

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

**6 April 2018**

**Commenced:** 10.00 am

**Terminated:** 12.00 pm

**Present:** Councillors Brett, Grimshaw, Mitchell, Pantall and Mr Allsop

<b>In Attendance:</b>	Sandra Stewart	Director of Pensions
	Tom Harrington	Assistant Director of Pensions (Investments)
	Steven Taylor	Assistant Director of Pensions (Special Projects)
	Michael Ashworth	Investments Manager
	Abdul Bashir	Investments Manager
	Iain Campbell	Investments Manager
	Lorraine Peart	Investments Officer

**Apologies for Absence:** Councillors Taylor, Ricci and Mr Llewellyn

## **ELECTION OF CHAIR**

### **RESOLVED:**

**That in the absence of the Chair, Councillor Pantall be appointed Chair for the duration of the meeting.**

***Councillor Pantall in the Chair.***

## **29. DECLARATIONS OF INTEREST**

There were no declarations of interest.

## **30. MINUTES**

The Minutes of the Investment Monitoring and ESG Working Group held on 19 January 2018 were approved as a correct record.

## **31. INVESTEC CORPORATE GOVERNANCE REVIEW**

The Working Group welcomed Therese Niklasson of Investec who attended the meeting to report on Corporate Governance activity over the last 12 months.

It was reported that 2017 had been an important year for Environmental Social and Governance integration and the 4Factor process. The 4Factor team had invested in high quality, attractively valued companies with improving operating performance that were receiving increasing investor attention. The team had focussed on improving the existing Environmental Social and Governance analysis, re-visiting Environmental Social and Governance factors and reviewing the broader concept of capital stewardship across the strategies.

A Working Group had been established with the aim of unbundling Environmental Social and Governance factors in order to achieve greater integration into analysis. The team had

participated in training sessions on Environmental Social and Governance topics and a project had been initiated to explore Environmental Social and Governance risk in portfolio construction.

The Working Group was advised that an Environmental Social and Governance portfolio screener had been developed, which allowed the portfolio manager to understand the Environmental Social and Governance footprint.

The Working Group was informed that during 2017, Investec had voted in 131 meetings on 1,786 resolutions, and had opposed management at 69 meetings. PIRC would undertake the voting on behalf of GMPF during 2018. It was reported that 9 engagements with companies had been carried out on behalf of the portfolio, and the current priorities for the coming year were outlined to the group in addition to wider Environmental Social and Governance trends.

Following a detailed discussion, Members requested that the outcomes of company engagement be included in future reports and presentations.

**RECOMMENDED:**

**That the report be noted.**

### **32. INVESTEC: REPORT ON TRADING COSTS**

The Assistant Director of Pensions (Investments) submitted a report, which facilitated Members' scrutiny of Investec's approach to and practice with regard to trading costs. Investec's 'Level One' disclosure report and Greater Manchester Pension Fund's 'Level Two' disclosure report for the year to 31 December 2017 were appended to the report.

Stephen Lee, Investec, presented both reports. The 'Level One' report detailed the fund manager's policies and procedures for the management and monitoring of total trading costs in order to achieve the best execution for clients. There had been a number of changes to the 'Level One' report instigated as a result of the new European Union's Market in Financial Instruments Directive, which came into force during January 2018. Investec would be reviewing and updating their 'Level One' report in January 2019 but did not anticipate any significant changes.

The 'Level Two' report provided an analysis of Greater Manchester Pension Fund's trading volumes and commissions, which could be compared to Investec's average client commission rates. It was confirmed that officers of the Fund had reviewed the 'Level Two' report and any questions had been satisfactorily answered by Investec.

**RECOMMENDED:**

**That the report be noted.**

### **33. 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 '2018 UK Shareowner Voting Guidelines', a copy of which was appended to the report.

It was explained that PIRC published guidelines for accountability reasons to enable clients to understand the basis of their voting recommendations, and they applied common governance standards across the market. All UK companies received a draft proxy report for comment and PIRC's research was based on publicly available disclosures and market intelligence.

Mr MacDougall outlined the key principles that companies should adopt to the Working Group, which included:-

- Clear values and high ethical standards throughout the company;
- An ability to account for shareowner capital and achieve an appropriate return;
- Developing a culture of transparency and accountability;
- Focussing on strategic issues and the quality of business;
- Developing appropriate checks and balances to deal with conflicts of interests;
- Maintaining effective systems of financial control and risk management;
- Creating fair remuneration structures that reward the achievement of business objectives; and
- Recognising and managing impacts on all stakeholders.

An update was provided on PIRC's activities over the past 12 months. With regards to pay, it was reported that PIRC's call to drop Long Term Incentive Plans had been relatively successful however, some companies were proposing Restricted Share Schemes. PIRC's current policy was to approach on a case by case basis.

With regards to Board diversity, the Parker Review (2017) had recommended that each FTSE 100 Board should have at least one director from an ethnic minority background by 2021. PIRC would be looking for companies to acknowledge this review and to set this target.

With regards to Board Chairs, PIRC's long standing policy had been to evaluate the independence of Chairs on their appointment, and either vote for or abstain on their re-election. The new policy was to oppose the re-election of Chairs with significant governance issues. Support would not be recommended for the re-election of directors who were not independent. Directors who missed any meeting without adequate justification would receive an oppose vote on re-election, and amendments to company articles, which permitted virtual only meetings, would also be opposed.

Objectives for the next 12 months were outlined and included Remuneration, Corporate Governance Monitoring, Shareowner Consultation, Board Level Employee Representation, Board Director Skills Matrix, Stewardship and Whistleblowing.

#### **RECOMMENDED:**

**That the report be noted.**

### **34. UNDERWRITING, STOCKLENDING AND COMMISSION RECAPTURE**

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 the Fund did not participate in any sub-underwriting via UBS in the quarter ended December 2017. Stocklending income during the quarter was £168,218, compared to £146,552 in the same quarter of 2016, and Commission 'recaptured' was £1,852, compared to £24,362 in the same quarter of 2016. The value of securities on loan at the end of the quarter was £154.6 million (0.7% of GMPF assets) and collateral valued at £161.6 million was held against these loans.

The report outlined that income 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.**

### **35. 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.

#### **RECOMMENDED:**

**That the report be noted.**

### **36. URGENT ITEMS**

There were no urgent items.