

GREATER MANCHESTER PENSION FUND - INVESTMENT MONITORING AND ESG WORKING GROUP

14 July 2017

Commenced: 10.00 am

Terminated: 12.00 pm

Present: Councillors Taylor (Chair), Ricci, Brett, Grimshaw, Mitchell, Pantall, Mr Allsop and Mr Llewellyn

In Attendance:

Steven Taylor	Assistant Director of Pensions (Investments)
Tom Harrington	Senior Investments Manager
Michael Ashworth	Investments Manager
Abdul Bashir	Investments Manager
Raymond Holdsworth	Investments Manager

Apologies for Absence: Councillor Middleton

1. DECLARATIONS OF INTEREST

There were no declarations of interest.

2. MINUTES

The Minutes of the meeting of the Investment Monitoring and ESG Working Group held on 7 April 2017 were approved as a correct record.

3. UBS CORPORATE GOVERNANCE REVIEW

The Working Group welcomed Malcolm Gordon and Paul Clark of UBS who attended the meeting to present Corporate Governance activity over the past 12 months. There had been some structural changes to the team, such as the appointment of Michael Baldinger as Head of Sustainable and Impact Investing.

The role of Sustainable Investing at UBS Investment Management was outlined to the Group. UBS defined Sustainable Investing as a set of investment strategies that incorporated material environmental, social and governance (ESG) considerations into investment decisions. These strategies typically sought to reach one or more of the following objectives:-

- Improving portfolio risk/return characteristics
- Achieving a positive environmental or social impact alongside financial returns
- Aligning investments with stated values

It was explained that regulatory requirements were increasing with an increased focus on shareholder responsibility. Voting was an important part of the oversight process and UBS had been engaging with companies and voting on behalf of clients for over 20 years. The mechanisms of active engagement were listed and explained to the Group.

The most important governance factors for UBS were confirmed as strategy, quality and skillset of the Board and Management, succession planning, operational performance, risk management, reputation and remuneration.

The Working Group was provided with information on annual global voting activity up to 30 June 2017 and examples of key votes were discussed with the group.

RECOMMENDED:

That the report be noted.

4. UBS REVIEW OF TRADING COSTS

The Assistant Director of Pensions (Investments) submitted a report to facilitate Member's scrutiny of UBS's approach and practice to trading costs. UBS's 'level one' and the Fund's 'level two' disclosure reports for the period 1 January 2016 to 31 December 2016, were appended to the report and considered by the Group.

Malcolm Gordon, UBS, presented GMPF's trading costs report for the 12 month period ending 31 December 2016. It was reported that the 'level two' report had been reviewed by officers of the Fund and questions arising from the review had been satisfactorily answered by UBS.

RECOMMENDED:

That the report be noted.

5. UPDATE ON ACTIVE PARTICIPATION IN CLASS ACTIONS

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

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

It was reported that the Fund had joined an international litigation; a report outlining the lawsuit was appended to the report and considered by the Group. Due to the short deadline for participation, approval to join the litigation was given by the Director of Pensions who had delegated authority under the Constitution. It was explained that the key contact and team who were dealing with this litigation had moved from the current global monitoring service provider (SRKW) to Labaton Sucharow and officers recommended that the Fund appoint Labaton Sucharow to provide portfolio monitoring services of shareholder litigation to replace the current appointment of SRKW.

The Working Group were informed that where possible decisions as to whether to take an active role in future class action litigation would be brought to the Investment Monitoring and ESG Working Group meeting and/or Panel dependent on the particular timeframes. In exceptional circumstances future decisions in relation to the Fund taking an active role in litigation would be at the discretion of the Director of Pensions who has delegated authority to bring proceedings or to authorise the same, in consultation with the Chair of the Fund.

RECOMMENDED:

- (i) That the report be noted;**
- (ii) That the Fund appoints the specialist law firm Labaton Sucharow to provide portfolio monitoring services in relation to shareholder litigation to replace the current appointment of SRKW; and**

- (iii) **That where time permits, decisions as to whether to take an active role in litigation be brought to the Investment Monitoring and ESG Working Group, and/or Panel, and in exceptional circumstances, such decisions be at the discretion of the Executive Director of Pensions, in her capacity as Solicitor to the Fund, who has delegated authority to bring proceedings or to authorise the same, in consultation with the Chair of the Fund.**

6. ROUTINE PIRC UPDATE

The Working Group welcomed Alan MacDougall and Janice Hayward of PIRC Ltd, who attended the meeting to present PIRC's report, entitled 'Administering Authorities, Pooling and ESG Matters', a copy of which was appended to the report.

Mr MacDougall listed the LGPS Responsible Investment milestones, which included:-

- The Environmental Investor Code 1990
- Yorkshire Water 1991
- British Gas 1995
- Shell & Brent Spar 1997
- LGPS funds advocate for shareholder vote on Executive Pay 1999
- Political Donations 2000
- LGPS Funds Active on the Micro-Agenda 2002-08
- LAPFF Trustee Guide on Asset Managers' Engagement 2006
- LAPFF Reviews Audit Committee Practices 2007
- First Group USA Employees Dispute 2008
- Marks and Spencer Chairman 2009
- LAPFF Tackles IFRS Failures on Bank Liabilities 2011

The responsibilities and approaches towards Responsible Investment and the LGPS Regulations were outlined to the Group. There were three levels of administering authority approaches; compliance, good practice and high conviction. Flow diagrams showing the investment process and decision track, including the related ESG process, were detailed in the report and explained to the Group.

It was reported that a pension fund adopting a High Conviction strategy for Responsible Investment would need appropriate expert advice and third party support to facilitate their ESG policies, the extent of which would vary according to the depth and extent of the ESG strategy and the impact they were trying to achieve. Policy development, determination of operational practices, ESG research, bespoke voting and reporting services and engagement support and facilitation were of particular importance.

RECOMMENDED:

- (i) **That the report be noted; and**
(ii) **A further report be sent to Panel proposing a strategy and timescales for the Fund to achieve the highest standards**

7. STOCKLENDING, COMMISSION RECAPTURE AND UNDERWRITING

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

It was reported that Capital International did not participate in underwriting activity and the Fund did not participate in any sub-underwriting via UBS in the quarter ended March 2017. Stocklending

income during the quarter was £127,940, compared to £92,666 in the same quarter of 2016, and Commission 'recaptured' was £24,153, compared to £26,570 in the same quarter of 2016.

The report outlined that income generated from these activities was very sensitive to market conditions, therefore the amounts generated were expected to vary from one quarter to another, and from one year to another.

RECOMMENDED:

That the report be noted.

8. URGENT ITEMS

There were no urgent items.