Public Document Pack

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

GREATER MANCHESTER PENSION FUND - LOCAL PENSIONS BOARD

Day: Wednesday
Date: 30 March 2016
Time: 2.00 pm
Place: Guardsman Tony Downes House, Manchester Road, Droylsden, M43 6SF

From: Democratic Services Unit – any further information may be obtained from the reporting officer or from Carolyn Eaton 0161 342 3050, to whom any apologies for absence should be notified.

This page is intentionally left blank

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 and to enable reporting back to the Board for appropriate oversight, scrutiny and learning.

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

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

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

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.

Agenda Item 5.

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.

Agenda Item 6.

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:	**LOCAL PENSIONS BOARD**
Date:	30 March 2016
Reporting Officer:	Peter Morris, Executive Director of Pensions
Subject:	**LOCAL INVESTMENTS**
Report Summary	The Fund has a long-standing programme of local investments which has delivered its twin aims of generating commercial returns and delivering a positive local impact. **Appendix 1** to this report is a submission made last year to the Scottish Parliament Local Government and Regeneration Committee which provides a history of GMPF's local investment programmes and assesses the benefits and risks of local investments. The most significant component of GMPF's local investment programme has been the Greater Manchester Property Venture Fund (GMPVF) which undertakes direct development and redevelopment of commercial property. The current investment guidelines for GMPVF are attached as **appendix 2** to this report. The Fund has recently established an Impact Investing Portfolio, which sits within the local investments allocation. The aim is to deliver commercial returns and for the investments to have a social impact. The investment guidelines for the impact portfolio are attached as **appendix 3** to this report.
Recommendations:	Board members are asked to note the reports.
Financial Implications: **(Authorised by the Section 151 Officer)**	One of the twin aims of the local investments programme is to deliver commercial returns for the Fund. Commercial returns are defined as the return required by the actuary to help deliver low, stable employer contribution rates to employers whilst maintaining the solvency of the Fund.
Legal Implications: **(Authorised by the Solicitor to the Fund)**	The Fund needs to ensure that all investments made are in accordance with the relevant LGPS Regulations and best practice. Legal advice forms a key part of the investment evaluation process
Risk Management:	Local investment is sensitive and brings with it reputational risks should the investments not perform in line with the business/plan appraisal. A thorough due diligence and evaluation process is essential in order to demonstrate a decision based on commercial criteria.
ACCESS TO INFORMATION:	**NON-CONFIDENTIAL** This report does not contain information which warrants its consideration in the absence of the Press or members of the public.
Background Papers:	For further information please contact Paddy Dowdall, Assistant Executive Director – Local Investments and Property.

Telephone: 0161 301 7140

e-mail: paddy.dowdall@tameside.gov.uk

APPENDIX 1

The Scottish Parliament
Local Government and Regeneration Committee
Greater Manchester Pension Fund – Local Investment

1. EXECUTIVE SUMMARY

1.1 This submission to the Local Government and Regeneration Committee sets out how Greater Manchester Pension Fund (GMPF) has invested in its local economy. The Fund's local investment programme has delivered its twin aims of commercial returns net of management and governance costs and has generated a positive local impact through significant property development and job creation.

- Commercial returns are defined as the return required by the actuary to help deliver low stable employer contribution rates to employers whilst maintaining the solvency of the Fund;

- To generate positive local impact, the Fund invests in the North West with a focus on Greater Manchester. This can include direct investment by the Fund and working with public and private sector partners investing in property and local businesses.

1.2 There are significant fiduciary and reputational risks in making local investments and it is crucial that the appropriate governance structure and other controls are in place to mitigate these.

1.3 This paper covers the background to GMPF and its governance structure, sets out the legal position, gives descriptions of its local investment programmes and assesses the benefits and risks of local investment.

2. GMPF BACKGROUND AND GOVERNANCE STRUCTURE

2.1 GMPF is the largest Local Government Pension Scheme Fund (LGPS) in England and Wales. The Fund grew significantly last year with it becoming the "one LGPS fund" for probation staff as part of the Government's Transforming Rehabilitation programme. This resulted in £3bn of additional assets and 42,000 new members joining the Fund. This was the equivalent of adding another Manchester City Council size Employer to the fund.

2.2 The key statistics for the Fund are:

Membership	
• Employees	113,000
• Deferred	117,000
• Pensioners	111,000
Total	341,000
Assets	£17bn
Employers	400+
20 year investment return to 31/3/14	8.5%p.a. (ranked 2nd against LGPS funds in England and Wales)
Funding level at 2013 valuation	90.5% in 2013 (ranked 3rd using like for like assumptions out of 89 Funds)

2.3 GMPF has a very successful long term track record achieved through good decision making and strong governance. Contributing factors to the Fund's long term success include:

(1) *Stability*

- of the leadership of the Fund – many members of the Fund's Management Panel have long service and this experience together with training has helped build skills and knowledge;
- of advice from the Fund's external advisors and in-house staff;
- in the investment management arrangements, appointed managers and other service providers

(2) *Economies of Scale*

- in terms of lower unit costs; and
- the capacity to buy in external and in-house expertise

(3) *Inclusive and Consistent Governance Arrangements*

- All 10 Greater Manchester local authorities and 6 trade union representatives are involved in decision making. This helps decisions to be taken from a long term perspective and helps build constancy of purpose which is complimented by a Core Belief Statement that sets out the Panel's investment beliefs. It is also important that the arrangements support "fleet of foot" decisions.

These factors have also been beneficial in developing the local investment programme.

2.4 The Fund has a long history of investing locally within Greater Manchester and the wider North West. This investment has the twin aims of generating commercial returns and supporting the local area/economic regeneration. The generation of commercial returns is critical to:

- contribute to the Fund's key aim of delivering low stable employer contribution rates whilst maintaining the solvency of the Fund; and
- satisfying the fiduciary duty requirement.

2.5 Investing in the local economy also has other beneficial effects for the Fund and its stakeholders who are seen as employer organisations, employees and local tax payers. These include.

- Improvements to the local economy securing the revenue base for employer organisations which also helps them to meet contributions to the Fund.
- Creation of jobs.
- Improvement of business environment

2.6 Local investment is resource demanding and carries reputational risks. The GMPF Management Panel has working groups to lead, oversee and support its operations, all of which meet quarterly. The Fund's Policy and Development Working Group (which is chaired by the Chair of the Management Panel) oversees local investment and its terms of reference include.

- to consider in detail opportunities for local investments that may satisfy the twin aims of commercial returns and supporting the area, and make recommendations on these categories of investment and where appropriate the range of allocations to the Management Panel.

- to consider the resource implications of investment programmes, determine priorities and make recommendations to the Panel
- To monitor and evaluate the progress of new investment programmes, (established programmes are monitored by the other working groups)
- To provide guidance to the Director of Pensions in exercising delegated powers.
- To consider proposals for joint working with other funds / institutions.

3. INVESTMENT RESTRICTIONS AND FIDUCIARY DUTY

3.1 The LGPS Regulations require funds to:

- consider the advisability of investing fund money in a wide variety of investments;
- consider the suitability of potential investments;
- take proper advice.

3.2 The statutory regulations referred to above are supplemented with a general principle of fiduciary duty. There has been a recent legal opinion on fiduciary duty, (commissioned by the LGPS Shadow Advisory Board) and a report issued by DWP/BIS. Both conclude the prime focus of trustees should be the financial return generated from investments, but that other factors can be taken into account where the outcome does not have a material adverse effect on returns. This supports GMPF's longstanding view regarding the suitability of local investments.

4. GMPF – HISTORY OF LOCAL INVESTMENTS

4.1 Pension funds have long term liabilities and they therefore have the capacity to be long term providers of capital. This ability to take a long term view can be a valuable differentiator from other providers of capital and it is potentially more "valuable" in difficult economic environments.

4.2 GMPF's development of its local investment portfolio has tended to coincide with challenging economic environments. It is at these times that the greatest opportunities are available.

4.3 Risks associated with local investments have been managed by:

- putting arrangements in place to demonstrate commerciality of the investment opportunity, including other investors participating on the same terms, external management, external advice and the development of in house capacity and expertise;
- limiting all local investments to in aggregate to no more than 5% of Fund value (recently raised from 3%)
- adopting a branding for local investment funds to emphasise commerciality.

5. PRIVATE EQUITY/VENTURE CAPITAL

5.1 GMPF's first local investment was in 1982/83 with a £10m allocation to invest in local small companies in the North West known as the Business Development Fund. This programme was extended in 1988 with the creation of Ventures North West with a £20m allocation with further £20m allocation in 1995 and 2001.

5.2 The Fund appointed an external manager for these funds and their role included sourcing transactions, recommending investments, monitoring investments and recommending disposals.

5.3 In aggregate, these funds generated positive returns but lower than targeted and thus the decision was taken in 2005 to stop making new investments in this area. There have historically been disappointing returns for venture capital in the UK and Europe. The Fund has developed its approach to investing in SME's to focus on lending as detailed in section 9.

6. PROPERTY DEVELOPMENT

6.1 Greater Manchester Property Venture Fund (GMPVF) was established in 1990.

6.2 GMPVF undertakes direct development and redevelopment of commercial property. The target area for investment is in the North West of England with a focus on Greater Manchester. The Fund has an allocation of up to 3% of Fund value and the norm for the scale of investments would be in the range of 1% to 15% of the Fund's allocation i.e. a current upper limit per investment of around £60m.

6.3 An external manager is employed to source and evaluate potential developments, recommend investments, oversee the development process, manage the properties and recommend disposals.

6.4 GMPVF has concluded over 1.3m square feet of completed developments. The investment and development process is often time consuming and complex and this together with the unique brief of the Fund manager has meant that the rate of investment has generally been limited to 2 to 3 developments per year. The types of developments include:

- 17 Quay Street, Manchester, the former skin hospital site was redeveloped as an office with a major pre-let to an occupier consolidating its position in Manchester
- Supermarket, Hyde – large site assembled on a speculative basis
- Deva Centre, Salford – the former part listed Chester's Brewery was developed and refurbished to provide space for a broad range of occupiers bringing together government and local authority support as well as the Fund's investment
- Westwood Park, Wigan – 2 offices were built as the first phase of a new office park
- Quattro Park, Stockport – a new distribution facility
- Regional Science Centre, Oldham – speculative development
- 1 St Peter's Square, Manchester – 270,000 square feet prime office development in Manchester city centre.

The Fund currently owns sites for development in a number of Greater Manchester locations and elsewhere in the North West, including Liverpool, Warrington and Preston. A key challenge to progress opportunities is the scope to find occupiers willing to pay rents or acquire, that deliver the required financial return.

6.5 The property market had an excellent run from the early 1990's to 2008. This provided a helpful background for GMPVF investments. So far all completed investments have generated a profit.

6.6 The Fund's flagship development is 1 St Peter's Square, it has a prime location and sits alongside many of Manchester's civic and historical buildings. The City Council has refurbished the civic buildings alongside the Square; it is redeveloping the Square and the Fund's decision to invest in 1 St Peter's is acting as a catalyst for further development and regeneration.

This development was a joint venture with Argent and the decision to proceed with a 25% pre-let to KPMG was taken at a time when very little development was taking place following the banking crisis. With hindsight, the decision to proceed was excellent timing and the building is letting well. It was also the only significant development taking place in Manchester at commencement providing a boost to the local construction economy.

7. DIVERSIFICATION OF LOCAL INVESTMENTS

7.1 In recent years, the Fund has looked to broaden the types of opportunity in which it will invest. The aim is to build a diversified portfolio of investments albeit with a property bias. It is also looking to establish partnerships/joint working with other LGPS funds and private sector partners to increase scale and therefore reduce investment costs/improve net returns.

7.2 The current approvals are:

Portfolio	**% of Main Fund**	**Projected Commitments £m p.a.**
GMPVF	0-3	50+
Housing	0-1	50
Impact/Collaboration	0-1	50
LPFA Infrastructure – JV	0-1.5	150
Other Projects	0-2	
Aggregate	0-5	

8. HOUSING

8.1 The Fund has participated in a joint venture with Manchester City Council (MCC), which is its first direct involvement in building homes. The aim is to work with other Greater Manchester authorities to increase investment in homes. The purpose of the investment is to help respond to increases in demand for housing, support regeneration, provide benefits to the councils including new homes bonus and enhancement of council tax base and crucially from the Fund's perspective to generate a commercial return. The first project has been successful on these terms Construction has gone well as have sales and there is a high degree of certainty for the overall financial return to both the Fund and the Council.

8.2 In this first phase 240 homes are being built on 5 sites in Manchester, 4 of which were owned by MCC and the other by HCA. Of these 240 homes half are built for sale and half for market rent. The sales programme is going well and handover has started on the homes for rent.

8.3 The Fund provides all the capital to finance the development. MCC and HCA provide the 5 sites. Financial viability was determined in aggregate across the 5 sites and this facilitated more homes to be built sooner. It will also deliver financial returns that meet the needs of both parties. It also benefits Manchester's regeneration plans with good sites balancing more challenging regeneration areas.

8.4 The key roles in the development are the project manager and technical support and the prime objective is to manage risk through contracts including

- the builder for construction risk
- the tenant who has taken a long lease on all the homes for market rent and who will undertake the property management role taking on void and repair risk
- the sales agent

8.5 A key risk that is not mitigated is the ability to sell the homes at the planned price and to programme. So far the sales programme is going very well, reflecting affordable prices for 2, 3 and 4 bed homes.

8.6 The project has been resource demanding for both partners with significant staff time and finance needed to develop and implement the following which can now be transferred to future projects:

- an investment model
- site identification and land preparations
- legal structures for partnership
- procurement of delivery agents
- project delivery and monitoring

9. IMPACT PORTFOLIO

9.1 The fund participated in the “Invest for Growth” initiative with 5 other LGPS funds. The aim is to deliver commercial returns and for the investments to have a social impact. Due diligence was shared between the participating funds and GMPF invested in opportunities targeting property, loans to SMEs, and social impact bonds.

9.2 The next phase, learning from our experience, is to build a local “Impact” portfolio. Again the aim is to build a diversified portfolio investing in funds and co-investments and investing in different parts of the capital structure. The current plan is to target opportunities in property, loans to SMEs and local infrastructure. Other North West funds may co-invest in some or all of the investments made adding to and benefitting from the economy of scale benefits including in-house resources.

10. INFRASTRUCTURE JOINT VENTURE WITH LONDON PENSION FUND AUTHORITY

10.1 Agreement has been reached with LPFA to create a joint venture to invest in infrastructure. Both parties have committed £250m each. Oversight will be exercised by the GMPF Management Panel and LPFA Board.

10.2 GMPF and LPFA will both allocate significant in house resource to this project with investment decision making delegated to officers. The aim is to build a diversified infrastructure portfolio through a wide range of approaches. The aim is to commit investment over a 3 year period. Both Funds have recognised the need to reduce investment costs and this direct approach should have considerably less fees than a comparable fund or fund of fund structure.

10.3 The definition of infrastructure is broad with both organisations having the capability of sourcing investments and these investments are expected to have a bias to the partners' location.

10.4 The legal arrangements are structured to facilitate other funds joining the JV in future.

11. OTHER PROJECTS

11.1 The Fund has also looked to partner on major projects with organisations with access to high quality deal flow and who can bring development expertise and share financial risk. The main project that the Fund is currently involved in is Airport City Manchester.

11.2 This project is part of an Enterprise Zone. It is a long term project with the aim of undertaking approximately £800m of development over the next 15 years.

- In March 2011 Manchester Airport was confirmed as the location of one of the UK Government's vanguard Enterprise Zones. Centred on the new Airport City development area, businesses will be offered incentives in order to create new jobs and stimulate economic growth locally, regionally and nationally. The incentives include savings on business rates, the introduction of super-fast broadband and the local authority will be allowed to retain business rates.

- The 116 hectare Manchester Enterprise Zone sits around the new strategic scale development of Airport City involving the creation of a significant new business destination in the area adjacent to the airport's terminals and ground transport interchange. Complementing this will be health and biotech related research and development and training facilities associated with MediPark which also benefits from the proximity of Manchester Airport.

- The plans envisage Airport City to be a very significant development as its name suggests. The intention is that "Airport City will become an international business destination providing world-class environments in which people work, play and stay. A vibrant economic hub with connectivity at its heart, it aims to be one of the world's most accessible and leading commercial locations".

- "Airport City will reposition Manchester Airport as a key international business destination."

11.3 The partners in this project are Manchester Airport, BCEG (Beijing Construction and Engineering Group), Carillion and GMPF.

11.4 In addition to its equity participation in the Joint Venture, this may provide deal flow opportunities for the Fund to acquire long term assets and provide debt to some Joint Venture projects.

12. EVALUATION OF BENEFITS AND RISKS OF LOCAL INVESTMENT AND MITIGATION

12.1 Pension funds generally have the capacity to be long term providers of capital. Increasingly LGPS funds are seeking long term secure income streams as well as capital gains to help manage funding volatility. The capacity to provide long term capital particularly at times when markets are challenging makes LGPS funds a credible investor and partner for developers. This can also result in investments being undertaken that would not otherwise have occurred or earlier than would have been the case.

12.2 For successful investment, there is a need to

- identify an investment opportunity that meets return criteria
- be able to access such opportunities
- be able to make the investment decision

12.3 For local investment to work well there needs to be the capacity and capability to deliver on the tasks set out at 12.2. If for example, the local area is providing very few opportunities, then identifying opportunities will be very unlikely.

12.4 GMPF's Management Panel has aimed to build diversified portfolios over time learning from its experiences. Its advantages are the economic strength of Greater Manchester, the scope to allocate significant sums without building material concentration risks and a willingness to resource such investment programmes.. The Fund uses a variety of arrangements to gain its exposure including external managers, Joint Ventures, in-house resources and support from independent advisors. The Panel's view is where there is scope to invest locally and generate comparable returns to other investments; there is merit in investing locally to capture the benefits of supporting the area, subject to managing the relevant risks.

12.5 Local investment is sensitive and brings with it reputational risks should the investment not perform in line with the business plan/appraisal. Hence the importance of a thorough due diligence and evaluation process to demonstrate a decision based on commercial criteria.

12.6 It can also be complex, e.g. the financial appraisal and it will often involve legal, project management, procurement, financial and other specialist skills. The type of investment and the capability and capacity of the in-house team will determine the process for evaluating and progressing investments.

12.7 In summary, local investment is demanding at Board level from a governance perspective and operationally. The costs of a local investment programme will be materially higher than the investment management costs associated with a standard securities portfolio. However, with appropriate capability and capacity either individually or through collaboration, local investment delivering on the twin aims of commercial returns (that deliver long term returns in line or better than the Actuary's return assumption) and support for the area is considered by GMPF to have great merit.

This page is intentionally left blank

APPENDIX 2

GMPVF

Investment Mandate and Statement of Investment Guidelines

1. INTRODUCTION

1.1 The purpose of this document is to set out the investment mandate and investment guidelines for Greater Manchester Property Venture Fund GMPVF. GMPVF has an investment manager (GVA) who are appointed on an advisory basis with the CIO retaining discretion on investment decisions. (Their role is detailed in section 11). This document will regulate the activity of the manager and act as a guide for staff of GMPF in overseeing the portfolio and as a reference point for Panel/Working Group Members of GMPF when reviewing the management of GMPVF.

2. NATURE OF GMPVF AND CONTEXT

2.1 GMPF has allocated 5% of the Fund to be invested locally. The table below shows the allocations made so far by GMPF to local investments.

	% of Fund allocated	**£ equivalent**	**Approval**
GMPVF	1-3%	Up to £450m (was £300m)	BDWG Man Panel
Housing (The GMPVF manager has key role in implementation)	1%	Up to £150m (was £100m	BDWG Man Panel
Invest 4 Growth	n/a	£50m	BDWG Man Panel
Impact Portfolio	Up to 1%	£150m	BDWG Man Panel
Total	**Up to 5%**	**Up to £800m**	BDWG Man Panel

2.2 GMPF has a core belief statement. The key elements of this that are relevant to GMPVF in particular are listed below.

- Recognition that GMPF has the necessary skills, expertise and resources to internally manage some assets, including local investments.
- Recognition that GMPF is rewarded through additional returns for the taking of different type of risks including equity, liquidity and credit risks.
- Recognition that active management can achieve excess returns and a belief that value will deliver superior returns in the long term.
- Recognition that a long term approach is needed.

INVESTMENT MANDATE

3. PURPOSE OF PORTFOLIO

3.1 To gain cost effective, diversified exposure to property development assets located predominantly in the North West of England and with a clear emphasis on Greater Manchester.

4. DEFINITION OF PROPERTY DEVELOPMENT

4.1 The mandate adopts a very broad definition of property development so as to be as flexible as possible to the opportunities available. However, examples of possible investments include direct development including purchase of land and property for development with or without a partner. They also include investment in financial instruments such as debt or equity in property development and investment in collective investment vehicles. This development can involve construction of new buildings or renovation of existing buildings.

5. OBJECTIVE

5.1 The GMPVF will be managed in order to achieve: 1) an investment performance at a total portfolio level, net of all fees, costs and expenses, which matches or exceeds Benchmark performance (see below); 2) Property development which is beneficial for economic growth in the North West of England, and 3) a programme of investments which seeks to deploy/commit the allocated capital within 4 years of inception.

6. BENCHMARK

6.1 RPI + 5% per annum (equivalent to 7.5%) at an aggregate portfolio level. This will be periodically reviewed with the GMPVF manager and equates to a marginally better return than that expected from the property market on a 5 year perspective.

7. HOLD PERIOD

7.1 Unconstrained – both open-ended and term-limited investments are permitted.

8. PERMITTED INSTRUMENTS

8.1 Land, Properties, Development Properties, Interests in collective funds, secondary fund interests, direct equity and debt instruments relating to real assets, and listed securities.

9. INVESTMENT RESTRICTIONS

9.1 Maximum exposure to a single investment is 15% of portfolio for both direct properties or a financial instrument or collective investment vehicle, normal aim is for 10% maximum position. Investments that exceed these limits require the explicit approval of the Management Panel.

10. RISK PARAMETERS

10.1 The mandate should be prudently implemented in-line with the Investment Guidelines, by the manager, and with due regard to appropriate diversification of exposure to assets and risks. Key risks to be considered are: general sensitivity to the macro-economy, development risk, Capital Structure (equity vs. debt and amount of leverage), levels of control over development phase, speculative or pre let development

11. GOVERNANCE STRUCTURE

11.1 The table below details key groups/individuals and their role and responsibilities.

GMPF Management Panel	Sets overall strategy for Investment allocation of GMPF, including that to GMPVF
GMPF Policy and Development Working Group	Approves and Oversees special projects that GMPVF may become involved in such as Matrix Homes
GMPF Property Working Group	Appoints manager for GMPVF. Receives reports from manager on a quarterly basis
CIO Peter Morris GMPF	Sign off required for any investment. This may fit in to formal Monthly meetings but it is likely that sign offs will be outside of these meetings due to nature of external deadlines.
Transactions Team Current members are: Paddy Dowdall, Andrew Hall, GMPF Jonathan Stanlake, Gareth Conroy, GVA	Meets monthly and informally on an ad hoc basis to Identify new opportunities Approve papers on new investments for approval by CIO Discuss progress on live investments
The Manager GVA	Identify and Appraise Opportunities Prepare Recommendations Review Performance Report to GMPF on GMPVF

12. TAKING ADVICE

12.1 Investment decisions will be supported on a deal by deal basis by appropriate professional advice on matters such as property market, tax, legal, financial, structuring and industry specific factors.

12.2 All costs and expenses in relation to external advice must be authorised in advance by the GMPF members of transaction team.

13. KEY INVESTMENT THEMES

13.1 The following sectors will be targeted initially:

- Commercial Development Property
  - Office
  - Retail
  - Leisure
  - Industrial
- Residential Property
  - PRS
  - Owner Occupier
  - Greenfield/Brownfield
  - City Centre / Suburban
- Social Infrastructure
  - Supported Living
  - Specialist residential
  - Municipal Developments

13.2 The investments made should feature some or all of the following aspects:

- Advantageous entry price due to timing or introduction method
- Clear development strategy
- Identifiable users of underlying building
- Exit Strategy
- Identifiable benefit to economic growth in region
- Commerciality of returns if a financial instrument
- If a collective vehicle, strong management team and competitive terms

14. PORTFOLIO CONSTRUCTION

14.1 There are a number of ways of categorising investments for portfolio construction and risk control purposes. These include geography, type of investment i.e. directly in a property or indirect through a collective investment vehicle or financial instrument, and the position in the capital structure. The following tables show target positions and tolerances across these categories. The target position and ranges are expressed as percentages of the total amount committed to GMPVF (currently £450m), or of the indirect allocation which is 50% of this, but actual exposure may vary considerably from these ranges depending on the overall level of investment. When considering an in-direct investment the manager will make estimation for the underlying investments in factors such as geography, influence, capital structure and tenancy.

Geography		
	Core	**Range**
	% of GMPVF	% of GMPVF
Greater Manchester	80	60-100
North West ex GM	20	0-40
Outside North West	0	0-10

Direct or Indirect		
	Core	**Range**
	% of GMPVF	% of GMPVF
Direct Development	50	30-70
Indirect : Collective Investment Vehicle/ Financial Instrument	50	30-70

Indirect Passive or Active		
	Core	**Range**
	% of Indirect	% of Indirect
Active	70	40-100
Passive	30	0-60

Indirect :place in capital structure		
	Core	**Range**
	% of Indirect	% of Indirect
Senior Debt	25	0-50
Subordinated Debts	25	0-50
Equity	25	0-50
Unitranche	25	0-50

Across portfolio Pre let or Speculative		
	Core	**Range**
	% of GMPVF	% of GMPVF
Pre Let	50	30-90
Speculative	50	10-60

14.2 The aim of the indirect investments would be to manage risk through diversification across sectors, investment managers and vintage of investments. The portfolio would invest in a variety of investment vehicles including funds and co-investments. The collective investment vehicles could involve both active participation in the property development and also, potentially a passive role. The portfolio would also look to gain exposure to different parts of the capital structure including equity, mezzanine and senior debt, to achieve the targeted return and to control costs. This solution will allow the portfolio access to opportunities and leverage relationships for specialist advice and support.

15. INVESTMENT PROCESS

15.1 There are 5 keys stages in the selection of investment:

1. Identification of opportunities (can be by manager or from GMPF staff)
2. Filtering of opportunities by GVA.

3. Diligence on small number of proposals by GVA leading to the drafting of an initial paper.
4. Initial Paper to GMPF staff/Transaction Team, if approved a detailed proposal is then prepared.
5. Review of final proposal and approval by CIO.

16. POST INVESTMENT

16.1 Follow-on investments will be provisioned for at the time of initial investment with permitted level of follow-on investments agreed at the time of initial investment and included within “committed” capital calculations for the purpose of internal reporting.

17. EXIT PROVISIONS

17.1 Exit of individual investments will be an investment decision to be considered by the Manager and CIO in the normal cycle of review and it will be part of the final proposal.

17.2 Termination of the manager will be limited to the provisions set out in the IMA.

18. DISTRIBUTIONS

18.1 The default position of GMPVF will be to distribute any income to GMPF as it is received from the underlying investments.

19. LEVERAGE

19.1 GMPVF will not use leverage at a portfolio level. GMPVF may make investments into collective vehicles that use leverage

20. ENVIRONMENTAL, SOCIAL AND GOVERNANCE

20.1 GMPVF will encourage environmental, social and corporate governance best practice in the companies in which it invests, as we believe this will deliver the best long-term returns. As GMPF is a signatory of UNPRI GMPVF in its activities, will incorporate the following principles (the "**Principles**"):

- *Principle 1:* We will incorporate ESG issues into investment analysis and decision making processes.
- *Principle 2:* We will be active owners and incorporate ESG issues into our ownership policies and practices.
- *Principle 3:* We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- *Principle 4:* We will promote acceptance and implementation of the Principles within the investment industry.
- *Principle 5:* We will work together to enhance our effectiveness in implementing the Principles.
- *Principle 6:* We will report on our activities and progress towards implementing the Principles.

20.2 GMPVF will also encourage the following in its direct developments:

- Use of local firms
- Use of local apprentices
- Provide job opportunities or training to long term unemployed where possible

APPENDIX 3

NORTH WEST IMPACT JV

Investment Mandate and Statement of Investment Guidelines

1. Introduction

1.1 The purpose of this document is to set out the investment mandate and investment guidelines for the North West Impact JV between GMPF and partners. This document will regulate the activity of the JV and act as a guide for staff in running the portfolio and as a reference point for management and Board / Panel Members when reviewing the management of the portfolio.

2. Nature of the JV and Context

2.1 The table below shows the allocations made so far by GMPF and other partners to the joint venture.

	GMPF	
Overall Fund Size	£17bn	
Allocation to JV	£250M	

2.2 GMPF has a core belief statement. The key elements of this that are relevant to impact investment and this JV in particular are listed below.

- Recognition that the fund has the necessary skills, expertise and resources to internally manage some assets, including infrastructure private equity local property and local investments.
- Recognition that the Fund is rewarded through additional returns for the taking of different type of risks including equity, liquidity and credit risks.
- Recognition that active management can achieve excess returns and a belief that value will deliver superior returns in the long term.
- Recognition that a long term approach is needed.

2.3 Other Partners.

INVESTMENT MANDATE

3. Purpose of Portfolio

3.1 To gain cost effective, diversified exposure to a portfolio of ‘impact’ investments located predominantly in the North West of the UK.

4. Definition of Impact

4.1 The definition of impact is an ill-defined concept but the following 4 aims are widely used by the sector.

- Targeting underserved markets
- Promoting health and well being
- Supporting Improvement in Education and Skills
- Supporting Sustainable Living

5. Objective

5.1 The JV will be managed in order to achieve: 1) an investment performance at a total portfolio level, net of all fees, costs and expenses, which matches or exceeds Benchmark performance; and 2) a programme of investments which seeks to deploy/commit the allocated capital within 3 years of inception.

6. Benchmark

6.1 RPI + 3%-5% at portfolio level or 6%-8% nominal.

7. Hold Period

7.1 Unconstrained – both open-ended and term-limited investments are permitted.

8. Permitted Instruments

8.1 Interests in collective funds, secondary fund interests, direct equity and debt instruments relating to real assets, direct assets (inc. property) and listed securities.

9. Investment Restrictions

9.1 Maximum exposure to a single, unlisted investment is 20% of committed capital.

9.2 Maximum exposure to any single listed asset is limited to 15% of issued share capital (and should normally be less than 10% of issued share capital).

10. Risk Parameters

10.1 The mandate should be prudently implemented in-line with the Investment Guidelines, and with due regard to appropriate diversification of exposure to assets and risks. Key risks to be considered are; Capital Structure (equity vs debt and amount of leverage) and Revenue Profile and general sensitivity to the macro-economy).

11. Governance Structure

11.1 The table below details key groups/individuals and their role and responsibilities.

GMPF Management Panel	Sets overall strategy for Investment allocation of GMPF, including that to infrastructure JV. Receives reports from JV in a joint presentation on an annual basis and formal annual report as owner of interest in JV
GMPF Policy and Development Working Group	Reviews progress of JV and receives reports from GMPF staff on a quarterly basis
Other Partners Governance	
CIOs : Peter Morris GMPF	Unanimous sign off by both required for any investment This may fit in to formal JV Investment Committees but it is likely that sign offs will be outside of these meetings due to nature of external deadlines.
JV Investment Committee Members are Peter Morris, Paddy Dowdall, Andrew Hall	Role is to be Authorised Representatives of the LLP Meets twice a year on a formal basis to review portfolio construction and progress of individual investments and to discharge formal duties. Also meets “on request” to review Investment Proposals and to agree sign off of expenditure
JV Transaction Team Core members will be Paddy Dowdall, Andrew Hall, Richard Thomas Plus other team members as needed	Role is to identify opportunities, decide which to take to due diligence and then investment paper. Writes investment papers for consideration by CIOs/Investment Committee Meets informally at least monthly and by phone weekly

12. Taking Advice

12.1 Investment decisions will be supported on a deal by deal basis by appropriate professional advice on matters such as tax, legal, financial, structuring and industry specific factors.

12.2 All costs and expenses in relation to external advice must be authorised in advance by the JV Investment Committee.

13. Key Investment themes

13.1 The following sectors will be targeted initially:

- Loans to Small and Medium Sized Businesses
- Social Infrastructure
- Property Development in underserved markets
- Renewable Energy Infrastructure
- Social Impact Bonds
- Equity investment in underserved markets

13.2 The investments made should feature some or all of the following aspects:

- Consistent Identifiable Cashflows
- Inflation linkage
- Material yield component of the return
- Long duration assets
- High barriers to entry
- Early income generation
- Strong Management Teams
- Targeted Development contribution to economic growth

14. Portfolio Construction

14.1 There are a number of ways of categorising investments for portfolio construction and risk control purposes. These include sectors, stage of development, revenue profile and position in the capital structure. The following tables show target positions and tolerances across these categories. The target position and ranges are expressed as percentages of the total amount committed to the JV (currently £150m), but actual exposure may vary considerably from these ranges during the investment phase. Once the investment phase is completed, if the portfolio crosses these ranges it will be reported to the Investment Committee.

Sector		
	Core	**Range**
Lending to SME	**25**	**0-50**
Renewable Infrastructure	**25**	**0-50**
Social Property	**25**	**0-50**
Alternative Finance	**25**	**0-50**
Capital Structure		
	Core	**Range**
Debt	**30**	**0-50**
Equity	**70**	**50 - 100**
Geography		
	Core	**Range**
North West UK	**100**	**75-100**
Overseas	**0**	**0-25**

14.2 The aim of the internally managed portfolio would be to manage risk through diversification across sectors, investment managers and vintage of investments. The portfolio would invest in a variety of investment vehicles including funds and co-investments. The portfolio would also look to gain exposure to different parts of the capital structure including equity, mezzanine and senior debt, to achieve the targeted return and to control costs. This solution will allow the portfolio access to opportunities and leverage relationships for specialist advice and support.

14.3 Co-investment opportunities to the joint venture will be considered according to the same process as other investments with initial allocations being used within the JV where capacity exists.

14.4 Where there is excess co-investment capacity this will be initially offered to each of the partners on an equal basis. If either fund declines the excess co-investment capacity the other fund may seek to take up this capacity unilaterally.

15. Investment Process

15.1 There are 5 keys stages in the selection of investment:

1. Identification of opportunities (can be outside JV)
2. Filtering of opportunities by transaction team
3. Diligence on small number of proposals by transaction team leading to the drafting of an initial paper.
4. Initial Paper to Investment Committee, if approved a detailed proposal is then prepared.
5. Review of final proposal and approval by Investment Committee

16. Post Investment

16.1 Follow on investments will be provisioned for at the time of initial investment with permitted level of follow on investments agreed at the time of initial investment and included within “committed” capital calculations for the purpose of internal reporting.

17. Exit provisions

17.1 Exit of individual investments will be an investment decision to be considered by the JV Investment Committee in the normal cycle of review.

17.2 Termination of the JV will be limited to the provisions set out in the partnership documents. These allow for term based exit notifications and relevant pre-emption rights.

18. Leverage

18.1 The JV will not use leverage at a portfolio level. The JV may only enter into finance facilities for hedging purposes or for ongoing working capital needs.

19. Environmental, Social and Governance

19.1 The JV will encourage environmental, social and corporate governance best practice in the companies in which it invests, as we believe this will deliver the best long term returns. If partners are signatories of UNPRI the JV will incorporate the following principles:

- Principle 1: We will incorporate ESG issues into investment analysis and decision making processes.
- Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.
- Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.
- Principle 5: We will work together to enhance our effectiveness in implementing the Principles.
- Principle 6: We will report on our activities and progress towards implementing the Principles.

Report To:	**LOCAL PENSIONS BOARD**
Date:	30 March 2016
Reporting Officer:	Peter Morris, Executive Director of Pensions
Subject:	**INTERNAL DISPUTE RESOLUTION PROCEDURE (IDRP)**
Report Summary:	The report provides information about the LGPS's statutory dispute resolution procedure.
Recommendations:	The Local Board is recommended to note the report.
Policy Implications:	None.
Financial Implications: (Authorised by the Section 151 Officer	Not applicable.
Legal Implications: (Authorised by the Solicitor to the Fund)	The IDRP is an integral part of the Scheme and as such must be applied as rigorously as any other part of the Scheme.
Risk Management:	The appeal process can occasionally highlight areas for system or process improvement.
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 LGPS Regulations 2013 may be found here: http://www.lgpsregs.org/index.php/regs-legislation/timeline-regulations-2014 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. All public sector pension schemes are required to have an internal dispute resolution procedure. The LGPS's is a two stage process and is prescribed in the LGPS Regulations 2013, by regulations 74 to 79 inclusive.

1.2. Regarding Stage 1 each Scheme employer and each administering authority must each appoint at least one person to consider disputes arising from a disputed decision or act, or omission. Different sets of Regulations have referred to such people differently, eg. "appointed person", "person" and in the current version of the Scheme, "adjudicator". For the sake of consistency and ease of comprehension however, the Fund's literature speaks of pension referees.

1.3. Disputes relating to employer matters, eg. the failure to award an incapacity pension, are considered by the employer's Stage 1 pensions referee, and administering authority matters, eg. the refusal to accept a transfer from the private sector, are considered by GMPF's Stage 1 pensions referee.

1.4 Applications under Stage 1 are to be made within six months of the act, decision or omission that is in dispute, albeit referees have the discretion to allow longer. The referee should reply within two months of receiving an appeal, and if they are not able to do so, they must send an interim reply that sets out the reasons for the delay and also an expected date for the determination.

1.5 To quote from regulation 75, the notice of a determination by a referee must include:

(a) a statement of the decision;

(b) a reference to any legislation on which the adjudicator relied;

(c) in a case where the disagreement relates to the exercise of a discretion, a reference to the provisions of these Regulations conferring the discretion;

(d) a reference to the right of the applicant to refer the disagreement for reconsideration by the appropriate administering authority under regulation 76 (reference of adjudications to administering authority) and to the time within which the applicant may do so; and

(e) a statement that the Pensions Advisory Service is available to give assistance in connection with any difficulty with the Scheme that remains unresolved including the address at which it may be contacted.

(4) A decision under paragraph (1) takes effect as a decision of the Scheme employer or administering authority, as the case may be, except where the matter concerns the exercise of a discretion, in which case, if the adjudicator does not uphold the decision, the matter must be referred back to the body which made the decision under adjudication for reconsideration or, where that body would have been the Scheme employer but that body is no longer a Scheme employer, to the appropriate administering authority.

1.6 If the appellant is not satisfied by a Stage 1 determination he may make a Stage 2 appeal. These are to pensions referees that are appointed by Tameside MBC in its capacity as the administering authority for the Fund.

1.7 To quote from regulation 76, a Stage 2 appeal must:

(a) be made before the relevant date;

(b) set out the applicant's full name, address and date of birth;

(c) *if the applicant is not a member of the Scheme, set out the applicant's relationship to any relevant member of the Scheme and give that member's full name, address, date of birth, national insurance number and the name of the member's Scheme employer;*

(d) *include a statement that the applicant wishes the decision to be reconsidered by the administering authority;*

(e) *set out the details of the grounds on which the applicant relies;*

(f) *be accompanied by a copy of any written notifications under regulations 73 (notification of first instance decisions) and 75 (decisions of the adjudicator); and*

(g) *be signed by or on behalf of the applicant.*

(3) The relevant date for the purposes of paragraph (2)(a) is—

(a) *in a case where notice of a decision has been given under regulation 75(1), six months from the date the notice is received;*

(b) *in a case where an interim reply has been sent under regulation 75(2), but no notice has been given under regulation 75(1), seven months from the expected decision date; and*

(c) *in a case where no notice have been given under regulation 75(1) and no interim reply was sent under regulation 75(2), nine months from the date on which the application was made.*

1.8 Unlike Stage 1, there is no discretion for a Stage 2 referee to extend the six months during which a Stage 2 appeal may be made.

1.9 The effect of a Stage 2 determination and what it should contain are similar to Stage 1, except that in addition it must include a statement that the Pensions Ombudsman "…may investigate and determine any complaint or dispute of fact or law in relation to the Scheme made or referred in accordance with the Pension Schemes Act 1993…", together with a note of the Ombudsman's address.

2. FREQUENCY OF APPEALS

2.1 The Pensions Administration Working Group received a report relating to IDRP appeals at its November 2015 meeting. This considered appeals made during the 12 months ending June 2015.

2.2 Twelve Stage 1 appeals had been registered regarding disputes with the administering authority. These were for various reasons, with a perennial cause of appeals being where former members claim not to have received refunds of contributions many years ago (sometimes 40+ years ago), when in fact they did. Members can also object to actuarial reductions being applied when benefits are being paid early. All twelve appeals were rejected.

2.3 Over the same period 23 Stage 2 appeals were received, mainly relating to refusals by employers to bring benefits into payment early on the grounds of incapacity. Of these 23 cases 17 were rejected, 1 case was upheld and 5 were referred back to the employer as the Stage 1 process had not been undertaken satisfactorily.

2.4 Bearing in mind that the GMPF has over 350,000 members, it can be seen that the incidence of IDRP appeals involving the administering authority, both at Stage 1 and at Stage 2, is very low.

3. RECOMMENDATION

3.1 These are set out at the front of the report.