GREATER MANCHESTER PENSION FUND

POLICY AND DEVELOPMENT WORKING GROUP

14 June 2018

Commenced: 11.00am **Terminated: 12.40pm**

	Councillor Warrington	
	Councillor Cooney	
	Councillor J Fitzpatrick	
	Councillor Taylor	
	Councillor J Lane	
	Mark Powers	**Advisor to the Fund**
	Ronnie Bowie	**Advisor to the Fund**
	Lynn Brown	**Advisor to the Fund**
	Sandra Stewart	**Director of Pensions**
	Steven Taylor	**Assistant Director of Pensions (Special Projects)**
	Tom Harrington	**Assistant Director of Pensions (Investments)**
	Paddy Dowdall	**Assistant Director of Pensions (Local Investments & Property)**
	Euan Miller	**Assistant Director of Pensions (Funding & Business Development)**
	Dan Hobson	**Senior Investments Manager**
	Neil Cooper	**Senior Investments Manager**
	Nick Livingstone	**Investments Manager**
	Andrew Hall	**Investments Manager**
Apologies for absence:	**Councillors: S Quinn, Pantall and Peter Moizer**	

1. DECLARATIONS OF INTEREST

There were no declarations of interest.

2. MINUTES

The Minutes of the proceedings of the meeting of the Policy and Development Working Group held on 22 March 2018, having been circulated, were agreed as a correct record with the addition of Lynn Brown to the list of persons submitting apologies.

3. PROPERTY INVESTMENT: DEPLOYMENT AND PERFORMANCE MONITORING

Consideration was given to a report of the Assistant Director of Pensions, Local Investments and Property, updating Members on progress for property investment, focusing on deployment of capital and performance monitoring. The report followed a discussion at the previous meeting, which initiated the project.

It was reported that a meeting had been held on 17 May, including three of the Fund's advisors, the senior management group, the property team and La Salle, a summary of the discussion was appended to the report.

Key outcomes from the meeting were detailed, and following those outcomes, the project plan had been revised and further meetings were being arranged.

Discussion ensued with regard to the above and the Advisors sought further information with regard to the level of debt in the property portfolio.

The Director of Pensions explained that this was an area that Steven Taylor would explore in his role as Assistant Director of Pensions, Special Projects, and that he would report further on this issue to a future meeting.

RECOMMENDED
That the content of the report be noted, including the revised project summary as set out in an appendix to the report.

4. 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 of the Fund.

5. 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 31 March 2018.

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.

A detailed discussion ensued and it was proposed that a small number of incremental improvements be incorporated into future reports.

RECOMMENDED
That the content of the report be noted.

6. GLOBAL EQUITY 'PURCHASE/SALE' TRIGGER PROCESS – UPDATE OF FAIR VALUE ESTIMATE, TRIGGER POINTS AND SIZE OF SWITCH

The Assistant Director of Pensions, Investments, submitted a report explaining that in May 2016, the Policy and Development Working Group considered detailed proposals regarding a 'trigger process' for Global Equities. These proposals were adopted by the Panel. No changes to the trigger process were being proposed.

The report provided a brief overview of the evolution of the Global Equity metric over 2017/18, vis-à-vis the trigger points. In accordance with the adopted formalised process, the report also proposed an updated estimate of Fair Value for global equities, associated updated trigger points and an update in relation to the 'size' of the maximum asset switch to be targeted, all for adoption by the Panel at its July meeting.

RECOMMENDED
That the Panel adopt the updated Fair Value estimate, the associated updated trigger points, and the updated 'size' of the maximum asset switch to be targeted, as contained within the report.

7. INTRODUCTION TO PRIVATE DEBT ALLOCATION

Consideration was given to a report of the Assistant Director of Pensions, Investments, which explained that since 2015 there had been a significant increase in officer time spent assessing and monitoring the private debt market. This had resulted in an increased rate of capital deployment into private debt strategies. During this period officers had been assessing the viability of creating a 'Private Debt' allocation within the Main Fund strategic benchmark.

Hymans Robertson's submission to the Fund's 2017/18 and 2018/19 Investment Strategy papers and its review of Investment Management arrangements delivered to Panel highlighted a recommendation that the Fund moves toward a more diversified benchmark and that this be achieved through a reallocation from equities to 'enhanced yield' and that consistent with this, consideration should be given to other asset classes, such as private debt.

The Assistant Director of Pensions, Investments, highlighted to Members a number of issues that had been identified by Officers within the report, in particular in relation to the level of risk that was being targeted and the management fees associated with gaining access to the asset class.
A recommendation was sought to create a 'Private Debt' allocation of 5% of Main Fund assets.

RECOMMENDED
That the Fund creates a new strategic allocation to 'Private Debt' of 5% of Main Fund assets.

8. INVESTMENT STRATEGY AND TACTICAL POSITIONING 2018/19

A report was submitted by the Assistant Director of Pension, Investments, to facilitate a discussion of key relevant points between Working Group members and the Advisors in order to inform the finalised version of the report to Panel.

It was reported that the Investment Managers and Advisors believed that the current investment strategy was broadly capable of delivering the required returns over the long term (albeit there were short/medium term caveats). Economic uncertainties remained, with a medium term outlook which could potentially encompass a number of unattractive scenarios. In such circumstances, it was not apparent that any significant changes to the Fund's approach would prove beneficial, other than the diversification methods already being employed by the Fund.

The increasing maturity profile of Fund employers as public sector spending reductions continued were likely to reduce the tolerance of the Fund to its volatility of returns between years. Hymans Robertson were currently undertaking work with Officers on this issue. Options being considered for better aligning Employers; Investment strategies to their own funding position, which would help to reduce the funding level volatility of individual employers, and therefore the fund as a whole.

Attention would continue to be devoted to the investment issues surrounding the particular circumstances of specific employers as issues raised during the 2016 Actuarial Valuation continued to be followed up.

Members were informed that, historically the Main Fund benchmark had contained an allocation of 10% to Property. Actual exposure to Property had long under-achieved this target exposure and currently amounted to just over 7% of Main Fund assets. It was not considered reasonable to expect La Salle to be able to move too rapidly towards the 10% benchmark allocation. In light of this, it was recommended that, following the approach used for some time for Alternative Assets, a 'realistic benchmark' allocation was used in respect of Property which would rise form 8% to 10% over the coming three years. Separately, 'realistic' benchmark for Private Equity, Infrastructure Funds, Local Investments and the Special Opportunities Portfolio would be increased to reflect the progress made in implementing these portfolios during 2017/18.

One immediate implication of the increasing maturity of the fund was the change in the balance of cashflows between inflows (from employer and employee contributions) and outflows (for pension payments) whereby the latter now significantly exceeded the former with the net outflow growing year by year. The need to fund the increasing investments in Alternative, Property and Local assets and to preserve an appropriate allocation to cash, were likely to necessitate additional withdrawals of assets from the Fund's Investment Managers. This would continue to be funded from the L&G policy that was formed following the assimilation of the Probation Assets. This would continue to reduce somewhat the post assimilation concentration of assets with L&G to around a quarter of the Fund.

During the year, Officers funded the allocation to Stone Harbor's Multi-Asset Credit portfolio, as set out in last year's review of Investment Strategy. This was sourced entirely from equities, with £287m being transferred from Capital and the remainder from L&G.
Officers had been spending an increased amount of time reviewing Private Debt opportunities and had built up an allocation within the Special Opportunities Portfolio. Hymans advised that the Fund introduced a Main Fund allocation to Private Debt, funded from a reduction in equities, to diversify the main Fund, reducing the reliance on Public Equities as the source of growth assets. It was proposed that the Private Debt allocation currently within the Special Opportunities Portfolio was promoted into a standalone Main fund allocation. It would have an initial realistic allocation of 0.5% of Main Fund assets and a strategic allocation of 5% of Main Fund assets. Officers would review the fund's current exposures to Private Debt across the Main Fund to potentially enhance portfolio construction, oversight and monitoring and would report back to Panel.

It was concluded that the Fund was now facing a range of strategic and tactical investment related issues, each having their own 'research agenda' in terms of background work, policy formulation and practical implementation. How the Fund addressed these issues and implemented suitable changes would be a critical determinant of its standing in 5 or 10 years time.

Discussion ensued with regard to the above and the Advisors commented on the inevitable consequences of diversification. There was a broad consensus that the current position was the right one, however, a need for close monitoring of the strategy was required, going forward.

RECOMMENDED

(i) To change the Public Equity mix from 35% UK : 65% Overseas to 30% UK : 70% Overseas;

(ii) That the allocation to Senior Secured Private Debt currently held in the Special Opportunities Portfolio be promoted into the Main Fund, with a 'realistic' allocation of 0.5% of Main Fund assets and a strategic allocation of 5% of Main Fund assets. Review Private Debt exposures across the Fund and report back to Panel;

(iii) That all increases in realistic allocations to Private Equity, Infrastructure and the Special Opportunities portfolio to come entirely from Public Equities;

(iv) To develop a Smart Beta proposal which would provide a rapidly implementable solution to address a number of key issues for the Fund; and

(v) To monitor the Main Fund formally once each year immediately following the review of Investment Strategy and rebalance back to the Main Fund benchmark allocation as necessary.