

GREATER MANCHESTER PENSION FUND ADVISORY PANEL

2 October 2015

Commenced: 9.45am

Terminated: 12.15pm

Present: Councillor K Quinn (Chair)

Councillors: Akbar (Manchester), Brett (Rochdale), Dennett (Salford), Francis (Bolton), Grimshaw (Bury), Halliwell (Wigan), Mitchell (Trafford), Pantall (Stockport) and Ms Herbert (MoJ)

Employee Representatives:

Mr Allsop (UNISON), Mr Drury (UNITE), Mr Flatley (GMB) and Mr Llewellyn (UNITE),

Advisors:

Mr Bowie, Mr Moizer and Mr Powers

Apologies for Councillor Dean (Oldham) and Mr Thompson

Absence:

24. CHAIR'S OPENING REMARKS

The Chair welcomed everyone to the first meeting of the Panel in the new Pensions' building, Guardsman Tony Downes House. He added that the building would be formally opened later that afternoon.

The Chair announced, with great sadness, the recent sudden death of Russell Page, Compliance Officer in Pension Fund Legal. He added that Russell had worked for the Fund for 31 years and was a much respected friend and colleague and would be sadly missed. On behalf of the Fund, he extended condolences to Russell's family, friends and colleagues and those present stood and observed a few moments silence as a mark of respect and in memory of Russell.

The Chair further informed the Panel of the forthcoming retirement of Peter Morris, Executive Director of Pensions, on 1 May 2016. In terms of succession planning, he informed Members that Sandra Stewart, Solicitor to the Fund, would take on the Executive Director role going forward and a recruitment process for a Director of Pensions to support her and the other assistant directors, would be undertaken.

He thanked Peter for his hard work over the years, leading the Fund to its current position of £17 billion and being the largest LGPS Fund in the UK and recently recognised as the 'LGPS Fund of the Decade.'

25. DECLARATIONS OF INTEREST

There were no declarations of interest submitted by Members.

26. MINUTES

The Minutes of the proceedings of the meeting of the Pension Fund Advisory Panel held on 3 July 2015 were signed as a correct record.

The Minutes of the proceedings of the meeting of the Pension Fund Management Panel held on 3 July 2015 were signed as a correct record.

The Minutes of the meeting of the GMPF Urgent Matters panel held on 2 September 2015 were signed as a correct record.

27. 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:**

<u>Items</u>	<u>Paragraphs</u>	<u>Justification</u>
9, 10, 11, 13	3&10, 1&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.

28. INVESTMENT MONITORING AND ESG WORKING GROUP

The Minutes of the proceedings of the meeting of the Investment Monitoring and ESG Working Group held on 16 July 2015 were considered.

The Chair of the Working Group, Councillor Taylor, explained that Investec gave their first presentation to the Working Group with a reminder of their approach and process, and an update on their strong relative performance over the short period since they had been appointed by the Fund.

The Chair also made reference to a debate held by members of the Working Group, on Climate Risk. A representative from Carbon Tracker, a climate change think tank, had attended the meeting and presented his research, which covered one possible scenario in which carbon emissions were limited in order to minimize global temperature rises. He had also outlined the potential impact on fossil fuel companies if they could not use all their reserves of coal, oil or gas.

Representatives from UBS had then presented their views on Climate Risk in the GMPF portfolio. They had informed the Working Group that they monitored the risk of 'stranded carbon' assets closely, and highlighted the impact on the wider economy that a limit on carbon emissions might have.

Since the meeting, prompted by Friends of the Earth and other pressure groups, the Fund had received wide press coverage and a small demonstration had taken place outside the new office, regarding its holdings in fossil fuel companies. A pamphlet setting out the debate at the Working Group would be published shortly by GMPF, as a further step in the Fund developing its approach to this very complex issue.

The Chair concluded that, in line with many other investors, and the view of Unison, the Fund had no plans to divest from fossil fuel companies in the medium term.

RECOMMENDED

That the Minutes be received as a correct record.

29. PENSIONS ADMINISTRATION WORKING GROUP

The Minutes of the proceedings of the meeting of the Pensions Administration Working Group held on 17 July 2015 were considered.

RECOMMENDED

That the Minutes be received as a correct record;

30. ALTERNATIVE INVESTMENTS WORKING GROUP

The Minutes of the proceedings of the meeting of the Alternative Investments Working Group held on 24 July 2015 were considered.

RECOMMENDED

That the Minutes be received as a correct record.

31. PROPERTY WORKING GROUP

The Minutes of the proceedings of the meeting of the Property Working Group held on 24 July 2015 were considered.

The Chair of the Working Group, Councillor S Quinn, commented on a disappointing performance for 2014 and added that La Salle were working towards turning this around over the next few years and, so far, were doing a satisfactory job.

The Chair also made reference to the presentation by GVA, who had focussed on the need to drive forward housing development sites. They had also commented on sales and a development opportunity.

The Executive Director of Pensions also gave an update on progress at 1 St Peters Square.

RECOMMENDED

That the Minutes be received as a correct record.

32. EMPLOYER FUNDING VIABILITY WORKING GROUP

The Minutes of the proceedings of the meeting of the Employer Funding Viability Working Group held on 7 August 2015 were considered.

RECOMMENDED

- (i) That the Minutes be received as a correct record; and**
- (ii) In respect of the GMPF Statement of Accounts 2014/15 Governance Arrangements and Update, that the assumptions for estimates used in the Statement of Accounts 2014/15 be approved.**

33. MANAGEMENT SUMMARY

The Executive Director of Pensions submitted a report updating Members on issues and matters of interest arising during the last quarter, as follows:

LAPF Fund of the Decade

The Fund had won two awards at the 2015 LAPF Investment Awards:

- LGPS Fund of the Decade; and
- Infrastructure Project of the Year (LPFA)

New Offices

It was reported that the development of the Fund's new offices, Guardsman Tony Downes House, had been delivered in line with the timetable with staff moving in on 14 September 2015.

Local Pensions Board – New Members

Four new members of the Board had been approved by Tameside Council as follows:

- Councillor Janet Cooper – Tameside MBC;
- Chris Goodwin (UNITE);
- Catherine Lloyd (UNISON); and
- Jayne Hammond – Monitoring Officer, Bury MBC.

The remaining positions would be filled by:

- A non-local authority employer; nominations had been sought on the Fund's website; and
- A pensioner representative with the process to start at the Pensioner Forum on 9 October 2015.

The next meeting of the Local Pensions Board would be held on 6 October 2015.

Public Sector Cap on Exit Payments

It was reported that in late July, the Government started a short consultation on a proposal to limit the aggregate exit payments payable by public sector boards in England to £95,000. This included employer 'strain payments' arising from early retirements, redundancy, severance payments and any other payment relating to the employee leaving their employment.

The Fund's response was from an administering authority's perspective and thus focussed on the practical issues of implementing such a policy.

The Government had considered and responded to the consultation responses. It will be broadly progressing proposals as set out in the original consultation document.

Probation (MoJ) Transfer

Virtually all assets due had been received and nearly all the membership records were on the Fund's administration system. There were still some exceptional matters outstanding and data cleansing continued to be progressed.

During the week commencing 24 August 2015, there were significant falls in equity markets. Following discussions with the Advisors and the Chair, it was decided to take the opportunity to switch approximately £60m from Cash to UK equity within the MoJ portfolio, at advantageous prices compared to those obtained during the past 12 months. The MoJ Portfolio was thereby moved closer to the current Main Fund asset allocation, in preparation for the assimilation of MoJ assets into the Main Fund.

LPFA Joint Venture

Since the last meeting of the Panel, the Joint Transaction Team had been busy evaluating deals and at present had three prospective deals which were in final due diligence. These included a stake in a privately owned regulated utility as previously reported to Panel, funding of anaerobic digestion plants and a transport infrastructure investment. The JV were also looking at participation in a club bid for a transportation asset.

North West Impact Fund

The team were progressing a number of investments, including renewable energy, lending to SME's and the supported living sector and completed investments with Enterprise Ventures (lending to small businesses) and Albion (renewable energy).

Efforts to collaborate with other LGPS Funds were also progressing.

GMPVF – One St Peter's Square

Agreements for lease were being progressed with two tenants.

Annual Benefit Statements 2015

LGPS funds had a disclosure requirement to issue Annual Benefit Statements by 31 August i.e. the 2014/2015 statement had to be issued by 31 August 2015.

This had been a very challenging timetable for most funds and most had failed to meet this deadline in whole or in part. Under the new regulations, this would normally require a letter to be sent to the Pensions Regulator from funds that had failed to comply. However, for this year, the Regulator was aware of the exceptional issues and individual funds had not been required to write to the Regulator.

For GMPF's members, approximately 70% of employee members received their illustration before the deadline. The main reason was no data and incorrect data from employers. Data was still awaited from a small number of employers.

Guaranteed Minimum Pension

Members were reminded that, as part of the State Pension Reforms, contracting out ended in 2016. This necessitated a reconciliation between the records of pension funds and HMRC. Work had started on the reconciliation process with records obtained from HMRC and compared to the Fund's records.

Annual Allowance and Lifetime Allowance

With effect from 6 April 2016, the lifetime allowance would reduce from £1.25m to £1m. For most members the Annual Allowance remained at £40k but for a small number of members a taper limited to pay had been introduced that could result in an Annual Allowance of £10k. Most members' pension savings were not affected by these changes. Where members were affected, they tended to be well paid and had long service for lifetime allowance calculations and an additional factor of increase in pay would apply for the Annual Allowance.

Fossil Fuels

An article had been published in the Guardian newspaper regarding LGPS exposure to fossil fuels. The Fund's response to the Guardian, in advance of the article being published, had been circulated to Members.

The Executive Director of Pensions made reference to the complex nature of the issues relating to investing in companies that generated a significant proportion of their sales and profits from fossil fuels. He reiterated the Panel's responsibilities in safeguarding the pension promise of more than 340,000 members, and the fiduciary duty to look after members' interests and the assets in the Fund. The Executive Director further stated that it was critical that all financial risks to the Fund were assessed, including those posed by fossil fuels.

The Advisors were then asked to comment on the Fund's exposure to fossil fuels.

Mr Powers explained that he did not feel that the Fund was over exposed to fossil fuels and added that current exposure was within the risk framework set by the Fund.

Mr Moizer concurred with Mr Powers comments.

Mr Bowie also concurred and added that the Fund Managers had followed due process and governance and made tactical investment decisions. He further made reference to alternatives to fossil fuels such as nuclear power, which posed significant but different risks to those posed by fossil fuels.

RECOMMENDED

That the report be noted.

34. LGPS UPDATE

A report was submitted by the Executive Director of Pensions outlining two major pieces of work currently being undertaken that could have a very significant impact on the structure and delivery of the LGPS:

- Options for Separation of duties between funds and their host authority – a report commissioned by the Scheme Advisory Board; and
- Pooling of Assets – a process introduced by the Chancellor in his Summer Budget.

Options for Separation were detailed as follows:

- Option 1 – Stronger role for S151 Officer/Pension Manager within a distinct entity of the host authority;
- Option 2 – Joint committee of two or more administering authorities; and
- Option 3 – Complete separation of the Pension Fund from the host authority.

The report explained that the review centred around issues of conflicts in the LGPS and how they could be managed.

As part of the review, a number of stakeholders had been interviewed including GMPF. It was reported that the Fund's representation was strongly in support of Option 1.

With regard to pooled investments, it was reported that, further to the announcement by the Chancellor in the summer budget seeking proposals for pooling of assets by funds, the Scheme Advisory Board considered a progress report on this matter at its meeting on 21 September 2015. The paper included key messages, a brief note of the meetings held and a description of the options for pooling.

It was further reported that meetings had been held by the LGA with funds and investment managers. Funds were starting to give consideration to the issues and the scale of change being sought by DCLG in the governance of their funds.

The investment managers' views were that the greatest cost savings would be obtained from funds presenting themselves as one client with decision making placed within the pools.

Criteria for evaluating pooling options were also detailed and discussed and the following were suggested as potential criteria:

- The improvement in net investment returns. This would be a function of investment cost and return on investment;
- The suitability for meeting individual employer needs where maturity of liabilities and funding level would vary materially between employers (and funds). The challenges facing funds and employers had been frequently discussed at the Panel and how a fund delivered stable and affordable employer contributions on a prudent and transparent basis was key; and
- From the GMPF perspective, the scope to invest locally with the twin aims of commercial returns. This could be extended to include supporting UK infrastructure again with the twin aims and having the capacity in the medium term to compete with large foreign funds; and
- The ability to undertake corporate governance activities.

Actions to date were reported with Fund representatives having attended meetings held by LGA and DCLG. GMPF was also collaborating with a number of funds supported by Hymans Robertson to evaluate a number of options. Informal discussions had also been held with a number of other large funds.

In summary, it was concluded that the interaction of the austerity programme and the economic environment meant that funds were rapidly maturing and funding levels were at historical low levels. The potential outcomes from managing deficits, the options for separation and pooling of assets could lead to fundamental reform of the structure of the LGPS and its governance arrangement. It was likely that there would be no exemptions from pooling for the vast majority of Fund assets and an end to local decision making on manager selection.

The scale of GMPF, its long term track record and the experience gained from the take on of probation liabilities placed it in an excellent position to contribute to the debate. This could take varying forms, such as responding to government consultations, trying to develop an effective consensus view with others; e.g. through the holding of an event for LGPS funds to develop views, commissioning research and obtaining legal advice. This may also incur additional costs outside the existing budget. Given the exceptional circumstances, approval of additional spend may be needed at short notice.

The collaboration of funds supported by Hymans Robertson to evaluate options was likely to be influential in future decisions. GMPF would have a significant input into this work. Structured discussions with other funds also needed to be progressed.

RECOMMENDED

- (i) That the position on Options for Separation be noted;**
- (ii) That the Chair of the Fund, Executive Director of Pensions, Assistant Director (Funding and Business Development) and Fund Solicitor progress discussions with other potential collaboration partners and other relevant stakeholders;**
- (iii) That updates be given on discussions held to the Management Panel or Policy and Development Working Group;**
- (iv) That no commitments on governance be entered into without the approval of the Management Panel; and**
- (v) That the Executive Director of Pensions following consultations with the Chair has the delegated power to incur relevant expenditure in support of activities in respect of developing the Fund's position on pooling, e.g. commissioning research, seeking legal advice, hosting meetings and events.**

35. QUARTERLY REPORTS OF THE EXECUTIVE DIRECTOR OF PENSIONS

- (a) Summary Valuation of the Pension Fund Investment Portfolio as at 31 March 2015 and 30 June 2015**

A report of the Executive Director of Pensions was submitted, detailing and comparing the market value of the Fund's investment portfolio as at 31 March 2015 and 30 June 2015.

RECOMMENDED

That the report be noted.

- (b) Underwriting, Stocklending and Commission Recapture**

Consideration was given to a report of the Executive Director of Pensions detailing the activity and income generated on Underwriting, Stocklending and Commission Recapture during the quarter.

It was reported that income from the Fund's Underwriting, Stocklending and Commission Recapture activities was 'opportunistic' in nature and very sensitive to market conditions. The

amounts generated were therefore expected to vary, potentially significantly, from one quarter to another and from one year to another.

RECOMMENDED

That the report be noted.

(c) External Managers' Performance

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

It was noted that in the quarter to 30 June 2015, Capital had outperformed by 0.3% against their benchmark index of -5.0%. UBS had also outperformed by 0.2% against their benchmark index of -3.3% and Legal and General had succeeded in tracking their benchmark for the Main Fund and for MoJ.

Performance figures for the twelve months to 30 June 2015 were detailed which showed that Capital had outperformed their benchmark by 0.2% and UBS had tracked their benchmark at 5.4%. Legal and General had broadly succeeded in tracking their benchmark for the Main Fund and for MoJ.

RECOMMENDED

That the content of the reports be noted.

36. MAIN PROPERTY PORTFOLIO – REVIEW AND STRATEGY PRESENTATION

Consideration was given to a report of the Executive Director of Pensions and a presentation delivered by La Salle, Investment Manager of the main property portfolio. Tom Rose, Fund Manager, and Rebecca Gates, Head of UK Asset Management at La Salle Investment Management, gave details of their performance and portfolio changes since their appointment in October 2014 and provided an update on their investment strategy for the Fund's property investments.

RECOMMENDED

That the content of the presentation be noted.

37. REPORTS OF THE MANAGERS

The Chair welcomed representatives of Capital International and UBS Global Asset Management to the meeting and asked them each to comment on the Fund's exposure to fossil fuels, in addition to providing their quarterly report.

(a) Capital International

Stephen Gosztony, President, Capital International, in response to the Chair's question on fossil fuel investment, made reference to Capital's current underweight exposure to the sector and also commented on very weak oil prices and added that Capital could be inclined to add to the sector in the short to medium term.

Mr Gosztony then commented on portfolio returns for the quarter and an outperformance against the benchmark.

He further commented on emerging and developed markets with the two strongly coming together to deliver better results for the portfolio.

Mr Gosztorny made reference to the Greek debt crisis and added that amid this, stock selection across sectors helped the portfolio on a relative basis.

Richard Carlyle, Investment Specialist, Capital International, reported that growth in the US was set to recover amid a strong employment picture and that it was likely that the federal reserve was on track to gradually raise interest rates in 2015/16.

The mid-year outlook was detailed in the US, Europe and Asia and Emerging Markets and it was explained that economic crosscurrents called for selectivity.

The Advisors were then asked to comment.

Mr Bowie made references to Capital's changes in their approach to emerging markets and sought clarification as to when this was likely to reflect in performance improvements.

Mr Gosztorny, in his response, explained that he expected this to be reflected in 3 – 5 years.

Mr Moizer sought Capital International's views on currency hedging and environmental issues.

Mr Carlyle explained that a portfolio wide currency overlay strategy was not something Capital engaged in, however it was a possibility for consideration. In respect of environmental issues he explained that analysts were increasing their efforts to understand these.

Mr Powers made reference to an expensive US market and asked for Capital's comments regarding their overweighting in the US.

Mr Carlyle, in his response commented on the latter stages of a bullish US market and explained that there were big opportunities short term, in emerging markets.

Mr Powers expressed concern regarding debt levels in emerging markets.

Mr Carlyle whilst acknowledging the concerns raised, commented that this high level of debt was concentrated in a relatively small number of companies in China.

(b) UBS Global Asset Management

Jonathan Davies, Head of UK Balanced Portfolio, UBS Global Asset Management, detailed asset allocation and commented on a modest overweighting in equities, mainly in Japan and Europe and a weak quarter generally for equities.

Steve Magill, Head of UK Value Equities, UBS Global Asset Management, commented on a flat performance for the portfolio during a difficult quarter.

He further commented on performance attribution and positioning at sector level for the quarter to 30 June 2015, and advised that this positioning would be similar in the quarter to 30 September 2015.

Particular reference was made to the mining sector and weak commodity prices, which were generally volatile in nature, and UBS considered that these prices were being further affected by the weakening demand from China.

In respect of the question put by the Chair with regard to investment in fossil fuels, Mr Magill responded that within diversified mining companies, fossil fuels often represented a fraction of the overall operations. He referred to a current overweighting in the mining sector within the UBS portfolio, however added that over the long term he would not expect to be overweight in the sector.

RECOMMENDED

That the content of the Fund Manager presentations be noted.

38. EMPLOYER UPDATE

The Executive Director of Pensions submitted a report providing the Panel with a brief update on employer related events which had recently occurred as follows:

- The termination of an admission agreement following a change of ownership;
- Potential consolidation of an employer's LGPS liabilities in a single fund;
- Admission body with Local Authority Guarantee ceasing to participate in the Fund; and
- The closure of a free school.

He added the above events and the Fund's response had either been discussed, or were due to be discussed in further detail at the Employer Funding Viability Working Group.

RECOMMENDED

That the report be noted.

39. AUDIT FINDINGS REPORT AND LETTER OF REPRESENTATION

Consideration was given to a report of the Executive Director of Pensions explaining that the Employer Funding Viability Working Group gave detailed consideration to the accounts at its meeting on 7 August 2015. The Working Group (as required by International Standards on Auditing) reviewed the reasonableness of significant assumptions for estimates to be used in the accounts and approved the bases applied. An Urgent Matters meeting of the Panel was held on 2 September 2015 to approve the accounts.

It was reported that the Fund's Auditors Grant Thornton also attended the Urgent Matters meeting. Mark Heap of Grant Thornton presented his draft report. He also presented his report to the Overview (Audit) Panel, a copy of which was circulated with the agenda papers.

It was further reported that the Auditor's report was very positive for the Fund with no significant findings or required amendments to the statements.

Grant Thornton had issued two reports on the financial statement of the Fund covering:

- (i) The Fund's financial statements as covered in the Fund's Annual Report; and
- (ii) The Fund's financial statements included within the administering authority's accounts.

As part of the Audit process Grant Thornton wrote to the Executive Director of Pensions and the Chair of the Management Panel requesting:

- (i) Detail on the management processes to prevent and detect fraud and to ensure compliance with law and regulation relating to operational issues as well as the financial statements;
- (ii) Details on how the Governing Body, (Pensions Management Panel) maintains oversight of these management processes.

The Urgent Matters Panel on 2 September approved the letter of representation (a copy of which was attached to the report), to be signed by the Executive Director on behalf of the Pension Fund on 21 September 2015 following the meeting of the Overview (Audit) Panel.

A copy of the management letter to Grant Thornton and Chair's response to the schedule of questions was attached to the report for information.

The Chair announced that this was the last meeting of Mark Heap. He thanked Mark for all his hard work for the Fund.

RECOMMENDED

- (i) That the report of Grant Thornton be noted; and
- (ii) That the Letter of Representation and the Management Letter be noted.

40. THE PENSIONS REGULATOR'S PUBLIC SERVICE GOVERNANCE AND ADMINISTRATION SURVEY

A report was submitted by the Executive Director of Pensions giving information about the Scheme of Delegation to officers relating to pension benefits and contributions, and included a summary of actions taken by the Executive Director of Pensions during 2014 – 2015.

RECOMMENDED

That the report be noted.

41. FUTURE TRAINING DATES

Trustee Training opportunities were noted as follows:

Free E-Learning for Public Service Schemes

Sign up at: <https://education.thepensionsregulator.gov.uk/login/signup.php>

330 Consulting Elected Member Educational Event New Armouries Banqueting Suite, Tower of London	7 October 2015
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NAPF Annual Conference Manchester Central http://www.napf.co.uk/Conferences_and_Seminars/Annual_Conference_And_Exhibition.aspx	14 – 16 October 2015
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SPS Current Investment Issues for Pension Funds Le Meridien Piccadilly, London	5 November 2015
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Capital International Member Training Day Venue: TBA	12 November 2015
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Fundamentals Training for New Members Day 1 Day 2 Day 3 Marriott Hotel Leeds	21 October 2015 17 November 2015 8 December 2015
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LAPFF Annual Conference Bournemouth Highcliff Marriott Hotel	2 – 4 December 2015
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42. 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	11 December 2015 11 March 2016
Local Pensions Board	6 October 2015

Pensions Administration Working Group	16 October 2015 29 January 2016 8 April 2016 16 April 2015
Investment Monitoring & ESG Working Group	16 October 2015 29 January 2016 8 April 2016
Alternative Investments/Property Working Groups	23 October 2015 5 February 2016 15 April 2016
Policy and Development Working Group	8 October 2015 4 February 2016 24 March 2016
Employer Funding Viability Working Group	30 October 2015 12 February 2016 22 April 2016

CHAIR