

# GREATER MANCHESTER PENSION FUND - INVESTMENT MONITORING AND ESG WORKING GROUP

Friday, 13 October 2017

**Commenced:** 10.00 am

**Terminated:** 11.35 am

**Present:** Councillors Taylor (Chair), K Quinn, Ricci, Brett, Grimshaw, Pantall 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
Iain Campbell	Investments Manager
Raymond Holdsworth	Investments Manager
Lorraine Peart	Investments Officer

**Apologies for Absence:** Councillor Mitchell and Mr Allsop

## 9. DECLARATIONS OF INTEREST

There were no declarations of interest.

## 10. MINUTES

The Minutes of the Investment Monitoring and ESG Working Group held on 14 July 2017 were approved as a correct record.

## 11. INVESTEC PORTFOLIO MONITORING

The Working Group welcomed Stephen Lee and Jonathan Parker of Investec who attended the meeting to present Greater Manchester Pension Fund's (GMPF) investment activity for periods to 30 June 2017. An extract of Investec's latest quarterly report was appended to the report.

Investec adopted a '4Factor' investment philosophy and process to managing GMPF's portfolio. Companies were scored against the four factors of; Strategy, Earnings, Technicals and Value. Those companies who scored highly against these were subject to detailed fundamental research by an experienced team of analysts and portfolio managers and reviewed on a weekly basis for possible purchase, which should drive portfolio outperformance in the long term.

Investec's performance for Quarter Two and for the 12 months to 30 June 2017 was reported. The drivers of performance were strong equity returns, a broadening out of economic growth throughout the year and sector returns. The portfolio was diversified with stocks that fell within a number of themes, including:-

1. Economic Recovery
2. Semi-conductor cycle strength
3. Electric vehicle growth

A performance review for 2016-2017 was provided. The key drivers of the portfolio's relative performance were stock selection and Investec's philosophy, both of which had contributed to the recent good performance.

A performance analysis of the top five positive and top five negative stock and industry attributions over the 12 month period to 30 June 2017 were outlined to the group and details of significant transactions were provided. Sector positions and regional allocations alongside the portfolio's tracking error were also outlined.

With regards to the '4Factor' process, Strategy and Technical factors had performed well although Earning and Value factors had been a drag on performance. While there had been some underperforming sectors, this was outweighed by positive performance elsewhere.

**RECOMMENDED:**

**That the report be noted.**

## **12. CAPITAL INTERNATIONAL CORPORATE GOVERNANCE REVIEW**

The Working Group welcomed Stephen Gosztony, Richard Carlyle, Rob Beale and Alison Fletcher of Capital International who attended the meeting to report on corporate governance activity (non-UK) for the past 12 months.

Mr Carlyle provided a case study for renewable energy, which detailed the energy transition, implications for the environment, the growth in renewable energy, governance and capital allocation. He explained that the energy transition from the old utility world to the new utility world would impact people and businesses, and energy generation would need to become cleaner. The sources and location of greenhouse gas emissions were outlined with 40% of emissions coming from China, US and Europe mainly from energy, agriculture and industrial sources.

It was reported that European policy had supported the installation of solar and wind energy. In-between 2005 – 2015 Europe had been one of the fastest growing regions for renewable energy, and during the summer months of 2017 in the UK, 52% of energy came from renewables.

A wide ranging discussion took place on the contents of Capital's presentation.

A summary of proxy voting activity for the 12 months to August 2017 for the Greater Manchester Pension Fund (GMPF) and Capital International Emerging Markets Fund was provided. For GMPF, there had been 3242 proposals at 247 worldwide company meetings; Capital had voted with management on 92.5% of occasions with 11 abstentions and 232 votes against management recommendations.

**RECOMMENDED:**

**That the report be noted.**

## **13. CAPITAL INTERNATIONAL REPORT ON TRADING COSTS**

The Assistant Director of Pensions (Investments) submitted a report to facilitate Members' scrutiny of Capital International's approach to, and practice with regard to, trading costs by considering their 'level one' and 'level two' disclosure reports for the year to 30 June 2017.

It was reported that the 'level one' report detailed the fund managers' policies and procedures for the management and monitoring of total trading costs in order to achieve best execution for clients. The 'level two' report provided an analysis of Greater Manchester Pension Fund's (GMPF) trading

volumes and commissions, which could be compared with Capital International's average client commission rates.

The Working Group was notified that Capital had reviewed and updated their 'level one' report in December 2016, which was appended to the report. There had been a number of relatively minor changes, which were not considered to be material.

Alison Fletcher of Capital International presented GMPF's 'level two' report for the 12 month period ending 30 June 2017, a copy of which was appended to the report. The comparative disclosure table was outlined and detailed an analysis of trading, sources of commission paid and uses of commissions, for the 12 months to 30 June 2017.

It was confirmed that officers of the Fund had reviewed the report and any questions had been satisfactorily answered by Capital International.

**RECOMMENDED:**

**That the report be noted.**

#### **14. INVESTMENT STRATEGY STATEMENT**

The Assistant Director of Pensions (Investments) submitted a report summarising the proposed changes to the Investment Strategy Statement. It was reported that an interim Investment Strategy Statement had been agreed and adopted by Panel at their meeting of 10 March 2017 to reflect the 2016 Regulations, with the proviso that a detailed review be undertaken within 6 to 9 months. The review had been completed and the following changes had been made to the document, which was appended to the report:-

1. The appointment of Stone Harbor.
2. Additional wording around climate change.
3. The adoption of PIRC's voting guidelines and the delegation of proxy voting rights to PIRC.
4. An update to the appendix (table of limits on investments).

A public consultation on the draft Investment Strategy Statement would take place, and a final version would be sent for adoption at a subsequent meeting of the Management Panel.

**RECOMMENDED:**

**That the Working Group endorses the proposed approach and the draft Investment Strategy Statement.**

#### **15. COMMENTS FROM PIRC**

Janice Hayward, PIRC Ltd, advised the Working Group that GMPF were hosting a conference on Thursday 19 October 2017 11:45am – 6:45pm at The Monastery, Gorton Lane, Manchester titled 'Shaping our Pension Fund Values for the Future', which was reported to be the first event of its kind within Local Authorities. It was an opportunity for the Fund to highlight relevant topics and share key areas of activity. It was also an opportunity to consult with a wide range of stakeholders, and attendees would be given the chance to offer their feedback via a questionnaire or a specially designed app.

#### **16. UNITED NATIONS PRINCIPLES FOR RESPONSIBLE INVESTMENT REPORTING FRAMEWORK**

The Assistant Director of Pensions (Investments) submitted a report detailing the feedback the Fund had received on its responses to the United Nations Principles for Responsible Investment (PRI)

Reporting Framework. The Fund received median or above median scores across all of its responses and an extract of the PRI's assessment report was appended to the report.

It was reported that the Fund became a direct signatory to the PRI in late 2013 and were required to publicly report on its responsible investment activity through the PRI's reporting framework each year.

In June 2017, the Fund received feedback on its responses to the PRI's 'Reporting Framework' for 2016. The assessment results were broadly in line with the Fund's expectations, with scores matching or outperforming the PRI median scores in all areas where they were required to report.

**RECOMMENDED:**

**That the report be noted.**

## **17. 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 had accepted sub-underwriting via UBS in the quarter ended June 2017. Stocklending income during the quarter was £313,767, compared to £394,603 in the same quarter of 2016, and Commission 'recaptured' was £21,218, compared to £26,171 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.**

## **18. CLASS ACTION UPDATE**

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 specialist law firm Labaton Sucharow had been appointed to provide portfolio monitoring services in relation to shareholder litigation, in place of the previous incumbent, SRKW.

**RECOMMENDED:**

**That the report be noted.**

## **19. URGENT ITEMS**

There were no urgent items.