GREATER MANCHESTER PENSION FUND

POLICY AND DEVELOPMENT WORKING GROUP

5 October 2017

Commenced: 2.30pm		**Terminated: 3.50pm**
	Councillor K Quinn (Chair)	
	Councillor Cooney	
	Councillor S Quinn	
	Councillor Taylor	
	Councillor Pantall	
	Sandra Stewart	**Director of Pensions**
	Steven Taylor	**Assistant Director of Pensions (Investments)**
	Paddy Dowdall	**Assistant Director of Pensions (Local Investments and Property)**
	Euan Miller	**Assistant Director of Pensions (Funding and Business Development)**
	Tom Harrington	**Senior Investments Manager**
	Dan Hobson	**Senior Investments Manager**
	Andrew Hall	**Investments Manager (Local Investments)**
Apologies for absence:	**Councillors J Fitzpatrick, J Lane and M Smith**	

8. DECLARATIONS OF INTEREST

There were no declarations of interest.

9. MINUTES

The Minutes of the proceedings of the meeting of the Policy and Development Working Group held on 18 July 2017, having been circulated, were agreed as a correct record.

10. INVESTMENT MANAGEMENT ARRANGEMENTS

A presentation was delivered by Mr Harrington, Senior Investments Manager, providing Members with an update in respect of implementation plans relating to a recommendation of the Management Panel on 22 September 2017.

Mr Harrington outlined the proposed implementation plan, key milestones and potential risks.

Detailed discussion ensued particularly in respect of potential risks and the factors influencing the timing of the implementation plan.

RECOMMENDED
That the content of the presentation be noted.

11. MANAGER MONITORING REGIME INCLUDING MONITORING ESCALATION

The Assistant Director of Pensions, Investments, submitted a report detailing the Fund's approach to manager monitoring and summarised the results from the Monitoring Escalation Protocol as at 30 June 2017.

The overall status levels and courses of action taken (or to be taken) in relation to the results from the most recent Monitoring Escalation Protocol were summarised within the report.

It was explained that the Manager Escalation Protocol included performance as the sole metric by which the Securities Managers were initially assessed. There were a number of less quantitative, softer dimensions which could be used to form a view on the manager's prospects of outperforming going forward. These would include the quality of the staff and turnover of key personnel, a coherent and robust approach to linking the underlying philosophy of investing to the actual purchases and sales made, and the underlying investment philosophy itself.

It was further explained that the triennial review of Investment Management arrangements for the Fund commenced at the Panel meeting on 21 July 2017. All of the Fund's mandates and arrangements would be reviewed in detail as part of this process. The review was scheduled to continue over the following two Panel meetings to take place in September and November 2017.

The report concluded that the enhancements to the Fund's arrangements as set out in the report represented a work in progress. Officers were calibrating the parameters of the Manager Escalation Protocol.

It was further noted that the Fund's approach to Manager Monitoring and Management Information may need to change over the next 12 to 18 months in light of developments in relation to pooling and experience of any revised arrangements implemented.

Discussion ensued with regard to the information provided in the report and the Chair raised concerns that the current Red Amber Green (RAG) system of analysis was potentially misleading.

The Director of Pensions explained that the system was based on risk adjusted performance and that a number of options were being considered by Officers to enhance the clarity of the analysis, which would be reflected in future reports.

The Chair further sought performance information for each Manager since inception, where longer term information was not yet available. It was agreed that this enhancement would also be reflected in future reports.

RECOMMENDED
That the content of the report be noted.

12. RESPONSE FROM GOVERNMENT TO THE SPRING PROGRESS REVIEW

Consideration was given to a report of the Assistant Director of Pensions, Funding and Business Development, providing progress on the Government's pooling agenda.

It was reported that, on 22 August 2017 pools had received a letter from DCLG, which was also signed by the Chief Secretary to the Treasury and the Cabinet Office, a copy of which was appended to the report. The letter reiterated the Government's previously stated objectives and confirmed that pools would be asked to submit further progress reports in October, covering the period up to the end of September 2017.

The letter stated that the October update should contain 'further details of savings achieved as planned, as well as plans for reporting, including on fees and net performance by asset class'. It was envisaged that much of that information would be collated via the CEM benchmarking work that had been agreed at pool Shadow Joint Committee meetings, however CEM's indicative timescales suggested this may not be available by the end of October.

It was further reported that on 4 September, DCLG issued a template for the October progress update, a copy of which was also appended to the report. It was noted that the deadline for responses was 20 October 2017.

In terms of meeting the Pooling Criteria, Members were informed that, at the workshop on 28 March 2017, the Chairs, Vice-Chairs and independent advisors of each of the funds in the Northern Pool considered in detail the Government's pooling requirement and how the funds could operate most effectively in that environment.

Squire Patton Boggs had delivered a presentation setting out the current legislative framework for LGPS investments and their understanding of the requirements imposed by the new LGPS Investment Regulations, pooling guidance and the related letters issued by DCLG Ministers. An overview of Financial Services legislation and relevant exemptions was also provided.

From a regulatory perspective, LGPS funds were required to pool their assets in order to meet Regulation 7(2)(d) of the 2016 LGPS Investment Regulations. This regulation required administering authorities to set out their 'approach to pooling investments, including the use of collective investment vehicles and shared services' in their investments Strategy Statement. The accompanying statutory guidance to the 2016 regulations suggested that it was up to administering authorities rather than Government, to determine that they met the investment reform criteria and guidance.

A link to the full criteria and guidance for pooling was provided in the report. It was explained that letters from Government had sought to clarify the criteria, in particular that Government expected a 'single legal entity' at the heart of each of the pools and that all pools should have an FCA regulated operator. However, these requirements were not explicitly stated in the Criteria and Guidance. It should also be noted that what does or does not constitute 'pooling' or 'a pool' was not clearly defined.

It was clear that the Northern Pool and LPP via the GLIL vehicle continued to lead the way in the LGPS regarding direct infrastructure investment and it was also likely that the Northern Pool would be the lowest cost at outset, if measured on a like-for-like basis. It should therefore be relatively straightforward for the participating administering authorities to determine that the infrastructure and value for money criteria were met.

Members were informed that the pooling agenda in the LGPS and the Northern Pool's agreed approach had been drafted for tabling at the forthcoming meeting of the West Yorkshire Combined Authority and the draft report was discussed at the most recent Northern Pool. It was proposed that similar report may also be tabled at the respective combined authority meetings in Greater Manchester and Merseyside in order to seek support for the Northern Pool's agreed approach.

Discussion ensued with regard to the above and the Chair requested that a report be submitted to the next meeting of the Working Group setting out the protocol and governance arrangements for the Northern Pool. The Director of Pensions agreed and added that officers were in the process of setting up a website for the Northern Pool, details of which would also be reported at the next meeting of the Working Group.

RECOMMENDED

(i) That the content of the report, including the letter received from Government and the template for the October progress report, be noted; and

(ii) That governance arrangements for the Northern Pool be reported to the next meeting of the Working Group.

13. INVESTMENT INITIATIVES

The Assistant Director of Pensions, Local Investments and Property, submitted a report providing an update on progress with specific investment initiatives, including the Impact Portfolio and GLIL. Members were further asked to note certain specific actions which had been taken under delegated authority following consultation with the Chair.

RECOMMENDED
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.

14. IMPACT PORTFOLIO INVESTMENTS

Consideration was given to a report of the Assistant Director of Pensions (Local Investments and Property), detailing activity in the growth and management of the Fund's Impact Portfolio and recommended that the strategy of impact investing be continued with pacing of commitments of £85 million per annum for 2017, 2018 and £80 million per annum for 2019, 2020 and 2021. It also requested approval for amendments to be the Investment Guidelines including the pacing strategy.

RECOMMENDED
(i) That the content of the report be noted, including progress to date and that the strategy on impact investments remains as reported in previous years; and
(ii) That the amendments to the Investment Guidelines be approved including the pacing model and specifically the 5 year pacing strategy subject to annual review of £85 million per annum for 2017, 2018 and £80 million per annum for 2019,2020 and 2021.

15. HOUSING INVESTMENT UPDATE

The Assistant Director (Local Investments and Property), submitted a report updating Members on progress with Housing Investments. Housing investments were a key feature of both GMPF's local investment strategy and the Northern Pool response to the government on the pooling agenda.

It was reported that progress was generally satisfactory and key action points over the next few months were highlighted as follows:

- Procurement exercises for Matrix 2;
- Progression by Tameside Place Directorate on land sales; and
- Engagement with Merseyside Councils.

It was explained that Working Group Members had expressed concerns over the level of reporting in the Fund's housing investments. The investments were largely at an early stage of deployment and therefore there were issues with financial reporting so, as an interim measure, information had been produced and was appended to the report. This provided an analysis of these investments and showed both the latest financial position and the position on the numbers of homes planned/completed.

The report concluded that, to date, the investment by the Fund had facilitated 284 homes to be built, with a further 236 currently under construction. Due diligence was being carried out on additional housing investments that if progressed, would deliver a further 3,863 homes.

The Assistant Director added that he had attended a meeting with TfGM, who were keen to replicate the Matrix Homes model and were currently seeking a partner.
Members raised concerns in general in respect of the size/room dimensions of new build homes and building conversions.

The Chair acknowledged the concerns raised and requested that a set of standards be agreed with the joint venture partner going forward and that this be the subject of a report to the next meeting of the Working Group.

RECOMMENDED

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

(ii) That a set of standards for size/dimensions of new build homes and building conversions be agreed with the joint venture partner and a report be submitted to the next meeting of the Working Group.

16. FINANCING ARRANGEMENTS FOR GUARDSMAN TONY DOWNES HOUSE

A report of the Assistant Director of Pensions (Local Investments and Property) was submitted, advising Members that an opportunity existed for the Fund to 'sell' Guardsman Tony Downes House to the administering authority and for the Pension Fund to be the tenant on a long lease-type of arrangement.

The report explained how this could bring financial advantages to both parties.

It was further explained that if the Council were to take ownership of the building on its balance sheet and receive rent from the Fund for its occupation, as opposed to it being a Fund investment owned by Tameside as administering authority, there would be a financial benefit to both the Fund and Council. This was essentially due to the cost of capital for the Pension Fund (i.e. its expected rate of return being higher than the rate at which the Council could borrow and much higher than the return than the Council received on its reserves).

Discussion and negotiation had been carried out between officers with a joint desire to find an arrangement that offered reasonable financial returns for each party. The Council and the Pension Fund had jointly commissioned an independent valuation of the building. The indicative value was around £14-£15psqft for the office accommodation and £7 million for the capital value following formal confirmation from the external valuer.

Members were further informed that the ground floor had not yet been developed. It was originally planned that the Pension Fund would pay to bring the ground floor into use but given that the expected occupier would be the Council, and it would be the landlord under the proposed financing arrangement, then it would be more appropriate for the Council to carry out the necessary works (the alternative would be for the Pension Fund to carry out works and for the Council to pay a higher price for the building). At this stage it was recommended that a sum of £1.4m be set aside in the capital investment programme for these works. A future report would be considered by the Council if the sale was approved. The development of the ground floor was beneficial to the Fund's occupation from a security and public realm perspective.

From Tameside's perspective as the administering authority for GMPF, it was a major risk that occupation of Guardsman Tony Downes House by GMPF would not be secured in the form of a binding lease agreement. This was because the Council could not enter into legal agreements with itself. There was the possibility that at some point over the next 25 years the Pension Fund no longer wished to occupy the building. In order to protect its position, the Council would be seeking a commitment from the Pension Fund that if it moved out of Guardsman Tony Downes House it would pay Tameside Council a sum equivalent to the NPV of the total annual passing rent for the period beginning on the date of vacation of the building to the 25th anniversary of the date the Council 'purchased' the building (currently assumed to be 1 January 2043 and discount rate for NPV purposes 5.2%).

The proposal had been tested with the external auditor for the Fund and Council and they did not object to the proposals in principle, but it would be confirmed with them when final terms were agreed.

The report concluded that the construction of the Pension Fund building had been completed broadly on time and on cost and the building had been well received.

The environment since the original plan for the financing of the building and the use of the ground floor space had changed significantly.

The options of the Council taking the building onto its balance sheet and charging GMPF a rent for use whilst GMPF completed ground floor space in advance of the specific occupier fit out requirements had a number of compelling advantages

- Provided a practical solution for use of remaining space within the building;
- Provided a financial benefit to the Fund; and
- Provided a financial benefit to the Council.

The rationale and implications of this proposal had been discussed with the Council's and Fund's auditors. Neither auditor had objected to the proposal set out in the report in principle, subject to final confirmation of terms.

RECOMMENDED

(i) The sale of Guardsman Tony Downes House for £7.0 million to the administering authority, Tameside Metropolitan Borough Council, be approved and the Fund committing:

(a) To the payment of an annual rent with effect from the 1 January 2018 to the Council of £384,250 per annum, with upward annual reviews linked to RPI, plus service charges for the running of the building and for cyclical maintenance of plant and equipment; and

(b) That in the event that the Fund vacates the building before the expiry of 25 years, it will pay the Council a sum equivalent to the total annual passing rent for the period beginning on the date of vacation of the building to the 25th anniversary of the date the Council 'purchased' the building (currently assumed to be 1 January 2043 and discount rate for NPV purposed 5.2%).