APPENDIX 2

From: Steven Law [mailto:steven.law@hymans.co.uk]
Sent: 02 August 2018 09:10
To: Sandra Stewart; Euan Miller
Cc: Catherine McFadyen
Subject: FW: Section 13 Engagement - Greater Manchester Pension Fund

From: Steven Law
Sent: 02 August 2018 09:10
To: 'John Bayliss' <John.Bayliss@gad.gov.uk>; 'Oscar.CastroLado@gad.gov.uk' <Oscar.CastroLado@gad.gov.uk>
Cc: 'Sheila Owen' <Sheila.Owen@communities.gsi.gov.uk>; Catherine McFadyen <Catherine.McFadyen@hymans.co.uk>
Subject: Section 13 Engagement - Greater Manchester Pension Fund

John/Oscar,

I note the email below to GMPF. We are glad you have decided to drop the flag given that the Fund retains a surplus even after the crude asset shock test.
Given that, it seems unhelpful to include reference to the Fund in the appendix and highlight that they would have raised a flag if the Fund's circumstances were materially different. Many funds would fail many different flags if their circumstances were different!

GMPF are well aware of the risks associated with investment in growth assets and have extensively analysed these. The Fund has mitigation plans to not only manage equity downturns, but to also take advantage of these events were they to materialise.

If you have any questions or require any further evidence of the Fund's strategies and mitigation plans for handling poor equity markets, please do let me know.

Kind regards

Steven

Steven Law
for and on behalf of

Hymans Robertson LLP
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From: Oscar Castro Lado [mailto:Oscar.CastroLado@gad.gov.uk]
Sent: 20 July 2018 12:51
To: Sandra Stewart; Euan Miller; 'steven.law@hymans.co.uk'
Cc: 'Sheila Owen'; John Bayliss; Charlotte Stewart; DCLG LGPS Filing
Subject: Section 13 Engagement - Greater Manchester Pension Fund

All,

Further to my previous emails, we are contacting you regarding the asset shock for Greater Manchester Pension Fund. The attached document provides a breakdown of the data used by GAD and the methodology for the asset shock, other solvency measures and LTCE.

This email is part of our formal engagement and we wanted to inform you that **the fund triggered the asset shock measure, but as it is in surplus on our best estimate basis after the shock, we do not intend to raise a flag**. Currently, we plan to mention this scenario, but only name the fund in the Solvency appendix. The reason is that the fund is well funded, but if such an event happened, a significant part of the surplus would be eliminated, and this would bring forward the likelihood of needing to pay additional contributions.

Asset shock explanation
Our asset shock measure is a stress test that looks at the impact of a sustained downturn in markets, which would normally require specific action to resolve the emerging deficit (in the form of additional contributions). Those additional contributions would form a large portion of the core spending power of the underlying authorities, which would then have an impact on ability to provide core services.

We have adopted the following approach for the asset shock:

(1) Shock assets by reducing the value of return-seeking assets (e.g. equity) by 15%
(2) Calculate the additional deficit amount that arises as a result of asset shock, and allocate this to:
    (a) employers who **are** funded through core spending
    (b) employers who **are not** funded through core spending
(3) Spread the deficit from (2a) over a 20 year period
(4) Determine the percentage of core spending that would be used to cover the yearly deficit from (3)
(5) Determine whether the fund is a green, amber or red flag, based on the size of the percentage in (4)
(6) If the fund is in surplus following the asset shock then the fund is not flagged, regardless of the flag colour in (5)

The Greater Manchester Pension Fund would have flagged (amber) for the asset shock, if it had been in deficit post asset shock, however since it is in surplus post asset shock (point (6)) the fund is not flagged.

We are happy to discuss further if you have any questions.

Regards
Oscar
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