mr Flatley

21. DECLARATIONS OF INTEREST

There were no declarations of interest.

22. MINUTES

The Minutes of the proceedings of the meeting of the Employer Funding Viability Working Group held on 30 October 2015 were approved as a correct record.

23. GMPF ADMINISTRATION EXPENDITURE MONITORING STATEMENT FOR THE 8 MONTHS TO NOVEMBER 2015

The Executive Director of Pensions submitted a report, which compared the administration expenses budget against the actual results for the 8 months to November 2015.

It was reported that actual expenditure was £3,757,000 less than the estimate of £15,765,000 for the same period and a similar scale of underspend was anticipated at the outturn. The main reasons for major variations were outlined and included premises and a rebate received from an investment manager.

RECOMMENDED:
That the report be noted.

24. GMPF AGED DEBT AS AT 19 DECEMBER 2015

The Executive Director of pensions submitted a report, which summarised the aged debt of the Fund as at 19 December 2015. It was noted that there had been a reduction in aged debt over the 3 months to December. The Working Group was notified that many of the most significant outstanding debts which appear in the report had since been paid in full.

Details of all aged debt (31 days and over) as at 19 December 2015 was provided to the Group alongside comparison to the previous quarter and explanations for the main changes. Appendices which showed the highest value invoices within the Employers, Property Main Fund and Property Venture Fund category were highlighted.

RECOMMNEDED:
That the report be noted.

25. PENSIONS INCREASE ON GUARANTEED MINIMUM PENSIONS

The Executive Director of Pensions submitted a report, which provided information about a potential change regarding how pensions increase is funded, which is a potential consequence of the end of contracting-out of the 2nd State Pension. The report is similar to a report that was considered by the Pensions Administration Working Group.

It was reported that on 6 April 2016 contracting-out would end and consequently the legislation that provides for the State to pay the bulk of pensions increase on Guaranteed Minimum Pensions would be changing, potentially meaning that this would need to be paid by LGPS funds.

The Local Government Association has raised this matter with the Department of Communities and Local Government and the Treasury since 2013 and are awaiting an announcement regarding alternative funding for pensions increase on guaranteed minimum pensions.

It was also noted that the end of contracting-out in April would result in additional costs for employers and a reduction in take home pay for members of the Scheme.

RECOMMENDED:
That a letter be sent to the Department of Communities and Local Government seeking an urgent resolution of this matter.

26. INTEGRATING RISK MANAGEMENT

The Executive Director of Pensions submitted a report, which outlined the introduction of guidance issued by the Pensions Regulator on integrating risk management for defined benefit schemes, although this guidance will be non-statutory in the LGPS.

It was reported that following the Public Sector Pensions Act 2013 the LGPS 2014 had fallen under the remit of The Regulator, although its remit does not currently extend to scheme funding. The Working Group had given consideration to some of the key principals relating to scheme funding in the private sector at its August 2014 meeting and this will be considered further during the actuarial valuation process.

RECOMMENDED:
That the report be noted.

27. BESPOKE INVESTMENT STRATEGIES

The Executive Director of Pensions submitted a report, which provided an update on the discussions held with Transport for Greater Manchester (TfGM) to implement a bespoke investment strategy for its section of the Fund. The liabilities of the TfGM sub-fund were very mature with approximately 75% of members being pensioners.

It was reported that one element of the potential solution for TfGM was to use pooled funds designed to provide protection against the impact of higher than expected inflation. Following further discussions with TfGM and its advisors, GMPF officers were obtaining final advice on the implementation of the pooled funds from Hymans Robertson including an assessment of current market pricing and confirmation of the final allocation.

RECOMMENDED:
That consent be given to officers to begin implementation of the agreed strategy subject to receiving confirmation from Hymans Robertson on market pricing remaining acceptable.

28. EMPLOYERS CEASING TO PARTICIPATE IN THE FUND

The Executive Director of Pensions submitted a report, which provided details of employers making enquiries regarding the cost of voluntarily ceasing participation in the Fund.
It was reported that LGPS Regulations state that when an employer ceases to participate in the Scheme at a time when their sub-fund is in deficit, it is liable to pay an exit debt. The exit debt calculation method was at the discretion of the actuary/administering authority of the Fund with the general approach set out in the Funding Strategy Statement.

The Working Group were informed that the enquiries were being driven primarily by cost pressures and a desire to standardise pension benefits across the workforce. It is increasingly likely that over the next few years the Fund will experience employers ceasing to participate as a result of their last active member either retiring or leaving employment. The Fund's approach to calculating cessation debts will be considered as part of the review of the Funding Strategy Statement during the valuation process.

RECOMMENDED:
That the report be noted.

29. ADVANCE FUNDING OF PENSION CONTRIBUTIONS

The Executive Director of Pensions submitted a report, which examined the potential benefits to the Fund and employers of making advance payment of contributions.

It was reported that some employers would have cash balances and reserves and with interest rates exceptionally low, balances would be getting an investment return/interest of approximately 0.5%. The actuarial assumption for investment returns by the Fund in the 2013 valuation was 4.8%. There is scope to agree arrangements with employers to give them a discount on their contributions for early payment that is greater than their return on cash balances. The basic principles and risks associated with this approach were outlined to the Group.

The Working Group were notified that more detailed work was required on legislative, regulatory and accounting matters to confirm the feasibility and further consideration was required on the practical issues.

RECOMMENDED:
That the Working Group support in principle the offer to employers to pay contributions in advance.

30. URGENT ITEMS

The Chair reported that there were no urgent items for consideration at the meeting.

CHAIR

GREATER MANCHESTER PENSION FUND - POLICY AND DEVELOPMENT WORKING GROUP

11 December 2015

Commenced: 8.00am **Terminated:** 9.50am

Present: Councillors K Quinn (Chair), J Fitzpatrick, Pantall, Taylor and J Lane

Apologies for Absence: Councillors Cooney, M Smith, S Quinn and Ms Baines

8. DECLARATIONS OF INTEREST

Member	Subject Matter	Type of Interest	Nature of Interest
Councillor K Quinn	Urgent Item – Class Actions	Prejudicial	One of interviewees provided hospitality to Councillor K Quinn via his position as Chair of LAPFF

Councillor K Quinn left the room during consideration of the above item and took no part in the discussion nor decision thereon.

9. MINUTES

The Minutes of the proceedings of the meeting of the Policy and Development Working Group held on 27 May 2015 were approved as a correct record.

10. POOLING OF ASSETS

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

It was explained that the LGPS across England and Wales, consisted of 89 regional funds with total assets of almost £200bn. The average size of a regional fund was around £2bn, but there was wide variation between the largest fund, GMPF, at £17.6bn and the smaller funds, such as those operated by each of the 32 London Borough, many of which had assets of less than £1bn. DCLG/HMT had been looking at options to reduce investment management costs and improve investment returns across the LGPS as a whole for a number of years.

The Chancellor announced in the summer budget that he would be seeking proposals for pooling of assets by funds and following the budget announcement key messages emerged in discussions with DCLG/HMT officials, as follows:

(i) Proposals for pooling would need to be assessed against criteria to be set by Government;
(ii) Criteria were likely to be around size, (£30bn had been used as an illustrative example), cost/savings and governance (improving decision making such as hire/fire decisions of fund managers;
(iii) Crtieria would likely be published alongside a consultation on new investment regulations and 'back stop' legislation, which would apply if any fund is not invested via a vehicle/s which meet the criteria;

(iv) Thoughts about pooling models and options should be underway now with a view to options going to ministers early next year;
(v) Announcement by Government on the way forward likely was likely to be contained in the Spring 2016 Budget;
(vi) Government had no fixed ideas on the structure of pools but had expressed a preference for a 'simple' solution;
(vii) Government was alive to the transaction issues for example, illiquid investments that could not be unwound in the short term without significant financial penalties. However it would probably expect pooled vehicles to be in place in this parliament even if all assets were not yet ready to be moved;
(viii) There could be a place for a proportion of the assets to remain under direct local control in certain circumstances. However any such exemptions would probably be for prescribed investments and would be relatively small.

Members were further informed that, at the Conservative Party Conference on 5 October 2015, the Chancellor provided a further statement as follows:

"At the moment, we have 89 different local government pension funds with 89 sets of fees and costs. It's expensive and they invest little or nothing in or infrastructure. So I can tell you today we're going to work with councils to create instead half a dozen British Wealth Funds spread across the country. It will save hundreds of millions in costs, and crucially they'll invest billions in the infrastructure of their regions."

Further reference to these British Wealth Funds was also made within the Government's four-point infrastructure plan.

DCLG subsequently issued a letter to all LGPS funds providing reassurance that the Chancellor's latest comments were not a departure from the original proposals and the outcome of the process was not a 'fait accompli'. However there was a strong suggestion that Government saw the outcome as groups of funds working together across all asset classes and that the ability to invest in large scale infrastructure was now one of the criteria upon which proposals would be assessed.

Following the Chancellor's spending review and Autumn Statement, the Government had published a number of documents relating to LGPS investments in England and Wales and an initial analysis of each of the documents was provided for discussion.

The criteria for evaluating pooling options was outlined and it was explained that there were two ways in which assets could be pooled:

(i) By funds working together and pooling their collective assets; and
(ii) By creating individual asset class pools, e.g. a UK equity pool.

An initial evaluation of these options had been presented at the October meeting of the Management Panel (Meeting of 2 October 2015, Minute 34 refers) and following discussions, views on criteria were expressed in a letter to DCLG, a copy of which was appended to the report. The criteria by which funds proposals will be evaluated by Government were set out in the recently published – "Local Government Pension Scheme – Investment Reform Criteria and Guidance." These were as expected with the aim to reduce costs and at least maintain returns. The specific criteria were:

- Asset pools should achieve the benefits of scale;
- Strong governance and decision making;
- Reduce costs and provide excellent value for money; and
- Improve capacity to invest in infrastructure.

It was reported that a group of 25 funds, including GMPF, had formed a joint working group to work together on a project to deliver a joined-up response to Government on options for LGPS investment pooling. The aim of the project was to deliver an authoritative and objective based assessment of options for pooling LGPS investments. All of the options for pooling would be assessed against the likely Government criteria for pooling. The working group aimed to deliver its report to Government in January 2016 and to share it with all administering authorities, the LGA and other interested parties.

Members were informed that, since the October meeting of the Management Panel, discussion regarding collaboration had been ongoing on a regular basis with a number of other, predominantly northern based LGPS funds. The funds involved had shared information on their investment beliefs, investments management arrangements, their key strengths and the 'red-lines' which would prevent them being party to any agreement. GMPF's 'red-lines' were broadly as set out in the Fund's response to government on criteria which was appended to the report.

This sharing of information was designed to help funds determine the 'like-minded' funds with which they could form an asset pool. The long term vision which GMPF envisaged creating with other funds was a pool which provided the following:

- A mix of internal and external investment management
- Collective investing in alternatives, which would;
- Build capacity and skills;
- Becoming increasingly direct; and
- Increase scale and reduce risk in infrastructure.

It was reported that at this stage, GMPF was open minded to working with other pools or on a national basis for some alternative assets, for example infrastructure.

The Chair thanked officers for the report and presentation and informed Members that engagement was ongoing with a wide range of Funds.

RECOMMENDED

(i) That progress and developments, which have taken place since the October meeting of the Management Panel, be noted; and

(ii) That the content of GMPF's response to Government on criteria be noted, including details of 'red lines' that would prevent GMPF becoming party to an agreement with other funds.

11. COLLABORATION WITH OTHER LGPS FUNDS ON INVESTMENTS

The Executive Director of Pensions submitted a report and the Assistant Executive Director, Local Investments and Property delivered a presentation providing an update on investment activity undertaken by GMPF in collaboration with other LGPS funds, and in particular, on the collaboration with LPFA on infrastructure and the North West Impact portfolio.

It was reported that a significant amount of work had been undertaken in setting up the joint venture, now known as GLIL (Greater Manchester and London Infrastructure Limited Liability Partnership). The vehicle had a formal governance structure with two key committees for decision making; the Investment Committee and the Management Committee, which meet on a regular basis. A copy of the investment guidelines were appended to the report. Details of current opportunities on which due diligence costs were being incurred was reported.

Investments in infrastructure through funds was attracting significant commitments and there are a number of overseas investors active in the market. This leads to a very competitive environment to source deals. There had been considerable investment activity and details of the key investments completed, or being in final due diligence were reported together with investment opportunities that had been rejected.

It was explained that the pooling agenda loomed large and it was expected to provide significant opportunities for the GLIL to grow its assets under management as part of any future arrangements. Pending the outcome of discussions it was flagged that the Panel may be asked to consider increasing GMPF's commitment.

An issue facing GLIL was the investment limit of £100m set out in the investment guidelines. This was based on the 20% of the current committed capital of £500m. The team were seeing a number of investment opportunities in the £100-150m range and currently had to seek specific Panel approval to fund those investments, adding governance complexity and potential delays in processes that were often highly time-sensitive.

Members were informed that it would be helpful for GLIL to be able to bid for assets up to £150m without the need for recourse to the Panel. Approval was therefore sought to temporarily amend the investment guidelines for a period of 12 months, such that the concentration limit would be the higher of 20% of commitments and £150m. At the end of the 12 month period, the concentration limit would become 20% of capital committed to GLIL.

With regard to the North West Impact Portfolio, it was reported that the team for impact investments had been built out during the year, alongside compiling investment processes. There had been a significant amount of work on investments carried out during the year as detailed in the report.

Work on attracting other LGPS funds to work with the Fund on the North West Impact Portfolio progressed during the year with several meetings but had been impacted by the pooling agenda. A Pension Fund in the North West retained an interest in working with the Fund and work on the final stage of due diligence on how this would operate was currently ongoing.

RECOMMENDED
(i) That the progress and developments which had taken place during the year on the two collaboration projects detailed above, be noted; and
(ii) That the change to the investment guidelines for GLIL in relation to concentration limits, as set out in the report and detailed above, be approved.

Councillor K Quinn left the room during the consideration of the following urgent item and took no part in the discussion nor voting thereon. Councillor Taylor, in the Chair, for the remainder of the meeting.

12. URGENT ITEM

RESOLVED
That the following item be considered as urgent due to time constraints.

13. CLASS ACTIONS

The Executive Director Governance and Solicitor to the Fund and the Executive Director of Pensions submitted a report summarising potential litigation in which Greater Manchester Pension Fund (GMPF) and others would seek to recover losses in the value of its shareholdings in various companies as a result of actions taken by those companies, and recommended courses of action in respect of each potential case.

Members were informed that in December 2014, after a series of earlier reports to the Ethics and Audit Working Group, a report was submitted to the Panel stating that GMPF could be better placed to deal with Class Actions as they arose, and in particular would benefit from increased notice of potential claims. Furthermore, the report indicated that there was a growing focus on non-US litigation, which was becoming increasingly time-consuming for officers.

For those reasons, the Panel approved the inception of formal contractual relationships with two US law firms and GMPF appointed SRKW and RGRD to provide portfolio monitoring services.

The advantages to GMPF of taking these portfolio monitoring services were that GMPF received timely notification of potential actions where GMPF had suffered a material loss. GMPF also received legal advice as to the merits of potential actions, such as the SRKW 'Investor Alerts'.

In granting approval the Panel endorsed a requirement that the contract terms must reflect the fact that GMPF did not wish to become a lead plaintiff in any litigation

In contracting for these portfolio monitoring services, GMPF had not committed itself to take an active part in litigation (ie to act as lead plaintiff). Moreover, if GMPF did decide to pursue an action as lead plaintiff, it was not bound to engage either of the law firms that provided a portfolio monitoring service to GMPF.

Members were informed that in most class action situations it was appropriate for GMPF to act entirely passively and simply await the settlement of any class action and then submit a claim (via our Custodian JPMorgan) for GMPF's share of the settlement amount.

Alternatively, GMPF could take a more active role in relevant Class Actions and seek to take advantage of situations where either an entirely passive approach is not available or where there were considered to be other advantages to so doing. These more active roles could involve quite undemanding requirements such as "opting-in" to a particular Class Action whilst still not playing a lead plaintiff role.

The report further detailed ongoing class actions where SRKW and RGRD had recommended that GMPF deviate from an entirely passive role (further details of each class action were also given in appendices to the report). Officers of GMPF had reviewed the recommendations made by SRKW and RGRD against five key conditions which had been incorporated into the contracts with SRKW and RGRD. An optimistic officer estimate of recovery rate was also detailed, however, it was noted that such a recovery only applied if the case was successful.

The recommendation from both SRKW and RGRD in respect of a large pharmaceutical company was to consider seeking to take on the most active and demanding role of acting as lead plaintiff. The benefits of being lead plaintiff were outlined and it was explained that if there was an opportunity to control the litigation and recover losses whilst raising the standard of corporate governance with no risk of GMPF incurring any costs and with a low impact on GMPF internal resources this would be an expedient outcome for GMPF, particularly given its status as the largest Local Government Fund in the UK.

In the interest of fairness both SRKW and RGRD had been invited to complete very short responses to five questions and both appeared before Members of the Working Group for a maximum of 5 minutes to clarify their answers and respond to any follow up questions as necessary. The questions and responses given by each lawyer were circulated with the report.

Discussion ensued in respect of the merits of pursuing a class action as lead plaintiff and also upon the responses and presentations of the two lawyers and it was;

RECOMMENDED

(i) That the officer recommendations, as set out in Table 1 of the report, in respect of outstanding class actions, be approved;

(ii) That a pilot case be run with GMPF seeking to act as lead plaintiff in a class action against the large pharmaceutical company identified in the report);

(iii) That RGRD be engaged to undertake a pilot case with RGRD identifying this first case and SRKW be engaged to act on GMPF's behalf in seeking to be lead plaintiff in the next suitable class action recommended by SRKW.

GREATER MANCHESTER PENSION FUND - POLICY AND DEVELOPMENT WORKING GROUP

Thursday, 4 February 2016

Commenced: 2.30 pm **Terminated:** 4.10 pm

Present: Councillors K Quinn (Chair), J Fitzpatrick, Taylor and Pantall

Apologies for Absence: Councillor Cooney

15. DECLARATIONS OF INTEREST

There were no declarations of interest.

16. MINUTES

The Minutes of the proceedings of the meeting of the Policy and Development Working Group held on 11 December 2015 were approved as a correct record.

17. POOLING UPDATE

Consideration was given to a report of the Executive Director of Pensions and a presentation of the Assistant Executive Director of Pensions, which provided an update on recent developments relating to the proposals for pooling investments across the LGPS in England and Wales and the recent activities of GMPF in this area.

The Working Group were informed that the Government had published its pooling criteria on 25 November 2015 following the Chancellor's announcement in the summer budget that he would be seeking proposals for LGPS to pool their assets in order to improve net investment returns and facilitate increasing funds' allocation to infrastructure investment. The four primary criteria were for pools, which created improvements in scale, value for money, governance and facilitating infrastructure investment. Funds were required to provide high-level details of their pooling plans to Government by 19 February 2016 with full details of the pool's operation to be submitted by 15 July 2016.

It was reported that a group of 25 funds, including GMPF, had formed a joint working group to work together on a project to deliver a joined-up response to Government on options for LGPS investment pooling. The aim of the project was to deliver an authoritative and objective based assessment of options for pooling LGPS investments. All of the options for pooling were assessed against the Government criteria for pooling. The final report had been delivered to Government on 21 January 2016 and shared with all administering authorities, the LGA and other interested parties. Consideration was given to the summary version of the report, set out at appendix 1 of the report.

The Working Group heard that discussions regarding collaboration had been ongoing on a regular basis with a number of other, predominantly northern based LGPS funds and a draft memorandum of understanding, which set out the operation of the pool and the steps in its developments, had been produced.

The draft memorandum of understanding, which was appendix 2 of the report, was outlined to the Group. It was confirmed that this was a working document and GMPF's long term vision was a pool which provided a mix of internal and external investment management, collective investing in alternatives, which would build capacity and skills, become increasingly direct and increase scale and reduce risk in infrastructure, and work with other pools on a national basis for some alternative assets.

The Legal Structures and the two main models (FCA Authorised Operating Company by participating funds and a Joint Committee) were outlined to the Group. The advantages and disadvantages of both models were explained and discussed. Governance arrangements, the role of the Pool Board and approach to infrastructure were highlighted.

RECOMMENDED:
That progress and developments, which have taken place since the December meeting of the Management Panel be noted.

18. INVESTMENT INITIATIVES

The Executive Director of Pensions submitted a report, which provided an update on progress for a number of specific investment initiatives undertaken by the Fund. Members were asked to note certain specific actions that had been taken under delegated authority following consultation with the Chair.

It was reported that since the last meeting of the Working Group actions had been implemented in the Impact Portfolio and increased commitments in two investments, which had been agreed following discussions between the Executive Director of Pensions and the Chair of the Fund, were noted.

The LPFA Joint Venture had actively pursued three deals, with an expectation of obtaining final approval, during a particularly demanding three month period. However, there was a probability that only a small proportion of deals would come to fruition. A pipeline of opportunities had been built and the team had declined a number of opportunities following an evaluation process. The team had worked with the LGA and other LGPS Pension Funds to promote a national infrastructure platform as part of the solution for pooling.

The Working Group were notified that in relation to the first phrase of Matrix Homes all units had been completed and handed over with formal completion of sites planned for April 2016. GVA's latest forecast was that the overall construction cost would be in line with the target estimate.

With regard to Matrix Homes 2, it was reported that Manchester City Council (MCC) had identified five further sites, which they believed were suitable for development using the Matrix Homes Model. A "heads of terms" had been agreed between GMPF and MCC on the commercial arrangements for Matrix 2, subject to a viable scheme being devised.

It was further reported that Tameside Council and GMPF had agreed to work together to develop a number of sites across Tameside. GVA were working through a programme to prove the viability of development at six sites, which was due to conclude in April 2016. Planning proposals had been submitted and there was an on-going exercise to select an architect to design the schemes. GVA were continually updating the financial model for each site.

RECOMMENDED:
That the report be noted.

CHAIR

GREATER MANCHESTER PENSION FUND - LOCAL PENSIONS BOARD

19 January 2016

Commenced: 2.00 pm **Terminated:** 3.50 pm

Present:	Councillor Middleton (Chair)	Employer Representative
	Councillor Cooper	Employer Representative
	Richard Paver	Employer Representative
	Catherine Lloyd	Employee Representative
	Mark Rayner	Employee Representative
	David Schofield	Employee Representative
	Chris Goodwin	Employee Representative

Apologies for Absence: Jayne Hammond

16 DECLARATIONS OF INTEREST

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

17 MINUTES

The Minutes of the meeting of the Local Pensions Board held on 6 October 2015 were approved as a correct record.

Further to Minute 10 – Expansion of GMPF Board, Members were informed that the Council had approved a move to 5 employee and 5 employer membership for the Local Board and the appointment of the additional employee and employer representatives.

Progress was being made on filling the remaining positions as follows:

(i) A non-local authority employer – nominations were sought on the Fund's website and expressions of interest were received form 15 potential employer representatives. A shortlist had now been drawn up and interviews were scheduled to be held in early February 2016; and

(ii) Similarly, 5 expressions of interest had been received from potential pensioner representatives and again interviews were planned for early February 2016.

18 UPDATE FROM GMPF MANAGEMENT PANEL

The Executive Director of Pensions submitted a report providing an update for Board members on some of the key agenda items from the meeting of GMPF Management/Advisory Panel held on 11 December 2015 as follows:

Pooling of Assets

It was reported that the progression of the Government's proposal for pooling of assets was a key area of work for the Panel, Chair of the Fund and officers. This item would feature on all Panel agendas for the foreseeable future.

It was explained that the LGPS across England and Wales, consisted of 89 regional funds with total assets of almost £200bn. The average size of a regional fund was around £2bn, but there was wide variation between the largest fund, GMPF, at £17.6bn and the smaller funds, such as those operated by each of the 32 London Borough, many of which had assets of less than £1bn.

DCLG/HMT had been looking at options to reduce investment management costs and improve investment returns across the LGPS as a whole for a number of years.

The Chancellor announced in the summer budget that he would be seeking proposals for pooling of assets by funds and following the budget announcement key messages emerged in discussions with DCLG/HMT officials.

Members were further informed that, at the Conservative Party Conference on 5 October 2015, the Chancellor provided a further statement as follows:

"At the moment, we have 89 different local government pension funds with 89 sets of fees and costs. It's expensive and they invest little or nothing in or infrastructure. So I can tell you today we're going to work with councils to create instead half a dozen British Wealth Funds spread across the country. It will save hundreds of millions in costs, and crucially they'll invest billions in the infrastructure of their regions."

Further reference to these British Wealth Funds was also made within the Government's four-point infrastructure plan.

DCLG subsequently issued a letter to all LGPS funds providing reassurance that the Chancellor's latest comments were not a departure from the original proposals. However there was a strong suggestion that Government saw the outcome as groups of funds working together across all asset classes and that the ability to invest in large scale infrastructure was now one of the criteria upon which proposals would be assessed.

Following the Chancellor's spending review and Autumn Statement, the Government had published a number of documents relating to LGPS investments in England and Wales and an initial analysis of each of the documents was provided for discussion.

The criteria for evaluating pooling options was outlined and it was explained that there were two ways in which assets could be pooled:

(i) By funds working together and pooling their collective assets; and
(ii) By creating individual asset class pools, e.g. a UK equity pool.

An initial evaluation of these options had been presented at the October meeting of the Management Panel (Meeting of 2 October 2015, Minute 34 refers) and following discussions, views on criteria were expressed in a letter to DCLG, a copy of which was appended to the report. The criteria by which funds proposals will be evaluated by Government were set out in the recently published – "Local Government Pension Scheme – Investment Reform Criteria and Guidance." These were as expected with the aim to reduce costs and at least maintain returns. The specific criteria were:

- Asset pools should achieve the benefits of scale;
- Strong governance and decision making;
- Reduce costs and provide excellent value for money; and
- Improve capacity to invest in infrastructure.

It was reported that a group of 25 funds, including GMPF, had formed a joint working group to work together on a project to deliver a joined-up response to Government on options for LGPS investment pooling. The aim of the project was to deliver an authoritative and objective based assessment of options for pooling LGPS investments. All of the options for pooling would be assessed against the likely Government criteria for pooling. The Working Group aimed to deliver its report to Government in January 2016 and to share it with all administering authorities, the LGA and other interested parties.

Members were informed that, since the October meeting of the Management Panel, discussion regarding collaboration had been ongoing on a regular basis with a number of other, predominantly northern based LGPS funds. The funds involved had shared information on their investment beliefs, investments management arrangements, their key strengths and the 'red-lines' which would prevent them being party to any agreement. GMPF's 'red-lines' were broadly as set out in the Fund's response to government on criteria which was appended to the report.

This sharing of information was designed to help funds determine the 'like-minded' funds with which they could form an asset pool. The long term vision which GMPF envisaged creating with other funds was a pool which provided the following:

- Collective investing in alternatives, which would;
- Build capacity and skills;
- Becoming increasingly direct; and
- Increase scale and reduce risk in infrastructure.

It was reported that at this stage, GMPF was open minded to working with other pools or on a national basis for some alternative assets, for example infrastructure.

Discussion ensued with regard to the implications of asset pooling and Board Members raised a number of issues, including:

- Unitisation within the Pool;
- Division of assets and ring fencing of costs;
- Long term vision and investment philosophy;
- Governance; and
- Investment in infrastructure.

GMPVF – One St Peter's Square
It was reported that lease arrangements had been agreed with a large firm of solicitors.

Airport City
The President of China's visit to Manchester Airport and Airport City attracted considerable publicity for the planned developments and this coincided with the resolution of a number of technical issues. The pace of development was now expected to accelerate.

2016 Pensions Increase and Revaluation
Pensions in payment and deferred pensions were increased in line with Pension Increase (Review) Orders. These were made when there was an increase in the September value of the Consumer Prices Index (CPI) as compared to the previous September's CPI. This year, the change to September 2015 was a negative 0.1%, meaning that no Pensions Increase (Review) Order would be made. Pensions and deferred pensions would therefore not change in value.

Career average pensions being built up by active members were revalued to take account of changes in prices, by Treasury Orders. As yet, nothing had been confirmed concerning the likelihood, or otherwise, of a negative revaluation percentage being passed in law. It therefore remained to be seen for active members whether career average pensions built up thus far would reduce in value or remain the same.

Scottish Parliament Report on Pension Fund Investment in Infrastructure
It was reported that the Local Government and Regeneration Committee of the Scottish Parliament published its report on pension fund investment in infrastructure and city deal spend on 30 November 2015.

A submission was made to the Committee by the fund and members of the Committee subsequently visited Manchester to look in more detail at GMPF's approach to local investment and infrastructure. An extract from the report re: GMPF's contribution was set out in the report.

RESOLVED
That the content of the report be noted.

19 RISK MANAGEMENT AND AUDIT SERVICES

A report was submitted by the Assistant Executive Director of Finance and the Head of Risk Management and Audit Services summarising the work of the Internal Risk Management and Audit Service for the period October to December 2015.

Details were given of final and draft reports issued during the period October to December 2015.

Information was also given of other work carried out in the period, including:

- Advice to managers on the National Fraud Initiative matches, advice re: ICT equipment disposal, other ad hoc advice; and
- Irregularities – none in this quarter.

Members were informed that a detailed review of the 2015/16 audit plan had taken place to ensure that the plan was still relevant, that any revised priorities were taken into account and also to take account of the work done so far, and reduced resources in Internal Audit. The main changes to the Plan and rescheduled audits were detailed in the report.

It was explained that Internal Audit would shortly be consulting with Managers to draw up the Audit Plan for 2016/17, in the context of a three year plan so the rescheduled audits would be re-assessed as part of that process and included in next year's plan should they be identified as still being a priority to be carried out.

It was further explained that the main financial systems audits in quarter 4 were carried out every year, in order that a greater proportion of the year's transactions could be included in the samples tested.

Planned audits for quarter 4 were also detailed.

The revised plan was appended to the report, which indicated that 250 days had been allocated to the Fund for this financial year, less than the 300 days originally allocated.

Discussion ensued and Members raised concerns with regard to the reduction in planned days and sought assurances that adequate internal audit provision would be made going forward.

The Head of Risk Management and Audit Services explained that the Service was currently undergoing a service review and it was possible that additional days may be provided next year. She added that a full plan would be submitted to the next meeting of the Board.

The Executive Director of Pensions stressed the importance of robust internal control processes and added that, if required, some specialist internal audit provision would be purchased.

20 VALUATION UPDATE

Consideration was given to a report and presentation of the Executive Director of Pensions, setting out the 2016 actuarial valuation timetable. A copy of the latest valuation timetable was appended to the report.

RESOLVED
That the content of the report and presentation be noted.

21 EMPLOYER COVENANT

The Executive Director of Pensions submitted a report explaining that the Fund could generally take a long-term outlook due to the ability of the Fund's participating employers to ultimately make good any deficits that emerged from time to time. This ability was often referred to as the 'employer covenant'.

The report provided a high-level analysis of the fund's employer covenant with the aim of highlighting any weaker sectors and employers where the Fund was potentially exposed to a material employer cessation risk and where further analysis should be taken.

It was explained that consideration of employer covenant strength would form a key part of the 31 March 2016 actuarial valuation process. Specific actions during the valuation process were likely to include:

- Categorisation of employers into different risk categories, following a similar methodology to that used in the analysis for the report. This would include reassessing the risk of different sectors (e.g stated Government policy and funding);
- For employers deemed to be of higher risk, analysis of employers' balance sheets to estimate the Fund's outcome in a hypothetical insolvency scenario; and
- Consideration of further steps the fund could take to reduce exposure, e.g. fund on more prudent assumptions, implementation of bespoke lower-risk investment strategies, seek additional forms of security, such a charge over assets.

Going forward, the Fund would provide Local Authorities on an annual basis with details of the employers for which they acted as guarantor.

The report concluded that the Fund would continue to share knowledge and experience in this area with other funds as appropriate.

RESOLVED
That the content of the report be noted.

22 REPORT TO PENSIONS REGULATOR REGARDING MEMBER BENEFIT STATEMENTS

The Executive Director of Pensions submitted a report, explaining why there had been problems this year in providing Annual Benefit Statements (ABSs). A copy of the letter sent to the Pensions Regulator explaining the late dispatch of ABSs to the minority, albeit substantial number of the Fund's members impacted, was appended to the report.

The report concluded that the inability to produce all the ABSs that were required was a breach of the law and resulted in disappointing service to Members. Whilst disappointing, many other LGPS funds are in the same position.

A great deal of work is taking place to try and ensure that for the 2015/16 year end, far more data is received from employers that is accurate, timely and complete. As well as enabling the production of ABSs by 31 August 2016, receiving accurate, timely and complete information from employers would be far more efficient and effective for both employers and the administering authority by reducing the amount of laborious manual intervention and re-work. It would also facilitate the timely and accurate completion of the 2016 actuarial valuation that determines employer contribution rates with effect from 1 April 2017.

RESOVLED
That the content of the report and plans to improve performance next year, be noted.

23 POLICY FOR REPORTING BREACHES OF THE LAW TO THE PENSIONS REGULATOR

Consideration was given to a report of the Executive Director of Pensions, which provided a draft procedure for reporting material breaches of the law to the Pensions Regulator.

Members raised concerns with regard to possible conflict going forward in relation to the roles of Solicitor to the Fund and Executive Director of Pensions, which would be held by the same person, when the current Executive Director retired in May 2016.

The Assistant Executive Director – Pensions Administration informed Members that it was a request not a requirement to consult the Solicitor to the Fund in respect of reporting breaches of the law to the Pensions Regulator and to ensure consistent with Administering Authority's Whistle Blowing Policy.

24 ASSESSMENT OF TRAINING NEEDS

A report was submitted by the Executive Director of Pensions explaining that Board members are required to acquire appropriate 'knowledge and understanding' of pension matters, under the Pensions Act 2004. The degree of knowledge and understanding must be '*appropriate for the purposes of enabling the individual to properly exercise the functions of a member of a local Board'.*

The report set out the results of the self-assessment of Board members training needs and recommended the areas on which training should focus during 2016.

Three areas identified for training were as follows:

- Internal controls – including how scheme members' data is kept and how employer and employee contributions are monitored and recorded;
- Resolving Disputes – How disputes between members, employers and the Fund are raised, documented and resolved; and
- Funding and Investment – including the purpose of the actuarial valuation process and how contribution rates are set, the purpose of the Fund's Statement of Investment Principles and Funding Strategy Statement and the role of the Fund's custodian.

It was proposed that the above three areas be a focus of the training programme during 2016, and that each one be added to the agenda as a training item for the next three meetings, starting with Funding and Investment at the next meeting.
Members made reference to the self-assessment and commented that it would be useful for Board Members to have information with regard to the Management Panel's level of understanding/training requirements. The Executive Director of Pensions agreed to raise the matter of the same self-assessment process being completed by Management/Advisory Panel Members also.

The Executive Director of Pensions added that the recording of training undertaken for Members was also being formalised and included in the Annual Report and Accounts.

Members further sought information with regard to resolving disputes. The Executive Director agreed that this would be an item on the agenda for the next meeting.

RESOLVED
(a) That the content of the report, including the knowledge and understanding requirements of Board Members, be noted; and
(b) That the training requirements, as detailed above, be agreed.

25 CONFLICTS OF INTEREST POLICY

The Executive Director of Pensions submitted a report and delivered a presentation advising that the LGPS Governance Regulations 2015 required each administering authority to be satisfied that Members of their local board did not have a conflict of interest.

It was explained that a policy for Managing Potential Conflicts of Interest on the Board, had been drafted and was provided as an appendix to the report for approval.

The presentation gave examples of potential and actual conflicts of interest and outlined the legal requirements of Board members to provide the scheme manager with all appropriate information in respect of their interests. The requirement to maintain a conflicts register was also highlighted.

Possible courses of action to manage conflicts of interest was also detailed and discussed.

RESOLVED
That the draft policy (as appended to the report) for managing potential conflicts of interest be approved.

CHAIR

This page is intentionally left blank

Report To:	**Pension Fund Management/Advisory Panel**
Date:	11 March 2016
Reporting Officer:	Peter Morris, Executive Director of Pensions
Subject:	**MANAGEMENT SUMMARY**
Report Summary	The aim of this report is to provide a short commentary on issues and matters of interest arising during the last quarter.
Recommendations:	1 To note the progress on matters and issues raised in the Management Summary. 2 In respect of "Scenario Planning" to adopt the recommendations set out below (i) Restrict initial provision to covering triggers in relation to equity markets only; (ii) Implement any increase and decrease in equity market exposure via the use of "Futures" in the equity market; (iii) Use a dedicated Fund Manager account to operationalise the trigger monitoring and trading processes; (iv) Remove the current 3% "tactical cash" benchmark holding as part of the upcoming annual Investment Strategy Review and allocate this to equity markets within the benchmark which forms the basis of the consultation exercise with the Fund Managers; (v) Ensure that a pre-invoked "veto" form part of the arrangements surrounding the operation of the equity market trigger; and (vi) Bring a report setting our more detailed proposals to the next meeting of the Policy and Development Working Group.
Policy Implications:	None.
Financial Implications: **(Authorised by the Section 151 Officer)**	There are no material direct financial implications arising from this report.
Legal Implications: **(Authorised by the Solicitor to the Fund)**	Legal advice needs to be taken expediently on each of the individual projects referenced in the report as required.
Risk Management:	The report is primarily for information only.

ACCESS TO INFORMATION:	**NON-CONFIDENTIAL**
	This report does not contain information which warrants its consideration in the absence of the Press or members of the public.
Background Papers:	For further information please contact Peter Morris, Executive Director of Pensions tel 0161 301 7150, email peter.morris@tameside.gov.uk.

1 INTRODUCTION

1.1 The aim of this report is to provide a short commentary on issues and matters of interest arising over the last quarter.

2. POOLING OF ASSETS

2.1 The progression of the Government's proposals for pooling of assets is a key area of work for the Panel, Chair of the Fund and officers.

2.2 A separate report will be provided on progress. The Pool's submission was made to Government on 19 February in line with the timetable.

3. LOCAL BOARD – NEW MEMBERS

3.1 The Council approved a move to 5 employee and 5 employer representatives for the Local Board chaired by Cllr Middleton.

3.2 Interviews were held to fill the vacant positions and the following appointments were made:

(i) a non-local authority employer - Paul Taylor, The Manchester College Group

(ii) pensioner representative - Pat Catterall

4. ACTUARIAL VALUATION 2016

4.1 The next actuarial valuation is due to be undertaken as at 31 March 2016 with revised employer contribution rates to take effective from 1 April 2017. This is a major task for all areas of the Pension Service and it is time critical for both employers and the administering authority. Progress will be monitored by the Employer Funding and Viability Working Group with the valuation being the main item at its next meeting. All members are invited to this meeting. Updates will be presented to Panel meetings throughout the year.

4.2 There was a single item agenda with GM treasurers on 15 February on pension and valuation matters and a follow up is planned for late summer when the whole fund results should be available.

4.3 Financial markets have been very challenging over the first 6 weeks of 2016 and Mr Bowie will give an update on the valuation implications at the meeting.

4.4 At the last meeting of the Employer Funding and Viability Working Group, consideration was given to the case for giving employers a discount for paying employer contributions in advance. This matter has also been discussed with local authority treasurers who have expressed interest in participating. A copy of the report is attached as an appendix to this item. Discussions are being held with the auditor on potential accounting requirements regarding this matter.

5. GMPVF - ONE ST PETER'S SQUARE

5.1 An update will be given at the meeting on the progress of the lettings and the possible sale of One St Peter's Square.

6. FIRST STREET

6.1 The Property Working Group heard details of a new Joint Venture for GMPF with Patrizia, a German company to build a major office development at First Street. Work has just started on site and there is 1 pre-let.

7. FOSSIL FREE GREATER MANCHETER

7.1 On 13 February 2016, Fossil Free Greater Manchester campaigned in Manchester City Centre, seeking signatures for their divestment petition, and followed this up with an email to Members of the Advisory Panel. The actions sought from the Fund were:

- Immediately freeze any new investment in fossil fuel companies.
- Divest from any company which is involved in the exploration or production of coal and unconventional oil or gas within 2 years and from all fossil fuel companies within 5 years.
- Work with the Greater Manchester Combined Authority to develop and fund a sustainable low-carbon investment programme for Greater Manchester.

The headlines of the Fund's response to this request are

1) The primary duty of the Management Panel is to pay the pension promises earned by its members. In doing this it is also critically important that the cost is affordable to members and employers and the taxpayer. Moreover, in reaching decisions it complies with its fiduciary responsibilities with which it must comply.

2) GMPF has an excellent long term investment track record. Over the last 25 years, the value of its returns has been over £2bn more than would have been the case if it had achieved the average LGPS fund return. All employers and the taxpayer have benefited from this outperformance through lower employer contribution rates and GMPF being better funded than most LGPS funds. This will provide more long term benefits to employers in the Fund and enables more to be spent on local services.

3) The Management Panel has no plans in the medium term to instruct its investment managers to disinvest from fossil fuel companies. The Government is looking at more regulation to stop Councils and pension funds from making decisions on ethical bases where there is no other legal reason for not investing or procuring services from businesses.

4) The Fund does so far as possible use its weight to bring about governance and ethical change. The Fund has long identified climate change as a key risk which the Panel is working hard to understand and manage. This is illustrated in the actions that it takes. It also challenges its fund managers asking difficult questions to satisfy the Panel that decisions are taken for the long term benefit of the Fund and its employers. The Management Panel hosted a debate on the issue involving a climate change think tank to help consider the Fund's position on these matters. These are set out in its climate risk pamphlet, available on the following link: http://www.gmpf.org.uk/investments/climaterisk.htm.

5) GMPF are members of the Institutional Investors Group on Climate Change and was one of nearly 400 investors around the world representing $24 trillion in assets who called for a strong global climate deal at COP21 in Paris. By signing the Paris Pledge for Action (http://www.parispledgeforaction.org), GMPF then signaled its support for the Paris Agreement, and its commitment to help implement it.

6) In late December, the Fund co-filed shareholder resolutions at Anglo American, Glencore and Rio Tinto. Following the success of similar resolutions filed at BP and Shell, the Fund is confident that this will lead to better management and disclosure of climate risks at the companies in which it invests.

7) GMPF, as a member of LAPFF (Local Authority Pension Fund Forum), is also looking forward to developing a strategy on how best to engage with oil and gas companies on aligning their business plans with a 2 degrees warming scenario, and to undertake a study on 'Value at Risk' to help engagement with companies on long term value and returns. http://www.lapfforum.org/Archive/unprecedented-investor-call-for-climate-risk-transparency-from-mining-giants refers.

8) GMPF also invests in a number of renewable energy projects, the most recent example is IONA which is building a number of anaerobic digestion plants around the country with a particular focus on the North West in which the Fund has earmarked funds.

8. GLOBAL CREDIT MANAGER

8.1 GMPF is seeking to establish a Framework Agreement of three active multi-credit managers with Hymans Robertson assisting on the procurement process.

8.2 The OJEU contract notice was published during 2015 and applicant managers were required to submit a completed Pre-Qualification Questionnaire (PQQ). Having reviewed the responses to our PQQ, twelve managers were invited to the next stage of the review process. This required them to reply to the Request for Proposal (RfP) which was issued during Autumn 2015.

8.3 All managers returned RfPs and six of those passed the qualifying hurdle for the next stage of the search process which consisted of an interview by Officers and consultants from Hymans Robertson. The six qualifying managers were interviewed on 2 or 3 February 2016.

8.4 The highest scoring three global credit managers were chosen and subject to a standstill period of 10 days and assuming no objections are raised during that time, all three managers will be appointed to the Framework Agreement.

8.5 The next step is to issue a mini-competition questionnaire which will be reviewed by Hymans Robertson who will then issue a report with scoring. The final step of the procurement process is for each of the three framework managers to be interviewed by Members of the Panel and the appointment of a preferred manager in the first week of April 2016.

9. SCENARIO PLANNING

9.1 At the 11 December 2015 meeting of the Panel, a work programme, prioritising 'Tactical Cash Scenarios', was agreed as follows:

- Officers to develop the Fund's approach to implementation, likely by way of a segregated account with one of the Fund's existing Securities Managers;
- Hymans be commissioned to propose a 'handful' of suggested ideas/triggers (a maximum of 4 or 5), along with respective 'simple in/out' (eg price based) trigger levels, derived from analysis of fundamentals; and

- Officers to develop proposed governance arrangements around tactical asset switching, the use of triggers, and how a veto might be incorporated to block the action triggered if circumstances have changed significantly.

9.2 Officers met with representatives of L&G, and separately with representatives of UBS, in order to develop an understanding of each respective Fund Managers' capabilities in relation to their potential approaches to providing segregated accounts which would deliver the operational implementation of trades in response to a trigger being breached. A preferred supplier has been identified but this will need confirming and further detailed work (including legals etc) will be required when there is greater clarity on the likely agreed trigger scenarios and trigger levels.

9.3 Hymans Robertson were also commissioned to propose a 'handful' of suggested ideas/triggers. The Hymans paper was forwarded to the Fund Managers and Advisors for their input. Hymans proposed a "phase 1" involving four triggers/metrics and associated trigger levels involving Gilts, Corporate Bonds and Equities. A "phase 2" would extend to triggers relating to inflation protection. Comments were received in late January and early February and were generally supportive.

9.4 A conference call took place on 19 February 2016 involving Peter Moizer, Mark Powers and John Dickson of Hymans Robertson. A concern had been raised about the potential danger of 'over-engineering' the proposed approach and this was discussed on the call. The agreed consensus reached was that during the first year of operation of the trigger-based approach, provision should be restricted to scenarios involving triggers in relation to equity markets only, with a view to considering incremental enhancement to this initial framework (to cover triggers relating to other asset markets) in the light of experience gained.

9.5 Other matters that were confirmed or agreed during the 19 February 2016 conference call were:

- The increase in (purchase) and decrease in (sale) of equity market exposure would most efficiently be implemented via the use of "Futures" on the equity market. This would likely best be facilitated by using a new, dedicated account with one of the Fund's current external managers;

- There was no need for a "tactical cash" holding of 3% of Main Fund since only Futures "margin" would be required to facilitate the purchase/sale of the equity market, and such a 'ring-fenced' separate cash holding (which by its very nature would be held most of the time) would very likely be a long term 'drag' on investment performance; and

- A 'veto' on the operation of the equity trigger would be available to each of the three Advisors and to the appropriate Officer of the Fund, but the veto would need to be invoked as and when it was felt that economic/market circumstances had changed sufficiently to invalidate the trigger levels set, rather than at the time a trigger was breached or about to be breached.

9.6 A report setting out detailed proposals consistent with the above will be taken to the next meeting of the Policy and Development Working Group.

10. CONSULTATION ON REFORMS TO PUBLIC SECTOR EXIT PAYMENTS

10.1 The Government has made it clear that it intends to take action to curb the incidence of, and costs associated with, early termination of employment across the public sector, including local government. Consultations have already been published relating to the recovery of termination payments for certain higher earners who are re-employed in the public sector within 12 months of having been made redundant, as well as introducing an overall cap on exit payments of £95,000. It has now published the final part of its trilogy of consultations looking at the reform of public sector exit payments. This latest consultation considers the options for change relating to the calculation of discretionary exit payment lump sums (over and above statutory redundancy payments) as well as the early release of pension benefits resulting from efficiency/redundancy terminations.

10.2 The consultation considers options for:

- the setting of a maximum tariff for the calculation of exit payments (a maximum of 3 weeks per year of service has been suggested);
- capping the maximum period over which salary can be used when calculating redundancy payments (15 months has been suggested);
- setting a maximum salary on which exit payments can be based (£80,000 has been suggested, as per the NHS scheme);
- capping or removing the ability for employers to fund early release of pension benefits on efficiency/redundancy grounds, or increasing the minimum age at which an employee can receive such payments from an employer (5 years from an individual's normal pension age has been suggested).

10.3 Most of the above suggestions, if taken forward by Government could have implications for local government employers, who would be required to reconsider their policies around workforce management and termination policies.

10.4 The LGPS regulations would also require amendment to reflect any changes to remove or restrict the current automatic right to unreduced LGPS benefits for those being made redundant, or retiring on the grounds of efficiency, from age 55. The latter could become at least age 60, and benefits - when they are payable - that had hitherto been awarded on an unreduced basis could become partially or wholly reduced, subject to the terms of a termination package.

10.5 The consultation closes on 3 May 2016.

11. INVESTMENT REGULATIONS CONSULTATION

11.1 The Investment Monitoring and ESG Working Group considered the Government's consultation on new investment regulations at its last meeting. A copy of the Fund's response is published on its web site at: http://www.gmpf.org.uk/documents/investments/regulationsresponse.pdf

12. RECOMMENDATION

12.1 To note the progress on matters and issues raised in the Management Summary.

12.2 In respect of "Scenario Planning" to adopt the recommendations set out below

(i) Restrict initial provision to covering triggers in relation to equity markets only;

(ii) Implement any increase and decrease in equity market exposure via the use of "Futures" in the equity market;

(iii) Use a dedicated Fund Manager account to operationalise the trigger monitoring and trading processes;

(iv) Remove the current 3% “tactical cash” benchmark holding as part of the upcoming annual Investment Strategy Review and allocate this to equity markets within the benchmark which forms the basis of the consultation exercise with the Fund Managers;

(v) Ensure that a pre-invoked “veto” form part of the arrangements surrounding the operation of the equity market trigger; and

(vi) Bring a report setting our more detailed proposals to the next meeting of the Policy and Development Working Group.

APPENDIX 1

Report To:	**EMPLOYER FUNDING AND VIABILITY WORKING GROUP**
Date:	12 February 2016
Reporting Officer:	Peter Morris, Executive Director of Pensions
Subject:	**ADVANCE FUNDING OF PENSION CONTRIBUTIONS**
Report Summary	This report looks at the potential benefits to the Fund and employers of supporting advance funding of contributions.
Recommendations:	To support in principle the offer to employers to pay their contributions in advance.
Policy Implications:	None.
Financial Implications: **(Authorised by the Section 151 Officer)**	The current return available to local authorities on their cash balances is currently approximately 0.5% per annum. In the 2013 actuarial valuation the outcome assumes an investment return of 4.8% (but actual returns will be different). This provides an opportunity on a balance of probabilities for both the Fund and employer to gain if the employer pays contributions in advance and receives a discount that is less than the assumed investment return but higher than the current rate received on cash balances.
Legal Implications: **(Authorised by the Solicitor to the Fund)**	This is an important proposal, which has benefits to both the employer and the Fund. It is important that all due diligence is undertaken. to ensure all relevant legislative, regulatory and accounting requirements are complied with.
Risk Management:	The key risks are the incidence of investment returns and what happens if investment returns are less than assumed. Cash flows are allocated to employers as and when received. The actual Fund return will be applied to all employer (or employer pool) assets. Thus if investment returns are better or worse than assumptions, this will be picked up at the next valuation.
ACCESS TO INFORMATION:	**NON-CONFIDENTIAL**
	This report does not contain information which warrants its consideration in the absence of the Press or members of the public.
Background Papers:	The background papers relating to this report can be inspected by contacting Peter Morris, Executive Director of Pensions.

Telephone: 0161 301 7150

e-mail: peter.morris@tameside.gov.uk

1. INTRODUCTION

1.1 Most Fund employers are making significant reductions to their budget and all items of expenditure are subject to detailed scrutiny and review. Employer contributions amounted to £421m in 2014/15 and this is a significant item in most employers' budgets.

1.2 Some employers will have cash balances and reserves. With interest rates exceptionally low, balances will be getting an investment return/interest of approximately 0.5% p.a.

1.3 The actuarial assumption for investment returns by the Fund in the 2013 valuation was 4.8% and this reflected interest rates and a prudent assessment of expected returns in the longer term at the date of the valuation. Looking back at the history of the Fund, this is at the bottom of the range for nominal investment returns. Looking forward in the medium term, the expectation is that a low return environment will continue. The return assumption for the 2016 valuation has not been considered.

1.4 Taking the actual return earned by employers on their balances 0.5% p.a. and the prospective returns of the Fund say 4.8% p.a. there is scope to agree arrangements with employers to give them a discount on their contributions for early payment that is greater than their return on cash balances. This report examines the basic principles and risks associated with such an approach in advance of a detailed review of the legislative, regulatory and accounting requirement.

2. WHAT ARE THE RISKS (FROM THE EMPLOYER'S PERSPECTIVE) OF PREPAYMENT OF EMPLOYER CONTRIBUTIONS

2.1 The Fund cannot guarantee an investment return; the returns will be what they are and thus in practice returns will be higher or lower than the actuarial assumption.

2.2 If returns are higher than assumption, the employer will benefit from

(i) paying less in total contributions over the period of participation in the Fund because of the discount, and

(ii) funding positions will marginally improve, because the prepayment will be attracting a return higher than the discount given;

(iii) the incidence of returns also has an impact, with higher early returns being beneficial.

2.3 If returns are lower than the discount – the employer will still benefit from paying less for the agreed period. However, the funding level will marginally decline and this will be picked up at future valuations.

3. WHAT ARE THE BENEFITS FROM THE FUND'S PERSPECTIVE?

3.1 It will receive the discounted contributions earlier and if investment returns are in line or better than assumption this will make a small contribution to improving funding levels.

3.2 It should also benefit from employers being potentially a little financially stronger as a consequence.

3.3 The downside is that the administration of employer contributions will become more complex.

4. WHAT SHOULD THE DISCOUNT FOR EARLY PAYMENT BE?

4.1 In the long term, an assumed investment return of 4.8% is expected to be prudent. However, the arrangements put in place will be short term and the outlook is for a relatively low return environment. Thus there is a need for a more prudent discount rate. The appropriate rate of discount needs to be agreed with the Actuary.

4.2 The simplified implications of a 4% discount are illustrated below.

Table 1 – Implications of pre-payment of contributions

	Discount on Contributions		
Assumed period covered prepaid contributions years	**Year 1**	**Year 2**	**Year 3**
1	2%	n/a	n/a
2	2%	6%	n/a
3	2%	6%	10%

4.3 The reason why the discount is 2% in year 1 reflects that contributions are paid monthly and thus the cash benefit is based on 4% for half a year.

5. HOW WILL THIS WORK IN PRACTICE?

5.1 Further consideration needs to be given to the practicalities but it will be built around

(i) The employer will make the prepayment on 1 April

(ii) The employer will submit their normal monthly return of contributions which will reflect changes in membership such as those arising from a shrinking workforce and auto-enrolment.

6. LEGISLATIVE, REGULATORY AND ACCOUNTING ISSUES

6.1 Assuming that the principle is supported, some further work is required to ensure that there are no legislative, regulatory or accounting issues that would prevent the proposal being implemented for either the Fund and / or the employer.

6.2 An easy example is that an employer is likely to struggle to find powers that would allow it to borrow to fund the prepayment

7. SUMMARY

7.1 The idea of prepayment of contributions is likely to be attractive to some employers.

7.2 More detailed work is required on legislative, regulatory and accounting matters to confirm the feasibility and further consideration is required on the practical issues.

8. RECOMMENDATION

8.1 To support in principle the offer to employers to pay contributions in advance.

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

Document is Restricted

This page is intentionally left blank

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

Agenda Item 9

Document is Restricted

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

Document is Restricted

This page is intentionally left blank

Report To:	**Pension Fund Management/Advisory Panel**
Date:	11 March 2016
Reporting Officer:	Peter Morris, Executive Director of Pensions
Subject:	**MEDIUM TERM FINANCIAL PLANNING** • Approval of GMPF investment and administration expenses budget 2016/17 • GMPF cost comparisons with other LGPS funds
Report Summary	This report will: (i) Review the medium term outlook for the pension fund; (ii) Review the medium term expenditure requirement; (iii) Seek approval for the 2016/17 expenditure budget; (iv) Show unit cost comparisons with other LGPS funds; (v) Set out the key assumptions on which the estimates are based.
Recommendations:	1. To approve the budget including development items for 2016/17 at £28.1 million. 2. To note the future year estimates, medium term planning and costs comparison. 3. To approve the methodology for a revised 3 year financial plan, reset from the position as at 31 March 2016. The actual figures will be reported to Employer Funding Working Group before inclusion in the Annual Report.
Policy Implications:	The areas of additional expenditure are highlighted in the report. The budget reflects changes previously approved by the Management Panel and some proposals for development. As the Business Plan actions are progressed, approval will be sought for any cost implications at the time.
Financial Implications: **(Authorised by the Section 151 Officer)**	Costs of £28.1 million for 2016/2017 are estimated to be met by the Fund. This equates to 0.17% of asset value. An analysis is detailed in the report. The unit costs of the Fund continue to demonstrate that the Fund is a relatively low cost administering authority compared to other local authority funds.
Legal Implications: **(Authorised by the Solicitor to the Fund)**	It is necessary to ensure that an adequate budget is set to ensure the Administering Authority meets its statutory duties and commitments.
Risk Management:	Effective budgetary control and approval of changes in expenditure is essential to the good management of the Fund. The report also highlights potential material changes to the Fund’s cash-flow. Such changes have an impact on existing risks, such as increasing volatility of cost. Further reports will be submitted to future meetings examining the risks and the

	case for taking measures to mitigate those risks.
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 2015/2016 Financial Ledger 2. Budget Working Papers. Any enquiries should be directed to Tracey Boyle, 0161-342-2883 (email: tracey.boyle@tameside.gov.uk)

1 EXECUTIVE SUMMARY

1.1 The headline figures are that during the financial year 2016/17, it is estimated that GMPF will pay £737m in pensions and receive £551m in contributions from employers and employees. The Fund had a value of £16,953m at 31 December 2015. The proposed management costs of £28.1m for 2016/17 including £22.2m on investment management represent a cost of £81 per member of the scheme. Taken separately the investment management costs equate to £64 per member or 0.13% of total assets on a projected basis, and the administration costs £17 per member.

1.2 The Business Plan sets out key assumptions for 2016/17 and beyond. Where the actions have financial implications, separate approvals will be sought for any additional expenditure.

1.3 The reporting to panel on the budget last year changed significantly from previous years to reflect the CIPFA requirement to report on medium term financial and expenditure planning. The Fund is now approaching the end of the first year of the initial 2015-18 period. This report builds on last year's report and will:

(i) Review the medium term outlook for the pension fund
(ii) Review the medium term expenditure requirement
(iii) Seek approval for the 2016/17 expenditure budget
(iv) Show unit cost comparisons with other LGPS funds.
(v) Set out the key assumptions on which the estimates are based.

2 MEDIUM TERM FINANCIAL OUTLOOK

2.1 CIPFA guidance for annual reports of LGPS Funds requires these reports to include medium term financial planning. This, as set out in the table below was included for the first time last year in both the reports to Panel and the Annual Report and Accounts using the assumptions outlined in section 6. This is indicative as benefits paid and contributions received may be materially impacted by employer decisions arising from the impact of budget reductions. Investment performance can have material effects on the out-turn. The limitations of this approach are pointedly demonstrated by this year's result which is likely to differ substantially from prediction due to disappointing investment performance.

2.2 The out-turn will be reported to a future meeting of the panel. The 3 year financial planning will be re-set following a realignment of the actual position as at 31 March 2016. The long term assumptions will not change. Panel are asked to approve the methodology for this and the figures will be reported to the Employer Funding Working Group in the first instance.

Table 1 – Medium Term Financial Outlook as at December 2014

	2015/16	2016/17	2017/18
	£m	£m	£m
Fund Size at Start of Year	**17,591**	**18,272**	**18,936**
Fund Size at end of Year	**18,272**	**18,936**	**19,583**
Pensions Paid	698	737	778
Contributions received	559	551	544
Transfers	0	0	0
Net Cashflow	**(139)**	**(186)**	**(234)**
Administration Costs	**24**	26	26
Investment Income	311	326	342
Increase in Value of Investments	533	550	565
Net Return from Investments	**844**	**876**	**907**
Net Change in Fund	**681**	**664**	**647**

3 MEDIUM TERM EXPENDITURE PLAN

3.1 The table below shows a 3 year expenditure budget for the Fund compiled last year for the period 2015/18 as reported to Management Panel on 11 December 2014.

Table 2 – Medium Term Budget as at December 2014

Type of Expenditure	2015/16	2016/17	2017/18
	£	£	£
Staff Costs	5,277,710	5,594,411	5,806,999
Investment Management & Professional Fees	16,308,206	17,711,623	18,152,140
Accommodation	414,008	347,820	354,776
Other Services	1,649,340	1,682,327	1,715,973
Central Establishment Charges	379,340	379,340	379,340
TOTAL	**24,038,604**	**25,715,521**	**26,409,228**

3.2 The table below shows the original 2015/16 budget, the projected outturn and variances. There are a number of matters that are not yet reflected in the out-turn because final decisions have not yet been determined on the most appropriate accounting treatment, these include:

(i) The moved into the new building and the financing of some costs incurred;
(ii) The provision of £650,000 for non-construction costs such as ICT infrastructure and audio visual equipment;
(iii) The internal costs recovered from MOJ in delivering the transfer of the probation service to GMPF; and
(iv) Recovery of staff costs chargeable to investment vehicles.

Table 3 – Comparison of Projected Out-turn v Estimate 2015/16

Type of Expenditure	2015/16	2015/16 Projected outturn	Variance
	£	£	£
Staff Costs	5,277,710	5,235,887	(41,823)
Investment Management & Professional Fees	16,308,206	12,425,235	(3,882,971)
Accommodation	414,008	455,435	41,427
Other Services	1,659,340	1,688,129	28,789
Central Establishment Charges	379,340	379,340	0
TOTAL	**24,038,604**	**20,184,026**	**(3,854,578)**

The key variances expected for 2015/16 are as detailed below:

Table 4 – Major Variations 2015/16

		£'000
(a)	Office Equipment: Additional costs incurred in purchasing hardware for GTDH.	77
(b)	Managers and Professional Fees: rebate received and delayed implementation of Credit Manager.	(3,883)
(c)	Recovery of Management and Legal Fees: recovery of legal fees less than budget.	73
(d)	Commission Recapture: over recovery of commission recapture fees	(60)

3.3 The table below shows the revised 3 year expenditure plan.

Table 5 – Expenditure Plan 2015/16 to 2017/18

Type of Expenditure	2015/16 (projected outturn)	2016/17 (new budget in section 4)	2017/18 Revised (using assumptions)
	£	£	£
Staff Costs	5,235,887	5,807,773	5,923,928
Investment Management & Professional Fees	12,425,235	19,294,017	20,220,130
Accommodation	455,435	816,787	833,123
Other Services	1,688,129	1,793,332	1,829,199

Central Establishment Charges	379,340	379,340	379,340
TOTAL	**20,184,026**	**28,091,249**	**29,185,719**

3.4 The table shows the 2016/17 budget estimate included within the medium term financial plan presented to the Management Panel on 11 December 2014, alongside the current budget proposal for 2016/17.

Table 6 – Variations to 2016/17 Budget

Type of Expenditure	**2016/17 as estimated at Dec 14**	**2016/17 (new budget in section 4)**	**Variance**
	£	**£**	**£**
Staff Costs	5,594,411	5,807,773	213,362
Investment Management & Professional Fees	17,711,623	19,294,017	1,582,394
Accommodation	347,820	816,787	468,967
Other Services	1,682,327	1,793,332	111,005
Central Establishment Charges	379,340	379,340	0
TOTAL	**25,715,521**	**28,091,249**	**2,375,728**

The key variances between the estimate made in December 2014 and the estimate at February 2016 are:

		£
(a)	Staff costs: increase in Employer National Insurance costs due to the end of contracting out and Employer Pension contributions as per actuarial rates set at last valuation.	213
(b)	Managers and Professional Fees stepped increase in fees of £1.1m, increase in estimated La Salle property investment management fees of £6950k, increase in professional services fees to include £150k for transitional manager support and other changes to ad valorem fees	1,582
(c)	Accommodation: financing and operating costs for GTDH higher than anticipated	469
(d)	Other services: includes purchase of additional member and employer database software. The business case for these two new modules will be considered by the Pensions Administration Working Group before purchase.	111

4. BUDGET 2016/17 DEVELOPMENTS AND RATIONALE

4.1 The Fund's main area of expenditure is on investment management fees. These are either charged as a percentage of assets under management, or on a flat fee basis. This means that when the Fund's investments rise in value and/or outperform benchmarks, the fees can rise or fall in line with the market. Therefore when this expenditure rises there is often a benefit to the Fund in terms of capital appreciation that outweighs the increase in fees paid. The Fund is also looking for its active investment managers to achieve a return in excess of the benchmark indices. The Fund is in the process of implementing significant changes to investment strategy such as introducing a new global credit manager, increasing the allocation to the global equity and property managers, which have material impact on costs as shown in the table below. The intention is that these increases in fees are more than offset by improvements in corresponding investment performance.

4.2 The second highest area of expenditure is staffing. A provision is built into the budget for pay awards increments and an assumption is made on the level of vacancies. The estimates for 2016/17 allows for implementation of previously approved developments and filling of some vacant posts in investments and legal, which results in an increase of £285,000 from the previous year. This also includes investments, local investments, legal, reception staff for the new building and support for the Assistant Executive Director, Funding and Development.

4.3 The other increase in staffing of £209,000 relates to increases in NI rates with the end of contracting out and increased employer contribution rates.

4.4 The budget reflects the current senior management structure. The development of pooling, and other changes in priorities and workloads may have an impact on these arrangements which will in turn impact on the budget.

4.5 The budget estimate for 2016/17 includes a provision of income of £175,000 which relates to work conducted by GMPF staff that is to be recharged out to other organisations such as joint ventures for investments and the costs of buying and selling properties and this offsets some of the increased spending previously built into the 2016/17 budget.

4.6 For premises, the budget will increase this year due to the move to the new pensions building. This significant increase is primarily a financing charge for the new office. The new building represents a step change in the facilities available and that will allow for future expansion and supports improvements in working priorities.

The main estimate of costs for the building are:

Equivalent rental charge	£347,000
Operating Costs	£218,000
Rates	£111,000
Other (Utilities, security etc.)	£141,000

4.7 The areas of transport, supplies and third party payments (excluding investment management fees) show no material changes.

4.8 For departmental & central support charges, there is no change for both this year and subsequent years.

4.9 The table below shows headline budget figures for 2016/17 and compares them to 2015/16. A more detailed analysis of expenditure is provided in the appendices.

Table 7 – Comparison of 2015/16 and 2016/17 Budgets

Type of Expenditure	**2016/17**	**2015/16**	**Difference**
	£	**£**	**£**
Staff Costs	5,807,773	5,277,710	530,063

Investment Management & Professional Costs	19,294,017	16,308,206	2,985,811
Accommodation	816,787	414,008	402,779
Other Services	1,793,332	1,659,340	133,992
Central Establishment Charges	379,340	379,340	0
TOTAL	**28,091,249**	**24,038,604**	**4,052,645**

5 COMPARISON WITH OTHER AUTHORITIES

5.1 The table below shows past, current and projected cost figures for GMPF and comparative figures from other schemes.

	2013/14	2014/15	2015/16	2016/17
	£ per member	£ per member	£ per member (Est Feb 16)	£ per member (Est Feb 16)
GMPF Admin	16.22	14.50	16.84	17.03
GMPF Investments	44.88	39.01	41.17	63.73
GMPF Total	**61.09**	**53.51**	**58.00**	**80.76**
Mets Admin	20.06	15.91	n/a	n/a
Mets Investments	45.48	148.77	n/a	n/a
Mets All	**65.54**	**164.68**	**n/a**	**n/a**
All Funds Admin	26.81	25.19	n/a	n/a
All Funds Investments	99.92	144.65	n/a	n/a
All Funds All	**126.73**	**169.84**	**n/a**	**n/a**

The comparison of investment costs on a consistent basis has always been difficult. The comparisons for 2014/15 reflect the different approaches adopted by funds for reporting their investment management costs in 2014/15 v 2015/16.

6. BASIS FOR ESTIMATES

6.1 The method used to compile estimates of expenditure for 2016/17 and future years is as follows:

Staffing	Incorporates approvals for staff changes as set out in 4.2
Investment management Fees	Where fee is linked to asset values a 4.8% increase is assumed. No performance fees are assumed. Figures reflect a reduction in the share of the assets managed passively. The 2016/17estimate is based on asset values as at 31 December 2015.
Accommodation	New Building costs include a rental equivalent charge of £13.10 p/sqft £347,000 plus rates utilities and other operating costs.
Transport Conferences and Subsistence	Estimated requirements for current year
Services and Supplies	Contracts where usage and cost is fixed, plus estimate for variable elements. £650,000 of capital expenditure relating to ICT infrastructure audio visual equipment furniture and fittings and telephone system was charged to previous year
Inflation adjustments	2%
Investment Performance	4.8% including income as an average for the Fund which is applied across all asset class. This is taken from actuarial report.
Membership of Fund and related expenditure and income	From actuarial valuation and AED Employer Funding projections.

7. RECOMMENDATIONS

7.1 To approve the budget including development items for 2016/2017 at £28.1million.

7.2 To note the future year estimates, medium term planning and costs comparison.

7.3 To approve the methodology for a revised 3 year financial plan, re set with position at 31 March 2016. The actual figures will be reported to Employer Funding Working Group before inclusion in the Annual Report.

APPENDIX 1

Greater Manchester Pension Fund Administration Expenses Original Estimate 2016/17

Type of Expenditure	(1) Original Estimate 2015/16	(2) Changes	(3) Original Estimate 2016/17
	- £'000	£'000	£'000
Staff Costs			
Direct Salaries	4,160	285	4,445
Direct On-Costs	1,073	209	1,282
Indirect On-Costs	45	36	81
	5,278	530	5,808
Direct Costs			
Publications and Subscriptions	66	4	70
Travel and Subsistence	32	68	100
Premises	414	403	817
Postage, Printing, Telephone	311	28	339
Office Equipment and Software	943	113	1,056
Investment Advisory Expenses	52	(2)	50
Bank Charges and Nominee Fees	380	6	386
Managers and Professional Fees	16,308	2,986	19,294
Performance Measurement Services	96	6	102
Communications	150	10	160
	18,752	3,622	22,375
Central Establishment Charges	379	0	379
Less:			
Recovery of Management and Legal Fees	(251)	(100)	(351)
Admin Fees	(20)	0	(20)
Commission Recapture	(100)	0	(100)
	24,038	**4,052**	**28,091**

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

Document is Restricted

This page is intentionally left blank

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

Agenda Item 12a

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

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

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank

Report To:	**Pension Fund Management Panel/Advisory Panel**
Date:	11 March 2016
Reporting Officer:	Peter Morris, Executive Director of Pensions
Subject:	**A PROCEDURE FOR REPORTING BREACHES OF THE LAW TO THE PENSIONS REGULATOR**
Report Summary:	The report provides a draft procedure for reporting material breaches of the law to the Pensions Regulator.
Recommendations:	The Executive Director - Governance and Resources (Borough Solicitor) be given delegated powers to adopt and maintain a Procedure for Reporting Breaches of the law to the Pensions Regulator and will report annually to the Local Pensions Regulator.
Policy Implications:	None.
Financial Implications: (Authorised by the Borough Treasurer)	Penalties can be applied of up to £5,000 in the case of an individual, and £50,000 in the case of an organisation, if relevant legislation is breached.
Legal Implications: (Authorised by the Solicitor to the Fund)	Breaches of the law, by both employers and the administering authority, must be kept to a minimum. The requirements are also important to facilitate a high standard of service to scheme members and employers.
Risk Management:	The Fund has in place internal control procedures that aim to minimise the number of breaches, albeit these are often dependent on the prompt receipt of timely and accurate data from employers. These procedures are subject to periodic review. All procedures may be subject to internal and external audit.
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 Pension Regulator's Code of Practice No 14, which may be found here: http://www.thepensionsregulator.gov.uk/codes/code-governance-administration-public-service-pension-schemes.aspx Further information can be obtained by contacting Ged Dale, Assistant Executive Director – Pensions Administration, on 0161 301 7227 or via email at ged.dale@gmpf.org.uk

1 REPORT

1.1. Since 2005 all private sector occupational pension schemes in the UK have been overseen by the Pensions Regulator (the Regulator), which is a non-departmental public body. The Regulator's statutory objectives are set out in legislation and include:

- improving confidence in occupational pensions by protecting the benefits of scheme members;
- promoting good administration;
- maximising employer compliance with employer duties.

1.2 The Regulator also works to ensure that those involved in running pension schemes have the necessary skills and knowledge.

1.3 Following the Public Sector Pensions Act 2013, new public service pensions schemes such as the LGPS 2014 fall under the remit of the Regulator, although its role is less wide ranging than in the private sector and focuses predominantly on governance and the administration of benefits.

1.4 There is a great deal of pensions legislation, and when some of the requirements are breached, it may be necessary to report such breaches to the Regulator. To assist with identifying and reporting breaches, the Regulator's code of practice *Governance and administration of public service pension schemes* recommends that funds create a procedure for reporting breaches to the Regulator. A procedure has therefore been drafted and is attached as **Appendix 1**.

1.5 The Local Pension Board and the Pensions Administration Working Group have been consulted about the draft Procedure, with both supporting its adoption. There was a concern raised about conflicts of interest by the Local Pensions Board and consequently an annual report will be provided to the Board in order that they can have oversight.

2. RECOMMENDATION

2.1 The Executive Director - Governance and Resources (Borough Solicitor) be given delegated powers to adopt and maintain a Procedure for Reporting Breaches of the Law to the Pensions Regulator.

APPENDIX 1

A Procedure for Reporting Breaches of the Law to the Pensions Regulator

Greater Manchester Pension Fund

January 2016 – Version 1

Introduction

1 In April 2015 the Pensions Regulator (the Regulator) published its Code of Practice no 14 (the Code) *Governance and administration of public service pension schemes*. This is not a statement of law of itself, but nonetheless it carries great weight and is made in accordance with Section 91(5) of the Pensions Act 2004: *Procedure for issue and publication of codes of practice*. In some respects it is like the Highway Code, in that some of its contents refer to statutory items, whilst others are advisory. The Courts however may also rely on the latter. In the same way, if determining whether any pensions related legal requirements have been met, a court or tribunal must take into account the Code.

2 There are many and various laws relating to the Local Government Pension Scheme, with many and various people having a statutory duty to report material breaches of the law to the Regulator. To assist, the Code states that a procedure should be established to ensure that those with a responsibility to make reports are able to meet their legal obligations. This document is that procedure, which relates to all of the Fund's areas of operation.

3 Much of the text herein is drawn from the Code itself. Where it has, the Regulator's copyright applies.

4 If you have any questions about this Procedure and:

- you are a member of the Pension Fund Management Panel, Advisory Panel, Local Board or you are an external adviser, please contact the Solicitor to the Fund;

- you are an actuary, auditor or other external agent, please contact the Assistant Executive Director - Property, Local Investments, Accountancy and Legal;

- you represent an employer, please contact the Pensions Policy Manager;

- you are an officer of the Fund, and you work in Administration, please contact Compliance and Training. Otherwise please contact your Service Unit Manager or Assistant Executive Director.

Important Note for Tameside MBC Councillors and Employees

5 This Procedure complements the Council's Whistleblowing Policy and as stated in that, if someone knows about wrongdoing and doesn't report it then the Council loses an opportunity to deal with a potentially damaging situation and gives rise to an even greater risk of financial loss, regulatory breach, higher insurance premiums and damaged reputation. The Council will not tolerate malpractice or wrongdoing and is determined that all instances of malpractice will be fully investigated and the appropriate action taken.

6 Any disclosures made by employees to the Council which are intended to shed light on fraud, corruption or malpractice are in general protected under the Public Interest Disclosure Act 1998. Any employee raising concerns through this Procedure will be protected from reprisals or victimisation, so long as the employee is not acting maliciously or for personal gain.

7 Internal systems and procedures must seek to prevent fraud but also protect individual councillors and employees against malicious or unfounded allegations of impropriety. Internal controls are the first line of defence against fraud and malpractice and national experience shows it is often the case that where fraud and malpractice does occur the controls were circumvented or ignored.

8 For a full copy of the Council's Whistleblowing Policy, please see the Council's intranet.

Important Note for non-Tameside MBC Personnel

9 Tameside MBC, as a local authority, has a statutory obligation to have a Monitoring Officer. The role of this person includes reporting on matters (s)he believes are, or are likely to be, illegal. The duties of the Monitoring Officer cover all the Council's activities and thus include those of being the administering authority for the Fund. If you believe you have encountered something relating to the Fund, including employer activities, that you believe to be, or is likely to be, illegal, before you report this to the Pensions Regulator you should, in the first instance, raise the matter with the Council's Monitoring Officer. This person is Sandra Stewart, Solicitor to the Fund & Executive Director of Governance (the Solicitor), who may be contacted at Dukinfield Town Hall, King St, Dukinfield, Tameside, SK16 4LA.

10 There are two reasons for reporting potential breaches to the Solicitor. One is that the Regulator oversees only certain aspects of pensions legislation, with the list being provided in paragraph 12. The content of this legislation is complicated and thus the Solicitor will be able to advise on whether or not the matter in question falls within the Regulator's jurisdiction. Secondly, if there has been a breach, there may be important learning points for either the Council, employers or others involved with the administration of the Fund, which the Solicitor can pass on.

Legal requirements

11 Certain people are required to report breaches of the law to the Regulator where they have reasonable cause to believe that:

- a legal duty which is relevant to the administration of the scheme has not been, or is not being, complied with;

- the failure to comply is likely to be of material significance to the Regulator in the exercise of any of its functions. [See paragraphs 20 to 24 for further details.]

12 The Regulator has wide-ranging powers but not universal jurisdiction. In particular, for it to issue a statutory enforcement notice, the pension legislation that must be in breach, or is likely to be in breach, is defined as:

"any enactment contained in or made by virtue of:
(a) the Pension Schemes Act 1993 (c. 48),
(b) Part 1 of the Pensions Act 1995 (c. 26), other than sections 62 to 66A of that Act (equal treatment),

(c) Part 1 or section 33 of the Welfare Reform and Pensions Act 1999 (c. 30),
d) this Act [being the Pensions Act 2004],
(e) section 5(4) (pension board: conflicts of interest and representation), 6 (pension board: information), 14 (information about benefits) or 16 (records) of the Public Service Pensions Act 2013,
(f) paragraph 2 of Schedule 18 to the Pensions Act 2014 (c.19), or
(g) the Pension Schemes Act 2015."

13 The Superannuation Act 1972, under which the LGPS Regulations are made, is not listed. Consequently the Regulator is only interested in a breach of the LGPSR if this leads to a breach of what is defined as pensions legislation. As an example, an employer has a statutory duty to provide a year-end return of pay and contributions in respect of all its active members. If it fails to do so it is in breach of the LGPSR but the Regulator has no jurisdiction. But under the Public Service Pensions Act 2013, which *is* listed, each administering authority must supply to each active and deferred member an annual benefits statement (ABS) by 31 August. Consequently if an employer fails to supply a year-end return that will prevent the administering authority producing ABSs by 31 August, the Regulator can issue what is called a third party notice to the employer, that directs that the employer "… takes such steps as are specified in the notice in order to remedy or prevent a recurrence of his failure".

14 People who are subject to the reporting requirement ('reporters') for public service pension schemes are:

- scheme managers (meaning, in the case of the GMPF, the Pension Fund Management Panel);

- members of the pension board (meaning, in the case of the GMPF, the Local Board);

- any person who is otherwise involved in the administration of the Fund (and thus members of the Advisory Panel and all of the Fund's officers);

- employers, and any participating employer who becomes aware of a breach should consider their statutory duty to report, regardless of whether the breach relates to, or affects, members who are its employees or those of other employers;

- professional advisers including auditors, actuaries, legal advisers and fund managers; and

- any person who is otherwise involved in advising the managers of the scheme in relation to the scheme (and thus the Fund's three external advisers).

Reasonable cause

15 Having 'reasonable cause' to believe that a breach has occurred means more than merely having a suspicion that cannot be substantiated.

16 Reporters should ensure that where a breach is suspected, they carry out checks to establish whether or not a breach has in fact occurred. For example, a member of a funded pension scheme may allege that there has been a misappropriation of

scheme assets where they have seen in the annual accounts that the scheme's assets have fallen. However, the real reason for the apparent loss in value of scheme assets may be due to the behaviour of the stock market over the period. This would mean that there is not reasonable cause to believe that a breach has occurred.

17 Where the reporter does not know the facts or events around the suspected breach, it will usually be appropriate to consult the appropriate Assistant Executive Director, or Service Unit Manager, regarding what has happened. It would not be appropriate to check in cases of theft, suspected fraud or other serious offences where discussions might alert those implicated or impede the actions of the police or a regulatory authority. Under these circumstances the reporter should alert the Regulator without delay.

18 If the reporter is unclear about the relevant legal provision, they should clarify their understanding of the law with the Solicitor to the extent necessary to form a view.

19 In establishing whether there is reasonable cause to believe that a breach has occurred, it is not necessary for a reporter to gather all the evidence which the Regulator may require before taking legal action. A delay in reporting may exacerbate or increase the risk of the breach.

Material significance

20 In deciding whether a breach is likely to be of material significance to the Regulator, it would be advisable for the reporter to consider the:

- cause of the breach;

- effect of the breach;

- reaction to the breach; and

- the wider implications of the breach.

21 When deciding whether to report, those responsible should consider these points together. Reporters should take into account expert or professional advice, where appropriate, when deciding whether the breach is likely to be of material significance to the Regulator.

22 The breach is likely to be of material significance to the Regulator where it was caused by:

- dishonesty;

- poor governance or administration;

- slow or inappropriate decision making practices;

- incomplete or inaccurate advice; or

- acting (or failing to act) in deliberate contravention of the law.

23 When deciding whether a breach is of material significance, those responsible should consider other reported and unreported breaches of which they are aware. However, historical information should be considered with care, particularly if changes have been made to address previously identified problems.

24 A breach will not normally be materially significant if it has arisen from an isolated incident, for example resulting from teething problems with a new system or procedure, or from an unusual or unpredictable combination of circumstances. But in such a situation, it is also important to consider other aspects of the breach such as the effect it has had and to be aware that persistent isolated breaches could be indicative of wider scheme issues.

Effect of the breach

25 Reporters need to consider the effects of any breach, but with the Regulator's role in relation to public service pension schemes and its statutory objectives in mind, the following matters in particular should be considered likely to be of material significance to the Regulator:

- Local Board members not having the appropriate degree of knowledge and understanding, which may result in the Board not fulfilling its role, the Fund not being properly governed and administered and/or the Pension Fund Management Panel breaching other legal requirements;

- Local Board members having a conflict of interest, which may result in them being prejudiced in the way that they carry out their role, ineffective governance and administration of the scheme and/or the Pension Fund Management Panel breaching legal requirements;

- adequate internal controls not being established and operated, which may lead to the Fund not being run in accordance with the Scheme's Regulations and other legal requirements, risks not being properly identified and managed and/or the right money not being paid to or by the Fund at the right time;

- accurate information about benefits and Scheme administration not being provided to Scheme members and others, which may result in members not being able to effectively plan or make decisions about their retirement;

- appropriate records not being maintained, which may result in member benefits being calculated incorrectly and/or not being paid to the right person at the right time;

- anyone involved with the administration or management of the Fund misappropriating any of its assets, or being likely to do so, which may result in assets not being safeguarded; and

- any other breach which may result in the Fund being poorly governed, managed or administered.

26 Reporters need to take care to consider the effects of the breach, including any other breaches occurring as a result of the initial breach and the effects of those resulting breaches.

Reaction to the breach

27 Where prompt and effective action is taken to investigate and correct the breach and its causes and, where appropriate, notify any affected members, the Regulator will not normally consider this to be materially significant.

28 A breach is likely to be of concern and material significance to the Regulator where a breach has been identified and those involved:

- do not take prompt and effective action to remedy the breach and identify and tackle its cause in order to minimise risk of recurrence;

- are not pursuing corrective action to a proper conclusion;

- fail to notify affected scheme members where it would have been appropriate to do so.

Wider implications of the breach

29 Reporters should consider the wider implications of a breach when they assess which breaches are likely to be materially significant to the Regulator. For example, a breach is likely to be of material significance where the fact that the breach has occurred makes it appear more likely that other breaches will emerge in the future. This may be due to the scheme manager or pension board members having a lack of appropriate knowledge and understanding to fulfil their responsibilities or where other pension schemes may be affected. For instance, public service pension schemes administered by the same organisation may be detrimentally affected where a system failure has caused the breach to occur.

Examples of breaches

Example 1

30 An employer is late in paying over employee and employer contributions, and so late that it is in breach of the statutory period for making such payments. It is contacted by officers from the administering authority, it immediately pays the moneys that are overdue, and it improves its procedures so that in future contributions are paid over on time. In this instance there has been a breach but members have not been adversely affected and the employer has put its house in order regarding future payments. The breach is therefore not material to the Regulator and need not be reported.

Example 2

31 An employer is late in paying over employee and employer contributions, and so late that it is in breach of the statutory period for making such payments. It is also late in paying AVCs to the Prudential. It is contacted by officers from the administering authority, and it eventually pays the moneys that are overdue, including AVCs to the Prudential. This has happened before, with there being no evidence that the employer is putting its house in order. In this instance there has been a breach that *is* relevant to the Regulator, in part because of the employer's repeated failures, and also because those members paying AVCs will typically be adversely affected by the delay in the investing of their AVCs.

32 Of note here is that the payment of contributions to the administering authority is covered by the Pensions Act 2004, which is part of the defined pensions legislation in which the Regulator is interested. Consequently not only may the Regulator issue an enforcement notice regarding non-payment, he can also apply Section 10 of the Pensions Act 2005. This enables him to apply a penalty of up to £5,000 upon an individual, and a penalty of up to £50,000 upon an organisation

Example 3

33 An employer is late in submitting its statutory year-end return of pay and contributions in respect of each of its active members and as such it is in breach. Despite repeated reminders it still does not supply its year-end return. Because the administering authority does not have the year-end data it is unable to supply, by 31 August, annual benefit statements to the employer's members. In this instance there has been a breach which *is* relevant to the Regulator, in part because of the employer's failures, in part because of the enforced breach by the administering authority, and also because members are being denied their annual benefits statements.

Example 4

34 A member of the Pension Fund Management Panel, who is also on the Property Working Group, owns a property. A report is made to the Property Working Group about a possible investment by the Fund, in the same area in which the member's property is situated. The member supports the investment but does not declare an interest and is later found to have materially benefitted when the Fund's investment proceeds. In this case a material breach has arisen, not because of the conflict of interest, but rather because the potential conflict was not raised.

Example 5

35 A pension overpayment is discovered and thus the administering authority has failed to pay the right amounts to the right person at the right time. A breach has therefore occurred. The overpayment is however for a modest amount and the pensioner could not have known that (s)he was being overpaid. The overpayment is therefore waived. Checks are made to see if there any other similar cases. In this case there is no need to report the breach as it is not material.

Submitting a report to the Regulator

36 Before you submit a report you should obtain clarification of the law around the suspected breach from the Solicitor.

37 The Solicitor will clarify any facts, if required, and will consider in the round whether the Regulator would regard the breach as being material.

38 Some matters could be urgent, if for example a fraud is imminent, whilst others will be less so. Non-urgent but material breaches should be reported to the Regulator within 30 working days of them being confirmed, and in the same time breaches that are not material should be recorded (see later).

39 Some breaches could be so serious that they must always be reported, for example a theft of funds by anyone involved with the administration or management of the Fund. It is difficult to be definitive about what constitutes a breach that must always be reported, but one test is: might it reasonably lead to a criminal prosecution or a serious loss in public confidence?

40 Any report that is made (which must be in writing and made as soon as reasonable practicable) should be dated and include as a minimum:

- full name of the Fund;

- description of the breach or breaches;

- any relevant dates;

- name of the employer or scheme manager (where known);

- name, position and contact details of the reporter; and

- role of the reporter in relation to the Fund.

41 Additional information that would help the Regulator includes:

- the reason the breach is thought to be of material significance to the Regulator;

- the address of the Fund;

- the pension scheme's registry number (if available); and

- whether the concern has been reported before.

42 Reporters should mark urgent reports as such and draw attention to matters they consider particularly serious. They can precede a written report with a telephone call, if appropriate.

43 Reporters should ensure they receive an acknowledgement for any report they send to the Regulator. Only when they receive an acknowledgement can the reporter be confident that the Regulator has received their report.

44 The Regulator will acknowledge all reports within five working days of receipt, however it will not generally keep a reporter informed of the steps taken in response to a report of a breach as there are restrictions on the information it can disclose.

45 The reporter should provide further information or reports of further breaches if this may help the Regulator to exercise its functions. The Regulator may make contact to request further information.

46 Breaches should be reported as soon as reasonably practicable, which will depend on the circumstances. In particular, the time taken should reflect the seriousness of the suspected breach.

47 In cases of immediate risk to the Fund, for instance, where there is any indication of dishonesty, the Regulator does not expect reporters to seek an explanation or to assess the effectiveness of proposed remedies. They should only make such immediate checks as are necessary. The more serious the potential breach and its consequences, the more urgently reporters should make these necessary checks. In cases of potential dishonesty the reporter should avoid, where possible, checks which might alert those implicated. In serious cases, reporters should use the quickest means possible to alert the Regulator to the breach.

Recording breaches that have not been reported to the Regulator

48 Breaches that are found not to be material to the Regulator must still be recorded. This is so that if similar breaches continue, then they become material. Recording all breaches also highlights where improvements are required, to try and prevent similar breaches.

49 Breaches that are not being reported should be recorded here: (being a link to an in-house spreadsheet designed to capture all the relevant data).

Whistleblowing protection and confidentiality

50 The Pensions Act 2004 makes clear that the statutory duty to report overrides any other duties a reporter may have such as confidentiality and that any such duty is not breached by making a report. The Regulator understands the potential impact of a report on relationships, for example, between an employee and their employer.

51 The statutory duty to report does not, however, override ‘legal privilege’. This means that oral and written communications between a professional legal adviser and their client, or a person representing that client, while obtaining legal advice, do not have to be disclosed. Where appropriate a legal adviser will be able to provide further information on this.

52 The Regulator will do its best to protect a reporter’s identity (if desired) and will not disclose the information except where lawfully required to do so. It will take all reasonable steps to maintain confidentiality, but it cannot give any categorical assurances as the circumstances may mean that disclosure of the reporter’s identity becomes unavoidable in law. This includes circumstances where the Regulator is ordered by a court to disclose it.

53 The Employment Rights Act 1996 (ERA) provides protection for employees making a whistleblowing disclosure to the regulator. Consequently, where individuals

employed by firms or another organisation having a statutory duty to report disagree with a decision not to report to the regulator, they may have protection under the ERA if they make an individual report in good faith. The Regulator expects such individual reports to be rare and confined to the most serious cases.

This page is intentionally left blank