

GREATER MANCHESTER PENSION FUND

LOCAL PENSIONS BOARD

13 October 2016

Commenced: 3.00pm

Terminated: 4.55pm

Present:	Councillor Fairfoull (Chair)	Employer Representative
	Councillor Cooper	Employer Representative
	Richard Paver	Employer Representative
	Jayne Hammond	Employer Representative
	Paul Taylor	Employer Representative
	Mark Rayner	Employee Representative
	Catherine Lloyd	Employee Representative
	Pat Catterall	Employee Representative

Apologies for absence: **Chris Goodwin and Dave Schofield**

10. DECLARATIONS OF INTEREST

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

11. MINUTES

The Minutes of the meeting of the Local Pensions Board held on 1 August 2016, having been circulated, were signed by the Chair as a correct record.

12. UPDATE FROM GMPF MANAGEMENT PANEL

The Assistant Executive Director, Investments, submitted a report providing an update for Board members on a key agenda item from the meeting of GMPF Management/Advisory Panel held on 23 September 2016 (Minute 38 refers).

The report provided details of the Fund's current approach to Manager Monitoring and the Management Information presented to Panel, and the need for these arrangements to be reviewed.

It was explained that the broad intentions of the review were threefold; firstly, to update the arrangements for Securities Manager attendance at meetings of the Panel and its Working Groups. Secondly, to develop a codified and more structured Securities Manager Monitoring Escalation Protocol. Thirdly, to enhance the Management Information presented to Panel.

It was further explained that Officers had been working in co-operation with the Fund's Investment Consultant, Hymans Robertson, to develop interim illustrative ideas in terms of both Securities Manager attendance at Panel and Working Group and a suggested Monitoring Escalation Protocol.

The current arrangements for Securities Manager attendance at Panel and Working Groups were set out in an appendix to the report. Under the suggested arrangements, one of each of the four active Securities Managers would present at each quarterly meeting of the Panel. This would

represent a reduction for UBS and Capital from four presentations per annum currently, to one presentation per annum under the suggested baseline arrangements. Investec and Stoneharbor did not currently present to the Panel.

In addition to an annual presentation to the Panel, it was suggested that each of the four active Securities Managers also make an annual presentation to either the Policy and Development Working Group (Capital and UBS), or the Investment Monitoring and ESG Working Group (Investec and Stoneharbor).

In addition to the proposed monitoring to be undertaken by the Panel and Working Groups, it was also suggested that officers strengthen the routine formal monitoring of each active Securities Manager on a quarterly basis.

It was further explained that the suggested baseline monitoring arrangements, (as set out in **Appendix A** to the report), described the Fund's approach under those circumstances where Active Securities Manager performance was within an acceptable range. Where Securities Manager performance was out of this acceptable range, the Fund's current approach to Securities Manager monitoring could be enhanced by the adoption of a more codified and structured Monitoring Escalation Protocol. A suggested draft Monitoring Escalation Protocol was detailed in **Appendix B** to the report.

The Board were informed that the Fund had long acknowledged that Active Managers could legitimately experience relatively long periods of underperformance as the nature of investment cycles varied over time. The suggested Monitoring Escalation Protocol reflected a balance between identifying when an Active Manager's performance was becoming a cause for concern, and the Fund's approach of taking a longer term perspective to investing. The intention was to provide a framework of regular review in order to ensure the Fund had an audit trail for the decisions it made.

It was also reported that the Fund had very recently appointed Portfolio Evaluation Limited as a new provider of performance measurement services. This followed the announcement earlier this year, by the Fund's longstanding performance measurement provider WM (now part of State Street) of its decision to exit the market in respect of third party clients such as the Fund. It was envisioned that Portfolio Evaluation would provide an enhanced service to that of WM, potentially offering the opportunity to develop significant elements of the 'dashboard' approach (as detailed in the report) to enhancing the Management Information presented to Panel. It was explained that migrating from WM to Portfolio Evaluation was not a trivial exercise, obtaining and checking the large volumes of long term data received from WM, ensuring it fulfilled the requirements of Portfolio Evaluation, checking that the data was then taken on board correctly, and subsequently developing a 'dashboard' were tasks that Officers would be working on over the coming months with a view to bringing proposals to the March meeting of the Panel.

The report concluded that the suggested enhancements to the Fund's arrangements, as outlined above and detailed in the report, represented a work in progress. When finalised, it was the intention to share the details of the ongoing Manager monitoring arrangements and the Monitoring Escalation Protocol, with the relevant Managers. It was also noted that the Fund's approach to Manager Monitoring and Management Information may need to change over the next 12 – 18 months in light of developments in relation to pooling and experience of any revised arrangements implemented.

It was explained that under the proposed arrangements whilst the managers would probably still have the same quarterly attendances the intention would be that they may only come formally to Panel twice a year whilst more in depth analysis would take place at Working Groups that would allow for more time to be allocated.

Additionally, assurances were provided that mechanisms would remain in place to deal with any major issues, which may occur at any time. The Assistant Executive Director explained that Fund

Managers could be 'called in' at any time and, if necessary, an Urgent Matters Meeting of the Panel/Policy and Development Working Group could be arranged. He further explained that the proposals had been put forward to improve on existing processes and procedures.

The Chair thanked officers for a very informative presentation and requested that a report be submitted to a future meeting of the Board to monitor progress of the proposals.

RESOLVED

That the content of the report be noted and the changes to be progressed from the next meeting.

13. ACTUARIAL VALUATION

The Assistant Executive Director of Pensions – Funding and Business Development, submitted a report providing an update on the 2016 actuarial valuation and the issues that would arise therefrom, as reported to the last meeting of the Management Panel (Meeting of 23 September 2016, Minute 36 refers).

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

A summary of the GMPF membership at the current and previous valuation dates was provided in the report.

It was explained that provisional valuation assumptions were recommended by the April meeting of the Employer Funding Viability Working Group. The financial assumptions used in the 2013 valuation and the assumptions proposed for the 2016 valuation were also summarised in the report.

It was further explained that the Funding Strategy Statement provided guidance to the Actuary in undertaking the actuarial valuation. CIPFA had updated their guidance on preparing the Funding Strategy Statement and this was released in early September. Officers would be reviewing what updates were required and a revised Funding Strategy Statement would be tabled for review at the meeting of the Employer Funding Viability Working Group in October. The Employer Funding Viability Working Group would review the responses to the Funding Strategy Statement consultation and bring a final version to Panel for approval in early 2017. The Funding Strategy Statement needed to be considered in tandem with the results of the actuarial valuation.

In respect of the outlook for Employer Contributions, the Panel were informed that the Actuary and the Panel needed to consider the risks and protect the Fund, but would also need to balance this with the affordability challenge for employers. Contribution rates should reflect the creditworthiness of the employer and the 'security' provided to the Fund, e.g. the provision of a guarantee or a bond or the taking of security such as a charge on property. Early dialogue with employers in this area was essential and some external support and advice was likely to be required in dealing with employers, (e.g. legal, accountancy and actuarial). The measures that employers could take to help improve the funding position included; pay restraint, controlling early retirements, understanding the impact of transfers and making additional employer contributions.

It was concluded that, whilst very few valuations had reached a conclusion, the expectation was that GMPF would maintain its position as one of the better funded local authority schemes and its employers' average employer contribution rate would again be at the lower end of the range.

The expectation of further material reductions in public expenditure would affect many of the Fund's employers. Further reductions in the public sector workforce were expected over the next 3 to 5 years, and the impact of auto-enrolment on increasing employee members would decline as most employers pass their auto-enrolment staging dates. Some employers would cease to be viable and some employers would be abolished. This was a very challenging environment for employers and raised complex matters for the Fund where issues of prudence, stewardship, affordability and stability would need to be considered.

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

Board members were informed that Barry McKay and Steven Law of Hymans Robertson, Actuary to the Fund, had also delivered a presentation to the Panel, which gave details of the timeline of the valuation and progress to date. A copy of the presentation was appended to the report.

RESOLVED

- (i) That the Actuary's current estimated funding position of the fund as a whole be noted; and**
- (ii) That the projected timescales and actions required to finalise the valuation process be noted.**

14. SECTION 13 VALUATION

Consideration was given to a report of the Assistant Executive Director – Funding and Business Development, which provided a summary of the Section 13 valuation which would be undertaken by the Government Actuary's Department (GAD) as part of the 2016 actuarial valuation process for LGPS funds in England and Wales.

The report also provided a summary of the 'dry-run' that GAD had undertaken using the 2013 LGPS valuations.

RESOLVED

That the content of the report be noted.

15. MEMBER COMMUNICATIONS

A report was submitted by the Assistant Executive Director of Pensions, Funding and Business Development, and a presentation delivered by the Pensions Policy Manager, providing the Board with an overview of the regular communications issued to GMPF members, including:

- Annual Benefits Statement;
- Pension Power newsletter;
- Email alerts;
- Additional Voluntary Contributions mailings;
- Deferred Bulletins/updates;
- P60;
- Pensions Grapevine Annual newsletter; and
- Information available on the GMPF website.

Members raised concerns in respect of scrutinising the effectiveness of communications and highlighted the importance of gathering feedback in order to improve the quality of information and monitor the level of understanding.

RESOLVED

- (i) That the content of the report be noted;
- (ii) That it be noted that the Executive Director, Governance, Resources and Pensions would be arranging for a review/audit of communications taking into account best practice and what other funds do, both within and outside LGPS to ensure that the Fund remains award winning and a leader in this field.

16. COMPLIANCE WITH THE PENSIONS REGULATOR CODE OF PRACTICE 14 – GOVERNANCE AND ADMINISTRATION OF PUBLIC SERVICE PENSION SCHEMES

The Assistant Executive Director, Funding and Business Development, submitted a report informing Members of the recommendations of the Pensions Regulator that all public service pension funds should assess their compliance against its Code of Practice number 14.

It was explained that Code of Practice number 14 covered the governance and administration of Public Service Pension Schemes. The Code was divided into the following four sections:

- Governing your Scheme;
- Managing Risks;
- Administration; and
- Resolving Issues.

Each section detailed the legal requirements, which must be complied with, and also Pension Regulator's guidance, which was practical guidance and the standards expected by the Regulator.

It was further explained that LGPS administering authorities had been strongly encouraged by the Pensions Regulator to undertake a review of their compliance with the Code of Practice and undertaking such a review was also likely to be a Key Performance Indicator used by the Scheme Advisory Board.

An analysis of GMPF's compliance with each of the sections of the Code was appended to the report. In general, GMPF was fully compliant with all of its legal requirements and operated in accordance with the Regulator's guidance. There were a small number of actions or enhancements which could be made to existing processes to ensure the guidance continued to be met in full and these were detailed in the Appendix and it was explained that work was already in progress on many of these actions.

RESOLVED

That the content of the report and the actions highlighted in Appendix 1 to the report, be noted.

17. GMPF STATEMENT OF ACCOUNTS AND ANNUAL REPORT 2015-2016

Consideration was given to a report of the Assistant Executive Director, Local Investment and Property, (which had also been submitted to the Management Panel on 23 September 2016, Minute 42 refers), providing details of:

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

It was further noted that the Auditors had given a clean bill of health, the accounts were unqualified and this was a testament to the work undertaken by the Panel.

RESOLVED

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

- (ii) **That the Audit Findings report from Grant Thornton be noted; and**
- (iii) **That the Annual Report be noted.**

18. RISK MANAGEMENT AND AUDIT SERVICES 2016/17

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

Details were given of final and draft reports issued during the period. Details were also given of audits in progress as follows:

- Unitisation;
- Visit to the Property Fund Manager ;
- Visits to Contributing Bodies;
- Risk Management Review; and
- Post Audit Review.

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

- Advice – Verification of Valuation Data and Service Charge; and
- Irregularities – none in this quarter.

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

In respect of an issue raised at the last meeting of the Local Pensions Board (Meeting of 1 August 2016, Minute 9 refers) regarding Visits to Contributing Bodies and instances of the incorrect calculation and application of Assumed Pensionable Pay (APP), identified at employers visited, it was confirmed that work was ongoing to address this issue with colleagues at a Greater Manchester wide level and also involved the Pensions Policy Manager and the Communications Team.

RESOLVED

That the content of the report be noted.

19. ANNUAL GOVERNANCE STATEMENT 2015/16

The Head of Risk Management and Audit Services submitted a report which presented the Annual Governance Statement for 2015/16 to the Board, for information.

RESOLVED

That the Annual Governance Statement for 2015/16 be noted.

20. IMPLICATIONS OF CHANGES IN SERVICE DELIVERY

A report was submitted by the Assistant Executive Director, Funding and Business Development, which explained that the numbers of participating employers in GMPF was continuing to increase rapidly. Further cutbacks in local authority budgets were likely to result in further outsourcing and an increase in applications for admitted body status. This rapid increase in the number of employers presented both administrative and funding challenges. The report set out some of these challenges and the mechanisms available to tackle them.

RESOLVED

That the content of the report be noted.

CHAIR