GREATER MANCHESTER PENSION FUND ADVISORY PANEL

21 July 2017

Commenced: 10.00am	**Terminated: 12.30pm**
Present:	**Councillor K Quinn (Chair)** **Councillors: Andrews (Manchester), Brett (Rochdale), Grimshaw (Bury), Halliwell (Wigan), Mitchell (Trafford), Pantall (Stockport)** **Employee Representatives:** **Mr Allsop (UNISON), Mr Drury (UNITE), Mr Flatley (GMB) and Mr Llewellyn (UNITE)** **Local Pensions Board Members (in attendance as observers):** **Councillor Cooper** **Advisors:** **Mr Bowie, Mr Moizer, Mr Powers and Ms Brown**
Apologies for absence:	**Councillors Barnes (Salford) and Jabbar (Oldham) and Ms Baines (UNISON)**

1. CHAIR'S OPENING REMARKS

The Chair welcomed new Members to the Panel, Councillor Andrews (Manchester), Councillor Barnes (Salford) and Councillor Jabbar (Oldham). He further extended his gratitude to departing Members, for all their hard work and commitment to the Fund during 2016/17.

2. DECLARATIONS OF INTEREST

There were no declarations of interest submitted by Members.

3. MINUTES

The Minutes of the proceedings of the meeting of the Pension Fund Advisory Panel held on 10 March 2017 were signed as a correct record.

The Minutes of the proceedings of the meeting of the Pension Fund Management Panel held on 10 March 2017 were signed as a correct record.

4. LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

(a) Urgent Items

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

(b) Exempt Items

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

(ii) **in all circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information for reasons specified below:**

Items	**Paragraphs**	**Justification**
8, 9, 10, 11, 12, 13, 14a, 14b, 15a, 15b, 15c, 16, 17	**3&10, 3&10, 3&10, 3&10, 3&10, 3&10, 3&10, 3&10, 3&10, 3&10, 3&10, 3&10, 3&10**	**Disclosure would or would be likely to prejudice the commercial interests of the Fund and/or its agents, which could in turn affect the interests of the beneficiaries and/or tax payers.**

5. LOCAL PENSIONS BOARD

RECOMMENDED
That the Minutes of the proceedings of the Local Pensions Board held on 30 March 2017 be noted.

6. INVESTMENT MONITORING AND ESG WORKING GROUP

The Minutes of the proceedings of the meeting of the Investment Monitoring and ESG Working Group held on 7 April 2017 were considered.

RECOMMENDED
That the Minutes be received as a correct record.

7. PENSIONS ADMINISTRATION WORKING GROUP

The Minutes of the proceedings of the meeting of the Pensions Administration Working Group held on 7 April 2017 were considered.

RECOMMENDED
(i) That the Minutes be received as a correct record;
(ii) In respect of Aquila Heywood Update, that further update reports be brought to future meetings of the Working Group;
(iii) In respect of Communication Activities, that a draft Communication Strategy be brought to a future meeting of the Working Group;
(iv) In respect of Death Grant Procedure Review, that an update report be brought to a future meeting of the Working Group; and
(v) In respect of Guaranteed Minimum Pension Reconciliation, that an update report be brought to a future meeting of the Working Group.

8. ALTERNATIVE INVESTMENTS WORKING GROUP

The Minutes of the proceedings of the meeting of the Alternative Investments Working Group held on 13 April 2017 were considered.

RECOMMENDED
(i) That the Minutes be received as a correct record;
(ii) In respect of Private Equity – Review of Strategy and Implementation;

That:

(a) The medium term strategic allocation for private equity remains at 5% value of the total Main Fund assets.

(b) The target geographical diversification of the private equity portfolio remains as:-

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

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

(c) The investment stage diversification of the private equity portfolio remains as:-

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

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

(d) The scale of commitment to funds be £280 million per annum, to work towards achievement of the strategy allocation over the next 3/4 years.

(e) The Private Markets team continue to implement the private equity strategy via 3 year programmes of commitments with a target number of commitments over that period of 24 funds. Each commitment to be of the average size of £35 million, in the absence of exceptional factors.

(f) Commitments to European, US and Asian primary buyout funds to be made directly to partnership vehicles. Secondary investments and Venture Capital to be accessed via Fund of Funds but officers to continue to assess the viability of a direct approach giving due consideration to risk, diversification and resource availability.

(g) It continues to be recognised that the portfolio may not fall within the target ranges at (b) and (c) above from time to time to reflect portfolio repositioning.

(iii) In respect of Infrastructure – Review of Strategy and Implementation, That:

(a) The medium term strategic allocation to Infrastructure funds remains at 5% value of total Main Fund assets.

(b) The target geographical diversification of the infrastructure portfolio remains as:-

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

(c) The target stage diversification of the infrastructure portfolio remains as:-

Investment Stage	Relative Risk	Target Range
CORE & LT CONTRACTED	LOW	30% to 40%

VALUE ADDED	**MEDIUM**	**40% to 60%**
OPPORTUNISTIC	**HIGH**	**0% to 20%**

(d) The scale of fund commitments be £210 million per annum to work towards achievement of the strategy over the coming years.

(e) The Private Markets team continue to implement the Infrastructure strategy via 3 year programmes of commitments, across between 2 and 4 new funds per annum (averaging 3 new funds per annum).

(f) Commitments to primary funds be made directly to partnership vehicles.

(g) It is recognised that the portfolio may not fall within the target ranges at (b) and (c) from time to time to reflect portfolio repositioning.

9. EMPLOYER FUNDING VIABILITY WORKING GROUP

The Minutes of the proceedings of the meeting of the Employer Funding Viability Working Group held on 21 April 2017 were considered.

RECOMMENDED
(i) That the Minutes be received as a correct record;
(ii) In respect of GMPF Aged Debt as at 19 March 2017, that a report be brought back to the Working Group detailing the review of escalation procedures for employer related debt; and
(iii) In respect of the Business Plan 2017/18, that further update reports be brought to future meetings of the Working Group.

10. PROPERTY WORKING GROUP

The Minutes of the proceedings of the Property Working Group held on 13 April 2017 were considered.

RECOMMENDED
That the Minutes be received as a correct record.

11. POLICY AND DEVELOPMENT WORKING GROUP

The Minutes of the proceedings of the Policy and Development Working Group held on 18 July 2017 were considered.

RECOMMENDED
(i) That the Minutes be received as a correct record;
(ii) In respect of Investment Strategy and Tactical Positioning 2017/18:
(a) That there be no material change to asset allocations;
(b) That a 'factor based investment ' portfolio be implemented via the Special Opportunities Portfolio; and
(c) That the Hedging liability risk highlighted in the report be noted for future consideration.
(iii) In respect of Global Trigger Update:
(a) That the updated Fair Value estimate, the associated updated trigger points, and the updated 'size' of the maximum asset switch to be targeted, as contained within the report, be adopted; and

(b) That a further report be received before the end of the year setting out the process that would be followed and outcomes that would be achieved should a trigger be hit.

(iv) In respect of the Housing Investment Update:

(a) That the progression of the three schemes by the Property and Local Investment Team be approved; and

(b) That details of the Fund's housing investment and level of returns be circulated to Members of the Working Group and Advisors.

(v) In respect of Investment Initiatives, that the content of the report be noted, including the actions proposed on additional investment initiatives to be taken by officers in consultation with the Chair.

12. WORKING GROUP APPOINTMENTS

Consideration was given to a report of the Director of Pensions detailing the appointments to the Working Groups.

RECOMMENDED
That the appointments to the Working Groups be noted.

13. MANAGEMENT SUMMARY

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

The Director began by explaining that, in 2016, with assets of £17 billion, GMPF was the 9th largest pension fund in the UK. GMPF was also the largest LGPS fund. With a further year of strong returns, GMPF's assets had subsequently risen to over £21 billion.

It was reported that GMPF's returns were particularly strong in 2016/17 (+23.8%). In addition to large market rises, the Fund also significantly outperformed both its benchmark (+20.7%), and Local Authority peers (+21.4%). GMPF was ranked 7th in the Local Authority universe in 2016/17. GMPF was ranked in the top 10 Local Authority funds over the medium to long term, and was second over 30 years.

The latest funding estimates provided by the actuary gave a ratio of asset to liabilities of 97% at 31 March 2017 and 98% at 8 June 2017 using GMPF's ongoing funding basis. GMPF had a funding level of 105.5% using the standardised assumptions set by the Scheme Advisory Board at 31 March 2016. GMPF was ranked joint 14th best funded out of the 89 LGPS funds to submit results. GMPF's relative funding position was likely to have improved over the period since the valuation date due to the Fund's asset out-performance in 2016/17.

The Director informed Members that following the Grenfell Tower tragedy, a review of all existing fire safety arrangements in properties owned by the Fund, was currently being undertaken.

With regard to Pooling, it was reported that officers from the three Northern Pool funds were jointly undertaking a procurement exercise for a common custodian for the Pool, with a view to having selected a preferred supplier by 1 April 2018.

It was further reported that officers from the three Northern Pool funds had been meeting to discuss all aspects of how Private Equity investment activities could be managed on a joint venture basis. Specialist external legal advice was in the process of being procured with a view to designing and implementing an appropriate legal framework for these activities. A broad investment strategy proposal had been outlined and officers were now turning to the operational aspects of how a pooled approach to Private Equity would work.

In December 2016, GLIL was expanded to include the pooling partners of LPFA and GMPF. Together with an additional £250 million commitment from GMPF, total commitments to GLIL increased from £500 million to £1.3 billion. GLIL and its members were working on a revised structure that would facilitate the admission of additional LGPS funds. This structure would need to be FCA registered and a number of options to achieve that were being evaluated.

It was explained that GMPF had long been committed to investments in housing which met its twin aims of commercial returns and positive local impact. The extension of investment in housing was a key part of pooling proposals and had been well received by Government. The Minister was considering an invitation to the Fund offices and sites to see how GMPF and Northern Pool were leading the way in this sector. Work continued on housing investment through the Matrix model and through mezzanine financing to private sector developers.

In respect of LGPS Investment Regulations, Members were informed that in June 2017, the Government suffered a defeat in the High Court after its regulations on Local Government Pension Scheme (LGPS) investments were deemed unlawful. Statutory guidance referred to by the regulations came into force on 1 November 2016. The guidance permitted ethical and social objections to a particular investment to be taken into account. However, the guidance also stated that administering authorities must not:

'…..*(Use) Pension policies to pursue boycotts, divestment and sanctions ('BDS') against foreign nations and UK defence industries…other than where formal legal sanctions, embargoes and restrictions had been put in place by the Government'.*

or

'pursue policies that were contrary to UK foreign policy or UK defence policy'.

The guidance was subsequently challenged in the High Court by the Palestine Solidarity Campaign (PSC) to overturn the regulations via a judicial review, where it argued the government had acted outside of its powers, and it was 'lacking in certainty'.

It was explained that the High Court judgement supported the Fund's position and the considered way in which the Fund applied social, ethical or environmental factors to investment decisions.

In respect of Financial Conduct Authority (FCA) Asset Management Market Study, it was reported that the findings of the FCA asset management market study were published on 28 June 2017. The final report confirmed the findings set out in the interim report published last year, noting:-

- That despite a large number of firms operating in the market, there was evidence of 'sustained, high profits over a number of years'.
- Investors were not always clear what the objectives of funds were, and fund performance was not always reported against an appropriate benchmark;
- The FCA found concerns about the way the investment consultant market operated.

The remedies the FCA were taking forward were outlined in the report.

Members were given further information with regard to Project Magpie, which concerned one of GMPF's largest private-sector employers, who had proposed to consolidate its two other LGPS arrangements into GMPF. This proposal was considered by the Policy and Development Working Group in February 2017, with the Working Group recommending to Panel at its March meeting that this be approved in principle, subject to certain conditions being met. The consolidation would be effected by a Direction from the Secretary of State and the signing of admission agreements with the two operating companies. A final draft of the Direction was currently out for consultation with the three funds and the employer, with the effective date of the Direction being 1 November 2017.

With regard to the Business Plan, it was reported that Senior Managers of the Fund had been reflecting on what priority projects needed to be focused on to achieve the best outcome for the Fund and to ensure returns were maximised and long term financial sustainability acheived, in order to meet it liabilities in the interests of taxpayers, employers and members alike and the appropriate resources to do this.

A draft Business Plan was set out in an Appendix to the report and the relevant priorities were being discussed at the appropriate working groups.

Mr Bowie made reference to the extensive list of tasks detailed in the Business Plan and encouraged officers to prioritise these tasks.

The Director of Pensions concurred with Mr Bowie and emphasised the importance of setting out clear timescales and the need to understand the Team's capacity. She further explained it had been identified that not all work could be undertaken in-house and, therefore, some external support had been sought.

The Chair thanked the Director and the Team for all their hard work and echoed the importance of prioritising the workload.

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

14. LGPS POOLING UPDATE

The Assistant Director of Pensions, Funding and Business Development, submitted a report providing 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 there were several differences between the Northern Pool and the other LGPS pools, in particular:-

- The Pool consisted of 3 large funds with relatively simple and distinct management arrangements, which meant that the scope for generating further economies of scale in respect of the management of listed assets was limited; and
- The number of participants in the Pool was small enough to allow collective investments to be made in alternative assets via joint ventures, as each fund could be directly involved in the investment decision making process (this approach had worked well to date on the GLIL infrastructure partnership).

It was further explained that the vice-chairs and independent advisors of each of the funds had taken part in a half-day workshop on 28 March 2017, with the benefit of external legal and financial advice at which they considered in detail the Government's pooling requirements and how the funds could operate most effectively in this environment. It was agreed that the majority of the benefits of pooling for the funds in the Northern Pool were in respect of alternative assets where there was greatest scope to generate further economies of scale to combine resources to make increasingly direct investments. It therefore made sense for the Northern Pool to continue focusing resource in this area.

The main on-going areas of work in the Pool were set out in the report.

Members were informed that the Northern Pool had set itself the challenging ambition of financing the construction of 10,000 new homes over the next 3 years, using a wide range of funding approaches. As previously advised (Minute 13 above, refers), the pool had offered to facilitate a meeting with the Minister to demonstrate some of the ongoing work on housing. This would include the Matrix Homes initiative and the provision of mezzanine finance to commercial developers. This demonstration could include site visits to existing and future sites.

RECOMMENDED
That the national pooling developments and the progress of the Northern Pool be noted.

15. INVESTMENT STRATEGY AND TACTICAL POSITIONING 2017/18

A report was submitted by the Assistant Director of Pensions, Investments, and a presentation delivered, reviewing the benchmark asset allocations for the Main Fund and Investment Managers and considered changes to the investment restrictions.

It was reported that the Investment Managers and Advisors believed that the current investment strategy was broadly capable of delivering the required returns over the long term (albeit there were short/medium term caveats). Economic uncertainties remained, with a medium term outlook which could potentially encompass a number of unattractive scenarios. In such circumstances, it was not apparent that any significant changes to the Fund's approach would prove beneficial.

The increasing maturity profile of Fund employers as public sector spending reductions continued, was likely to reduce the tolerance of the Fund to its volatility of returns between years. Hymans Robertson were currently undertaking work with officers on this issue.

Attention would continue to be devoted to the investment issues surrounding the particular circumstances of specific employers as issues raised during the 2016 Actuarial Valuation continued to be followed up.

Members were informed that, historically, the Main Fund benchmark had contained an allocation of 10% to Property. Actual exposure to Property had long under-achieved this target exposure and currently amounted to just over 5.5% of Main Fund assets. It was not considered reasonable to expect La Salle to be able to move too rapidly towards the 10% benchmark allocation. In light of this, it was recommended that, following the approach used for some time for Alternative Assets, a 'realistic benchmark' allocation was used in respect of Property which would rise from 7% to 10% over the coming three years. Separately, 'realistic' benchmarks for Private Equity, Infrastructure funds and Direct UK Infrastructure would be maintained.

One immediate implication of the increasing maturity of the fund was the change in the balance of cashflows between inflows (from employer and employee contributions) and outflows (for pension payments) whereby the latter now significantly exceeded the former with the net outflow growing year by year. The need to fund the increasing investments in Alternative, Property and Local assets and to preserve an appropriate allocation to cash, were likely to necessitate additional withdrawals of assets from the Fund's investment managers.

The assimilation of Probation Assets substantially increased the amount of assets managed by L&G, and over the course of the year the bulk of the aggregate cash requirements would come from that Manager following the July 2016 Panel decision. This would continue to reduce somewhat the post assimilation concentration of assets with L&G to around a quarter of the Fund.

It was concluded that the Fund was now facing a range of strategic and tactical investment related issues, each having their own 'research agenda' in terms of background work, policy formulation and practical implementation. How the Fund addressed these issues and implemented suitable changes would be a critical determinant of its standing in 5 or 10 years time. Members were advised that the Advisors had been consulted initially for their comments on the Managers' submissions, and also through their attendance at the Policy and Development Working Group on 18 July 2017, where detailed discussion on the key relevant points of an initial draft of the report had taken place. They were supportive of the recommendations.

RECOMMENDED
That:

1. **Any requirements for cash to be withdrawn from the securities managers (with the exception of the 10% reduction in Capital's assets under management to partially fund the Multi-Asset Credit manager) to be taken from L&G, until L&G's share of assets is reduced from approximately 30% to approximately 25% of the Main Fund. Any further cash requirements to be withdrawn from UBS.**

2. **Main Fund Overall Asset Allocation**
   (a) **Adjust the Public Equity and Bond weightings pro-rata to take account of the changes in 'realistic benchmark' allocations to Property and Local Investments.** ***[see 6. (b) and 7. (e) below]***

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

4. **Debt Related Investments (inc Bonds)/Cash Allocation**
   (a) **No immediate change to current individual bond benchmark allocations.**
   (b) **No change to the 3.2% allocation to Strategic Cash.**

5. **Alternative Investments**
   (a) **Private Equity: The recommendations of the Alternative Investments Working Group be adopted (minute 24 refers).**
   (b) **Infrastructure: The recommendations of the Alternative Investments Working Group be adopted (minute 26 refers).**
   (c) **Special Opportunities Portfolio: The recommendations of the Alternative Investments Working Group be adopted (minute 13 refers).**

6. **Property**
   (a) **Maintain the long term target allocation to property at 10% of total Main Fund assets, broadening the range of approaches to obtaining the target 10% exposure.**
   (b) **Phase in 'realistic benchmark' allocations to reflect the forecast investment programmes and movement towards the 10% target, as follows :**

	31 March 2017 Actual Position	2017/18 Realistic% Range% Cash flow	2018/19 Realistic% Range% Cash flow	2019/20 Realistic% Range% Cash flow
Main Portfolio External	3.25%	4 3-5 £150m-£250m	5 4-6 £150m-£250m	6 5-7 £150m-£250m
Indirect	1.51%	1 0-2 (£0m)-(£25m)	1 0-2 (£0m)-(£25m)	1 0-2 (£0m)-(£25m)
Overseas	0.52%	1 0-2 £50m-£150m	1.5 1-3 £50m-£150m	2 1-3 £50m-£150m
Other	0.26%	0.5 0-1 £25m-£75m	0.75 0-2 £25m-£75m	1 0-2 £25m-£75m
Total	5.54%	7 6-14 £225m-£450m	8 6-14 £225m-£450m	10 6-14 £225m-£450m

7. Local Investment

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

(b) Recognise that whilst the strategic allocation to Direct UK Infrastructure of 5% previously agreed is managed by the local team it forms part of the overall allocation to infrastructure.

(c) Reflect the changes in the way in which the GMPVF is being managed and the priority given to housing investment by combining the two previous allocations.

(d) Reflect the consolidation of I4G and impact portfolios and recognise opportunities for increased deployment to be overseen by the Policy and Development Working Group.

(e) Continue to phase in 'realistic benchmark' allocations to reflect the re-set investment programmes and movement towards the respective targets, as follows:

	2017/18 Realistic% Range% Cash flow	**2018/19 Realistic% Range% Cash flow**	**2019/20 Realistic% Range% Cash flow**
GMPVF and housing	**1.5 1-2 £100m**	**2 1-3 £100m**	**2.5 2-3 £100m**
Impact Portfolio and legacy I4G	**1 0.5-1.5 £50m**	**1.25 0.75-1.75 £50m**	**1.5 1-2 £50m**
Total	**2.5 1.5-3.5 £150m**	**3.25 1.75-4.75 £150m**	**4 3-5 £150m**

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

16. REVIEW OF INVESTMENT MANAGEMENT ARRANGEMENTS

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

It was explained that the contracts with both the Fund's active multi-asset Securities Managers (Capital International and UBS) contained fee arrangements which covered the three year period ending 31 March 2017. The end of the three year fee cycle provided a natural break-point for the initiation of a review of the Investment Management arrangements of the Fund.

However, at the meeting of the Panel on 11 March 2016, it was resolved to extend the fee arrangements with Capital and UBS by twelve months to 31 March 2018, given the uncertainty at the time in relation to LGPS pooling. It was now necessary to commence the review of Investment Management arrangements in order that an agreed way forward would be in place with effect from 1 April 2018. The roles of Capital and UBS for the Fund would need to be considered in parallel with the more fundamental review of Investment Management arrangements.

It was further explained that Hymans Robertson, Actuary to the Fund, were assisting with the review of Investment Management arrangements and it was anticipated that, as part of the review, reports would also be brought to the September and November Panel meetings.

Mr Marshall of Hymans Robertson then delivered a presentation which set out an introduction to the structural review in the following three main sections:

The 'Helicopter View'
Mr Marshall began by explaining that there would be many ways for the Fund to achieve 'success', with the preferred way being guided by a combination of regulation, investment principles and the beliefs of the organisation responsible for delivering success.

The Fund's strategic evolution would depend largely upon the funding basis that could be targeted as 'steady state' (i.e. when the Fund was fully funded on an acceptable basis, contributions were at an affordable level and Fund's assets expected returns were sufficient to deliver the benefits accrued).

The Fund's strategy was expected to evolve over time, reducing its exposure to equity markets with a greater allocation to higher 'yielding' assets; this was a trend that the fund had already been following over recent years. Any structural decision should take into account this anticipated strategic evolution.

Current investment arrangements and focus
Members were informed that the Fund's current asset allocation (based on strategic 'building blocks') was 61% equities, 20% enhanced yield, 6% credit and 13% protection. Using these building blocks gave clarity on the roles that different asset classes performed in the Fund's investment arrangements.

The majority of the Fund's assets, including all the equities and fixed income assets, were managed externally. It was these externally managed mandates that would be the main focus of the review.

Investment beliefs
It was explained that investment beliefs helped set out the Fund's long-term objectives as well as the strategic and structural decisions relating to these objectives. Given their importance, it was recommended that, over the next 12-24 months, the Fund's Beliefs Statement be reviewed and updated to reflect the current position of the Fund.

Mr Marshall also focused on the strategic direction of travel and the aim to be fully funded on a basis that offered the ability to run a lower risk portfolio but also on a funding basis that maintained an affordable level of future service contributions.

The Advisors commented on the notion of 'steady state' and sought clarification in respect of aims and objectives going forward now that the Fund was nearly 100% funded and asked if the funding target should not now be higher, given the maturing nature of the Fund and the risks associated with this.

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

17. PERFORMANCE DASHBOARD

Consideration was given to a report of the Assistant Director of Pensions, Investments, providing three illustrative high level reports generated by Portfolio Evaluation.

The first report gave a high level overview of Main Fund performance measured against overall benchmark performance over various time periods extending up to 10 years. The second report provided a Main Fund analysis by Securities Manager, and the third report provided a Main Fund analysis by Asset class. Portfolio Evaluation produced a large number of further reports which allowed officers to 'drill down' into much more detailed analysis of performance.

The illustrative reports provided the performance of all investment areas of the Main Fund including a single page view of performance, giving a sense of the fund as a whole and highlighting important drivers of Main Fund return.

It was further reported that Hymans Robertson were assisting officers in the development of the Performance Dashboard, and a draft version was attached to the report for consultation with the Panel.

RECOMMENDED
That the content of the report be noted.

18. QUARTERLY REPORTS OF THE DIRECTOR OF PENSIONS

(a) Summary Valuation of the Pension Fund Investment Portfolio as at 31 December 2016 and 31 March 2017

A report of the Assistant Director of Pensions, Investments, was submitted, detailing and comparing the market value of the Fund's investment portfolio as at 31 December 2016 and 31 March 2017.

RECOMMENDED
That the report be noted.

(b) External Managers' Performance

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

It was noted that in the quarter to 31 March 2017, Capital had outperformed by 1.4% against their benchmark index of 5.8%. UBS had underperformed by 0.1% against their benchmark index of 3.9%, and Legal & General had broadly succeeded in tracking their benchmark.

Performance figures for the twelve months to 31 March 2017 were detailed which showed that Capital had underperformed their benchmark by 0.4% and UBS had significantly outperformed their benchmark by 5.2%. Legal & General had broadly succeeded in tracking their benchmark.

RECOMMENDED
That the content of the report be noted.

19. ANNUAL PERFORMANCE REPORTS

(a) Long Term Performance 2016/17 – Main Fund & Active Multi-Asset Managers

Consideration was given to a report of the Assistant Director of Pensions, Investments, which advised Members of the recent and longer term performance of the Main Fund as a whole and of the external active multi-asset Fund Managers. Detailed results covering periods up to 30 years were given.

It was reported that the Main Fund was in the top 10% of the Local Authority Pension Funds surveyed over 30 years and was the second best performing Local Authority Fund over the 30 year period.

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

(b) Cash Management

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

The report concluded that the Pension Fund's cash had been generally well managed. Performance in 2016/17 exceeded market returns and total interest received was £3.0 million.

(c) Long Term Property Performance (Including IPD Review of the Main UK Property Portfolio for 2016)

The Assistant Director of Pensions, Local Investments and Property, submitted a report, which advised Members of the recent and longer term investment performance of:

(i) the 'LaSalle Managed Portfolio' (comprising directly-owned properties and 'specialist' indirect property funds now managed externally by LaSalle Investment Management); and Direct Property Portfolio (comprising directly owned properties and 'Specialist' Indirect Funds now managed externally by LaSalle Investment Management); and

(ii) the 'UK Balanced Property Pooled Vehicle Portfolio' and 'Overseas Property Portfolio' (both managed by the Director of Pensions.

It was reported that, after several years of good relative performance against other asset classes, returns for UK commercial property dipped in 2016, with concerns over pricing levels and future occupational demand as the current real estate cycle moved towards its later stages, having peaked in 2014. These concerns were exacerbated by the UK's decision to leave the European Union (EU). Therefore, caution was being taken with regard to current investment activity.

The longer term under-investment to property by GMPF had been generally detrimental to the Fund's overall performance and the main portfolio had lagged its IPD benchmark over all timeframes. La Salle was now in its third year of managing the main portfolio and had made steady progress in turning performance around, with performance this year more or less matching the benchmark overall. The Fund's directly held properties had outperformed the benchmark, but the specialist indirect funds had dragged performance and remained a concern for both LaSalle and the in-house property team. The internally managed UK balanced portfolio had done well in recent years, although overall it slightly underperformed its benchmark in 2016, with two of the retail funds, managed by Aviva and Standard Life fairing the worst. It was too early to monitor performance for the overseas portfolio.

RECOMMENDED
(i) That the content of the report be noted; and
(ii) That LaSalle present to the next meeting of the Panel in September, on their past performance and future strategy.

20. REPORTS OF THE MANAGERS

The Assistant Director of Pensions, Investments, submitted a report giving details of the Management reports of Capital International, UBS Asset Management and Legal & General for the latest quarter.

The Chair then introduced Malcolm Gordon, Jonathan Davies and Steve Magill of UBS Asset Management, who would be presenting before Panel today.

Mr Davies began by reporting on a positive 12 months with the portfolio outperforming the benchmark by over 5%.

In respect of the market background, it was explained that most asset classes had performed very strongly over the last 12 months, and that a large part of this was due to exchange rate changes, triggered by Brexit.

In respect of multi asset performance, a strong outperformance from UK equities was reported, with a mixed relative performance from overseas equities. Concerns were expressed that Europe ex UK should have performed better.

The long-term return objective examined the efficiency of the main fund portfolio and its ability to meet its objective.

Mr Davies commented that the long-term return objective should be achievable particularly if managers outperformed their benchmarks.

Mr Davies further commented on interest rates and that UBS was underweight bonds and awaiting opportunities to buy once interest rate expectations have risen.. The possible causes of abnormally low interest rates were explored.

In respect of a Global Equity Valuation, it was explained that, prices were estimated as close to fair value, with a strong price/value discrepancy signal between the US and the rest of the world.

It was summarised:-

- that the current low rate environment was a challenge but long-term targets were still achievable;
- It was not expected that low interest rates would persist indefinitely;
- Avoid assets which were likely to underperform when interest rates normalised; and
- Concentrate exposures where relative value lies.

Mr Magill then commented on UK Equity performance, which had performed very well over the 12 month period. He added that performance was expected to continue to be cyclical in the future.

Stock attribution for the 12 months to 31 March 2017 was detailed and discussed. It was explained that UK banks were the largest overweight in the portfolio and that banks were, in general, in better shape with stronger balance sheets post financial crisis, better cost control and more shareholder focused management.
The top 5 overweight and underweight sector positions were also outlined.

Mr Moizer disagreed with UBS's stance on interest rates and expressed his view that the prospect of a chaotic Brexit was high.

Members sought further clarification with regard to the changing business model of banks amid competition from the internet and the greater risk of a divergence from their traditional way of working.

Mr Magill, in his response, explained that the banking sector was a highly regulated industry and that, on the whole, people were quite careful about moving their bank accounts and, generally, they wanted the stability of a well-established bank.

Mr Gordon then advised Members of a European Equity proposal, where the responsibilities of the UK Value Team were expanded to include management of European equity strategy. This was believed to be in the best interests of the Fund.

The implementation process was explained and key risks and questions were addressed.

Clarification was sought that this would not dilute the 'value' approach. Mr Magill assured Members that investment philosophy and process would not change.

Ms Brown sought reassurance that the UK Team knew the European Market as well as they needed to.
Mr Magill advised that, the UK Team aimed to ensure that shares were bought very cheaply, so that there was a significant 'margin of safety'. He added that there was a belief that the strategy would be successful in Europe.

Mr Moizer enquired as to the position of the European Team going forward.

Mr Magill explained that the analysts would continue as they had always done and be used as a resource, with the UK Team assuming the Portfolio Manager role.

RECOMMENDED
(i) That the content of the presentation be noted; and
(ii) That the European Equity Proposal, as detailed in the presentation and above, be agreed.

21. GMPF STATEMENT OF ACCOUNTS AND ANNUAL REPORT 2016/17

The Assistant Director of Pensions, Local Investments and Property, submitted a report for information, giving details of:

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

RECOMMENDED
(i) That the completion of governance arrangements for the approval of GMPF's accounts be noted;
(ii) That the Audit Findings Report from Grant Thornton be noted; and
(iii) That the Annual Report be approved.

22. PENSIONS ADMINISTRATION UPDATE

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

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

RECOMMENDED
That the content of the report be noted.

23. FUTURE TRAINING DATES

Trustee Training opportunities were noted as follows:

UBS Trustee Training Day Hilton Hotel, Deansgate, Manchester	9 August 2017
LGC Investment Summit Celtic Manor, Newport	7-8 September 2017
Fundamentals Training Park Plaza Hotel, Leeds	
Day 1	4 October 2017
Day 2	1 November 2017
Day 3	5 December 2017
PLSA Annual Conference Manchester Central	18-20 October 2017
LAPFF Annual Conference Highcliffe Marriott, Bournemouth	6-8 December 2017

Special Event for note – GMPF Stakeholder Event – 19 October 2017 at Gorton Monastery

24. 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	22 September 2017
	17 November 2017
	23 March 2018
Local Pensions Board	24 July 2017
	19 October 2017
	14 December 2017
	29 March 2018
Pensions Administration Working Group	13 October 2017
	19 January 2018
	6 April 2018

Investment Monitoring & ESG Working Group	13 October 2017 19 January 2018 6 April 2018
Alternative Investments Working Group	20 October 2017 26 January 2018 13 April 2018
Property Working Group	28 July 2017 27 October 2017 2 February 2018 20 April 2018
Policy and Development Working Group	5 October 2017 1 February 2018 22 March 2018
Employer Funding Viability Working Group	28 July 2017 27 October 2017 2 February 2018 20 April 2018

CHAIR