GREATER MANCHESTER PENSION FUND ADVISORY PANEL

20 July 2018

Commenced:	**10.00am**	**Terminated: 12.30pm**
Present:	**Councillor Warrington (Chair)** **Councillors: Barnes (Salford), Grimshaw (Bury), Halliwell (Wigan), Mistry (Bolton), O'Neill (Rochdale), Pantall (Stockport)** **Employee Representatives:** **Mr Allsop (UNISON), Mr Drury (UNITE), Mr Flatley (GMB), Mr Llewellyn (UNITE) and Mr Thompson (UNITE)** **Local Pensions Board Members (in attendance as observers):** **Councillor Cooper** **Advisors:** **Mr Bowie, Mr Moizer, Mr Powers and Ms Brown**	
Apologies for absence:	**Councillors Mitchell (Trafford) and Ball (Oldham)**	

1. CHAIR'S OPENING REMARKS

The Chair welcomed everyone to the meeting, in particular, to the new Councillors on the Panel: Councillor Ball (Oldham), Councillor Drennan (Tameside), Councillor Mistry (Bolton) and Councillor O'Neill (Rochdale). She further thanked former Panel Members, Councillor Jabbar (Oldham), Councillor Brett (Rochdale) and Councillor Francis (Bolton) for their contribution to the work of the Fund over the past year.

The Chair also thanked Steve Lee of Investec for putting together an abridged version of the 3 day Local Government Essential Pensions training into a single day and delivering the training especially for the Greater Manchester Pension Fund. The Chair encouraged everyone to attend training and in particular, recommended the Pension Regulators on-line training and agreed that the link for this would be forwarded to all Members.

The Chair outlined key issues on the agenda, as follows:

- An update on pooling, including meeting with the Minister,
- A proposal in relation to the pension aspects of the Waste Retendering;
- The annual review of Investment Strategy;
- Investment Management arrangements;
- Long term performance reports; and
- The Fund's Annual Report and Accounts.

The Chair reported that at the end of March, the fund stood at £22.5 billion a decrease of £0.5 billion over the quarter since the last meeting of the Panel. However, the value of the Fund had subsequently recovered to stand at almost £23.5 billion today.

2017/18 had been another successful year for the Fund and the year saw positive returns in almost all investment categories, whilst the Main Fund achieved a return of 4.2%; outperforming a number of comparative benchmark indexes. The Main Fund had also consistently delivered annual returns 0.6% higher than that of the average local authority over 30 years and over periods of 15, 20 and 30 years had ranked in the top 10 of such funds. The Fund was responsible for more than 370,000 members and 560 employers with administration costs per member remaining lower per year than the Local Government Pension Scheme average.

As had been the case in previous years, the growth had been undertaken in a challenging financial and economic climate. This had placed extra pressure on pension funds, particularly around higher values being placed on pension promises earned, and the performance of assets required to meet those promises. The Fund and its employers also faced the continued impact of austerity measures and government policies on public sector delivery, perpetuating the risk of financial difficulties within public sector organisations and potentially weakening the Fund's covenant strength. Albeit in the last 30 years, the Fund had overachieved £3.7 billion above what it would have achieved it if had been operating at the level of performance of the average Local Government fund.

With regard to developments since the last meeting, the Chair informed Panel members that she had, along with Northern Pool counterparts and the Director of Pensions, met Rishi Sunak, the Minister with responsibility for the LGPS in May at the Houses of Parliament. The Northern Pool's unique approach to pooling and the progress made was discussed. It was explained that achieving the right outcomes was more important than process or structure. The Minister agreed with that and commented that he was keen for funds to invest at least a tenth of their asses into infrastructure investment. He also name checked the Greater Manchester Pension Fund and its contribution to housing at the pensions conference where he delivered a key note speech the day before the meeting and said how keen he was to hold a conference to find ways to free blockages to infrastructure investing perceived or real, and would be looking to the Northern Pool and the Fund to assist with that.

The Chair was pleased to inform members that she had received a letter from Mary Creagh MP, Chair of the Environment Audit committee advising that on the 25 May 2018, she had published the Fund's response to her committee on the steps taken to manage the risks that climate change poses to UK pension investments. It was satisfying to hear that the Greater Manchester Pension Fund, along with its pooling partner, West Yorkshire, were stated to have reached the highest standard of being 'more engaged' and were committed to report on the climate change risks and opportunities facing funds in line with the recommendations of the Task Force on Climate-related Financial Disclosures.

The Chair was further pleased to report that, as of 5 June 2018, the Greater Manchester Pension Fund and the Northern Pool had been recognised as Transition Pathway Initiative Supporters meaning that the Fund was committed to the transition to a low-carbon economy, and supporting efforts to address climate change. A notable addition to this year's Annual Report was the section on the Pension Fund's approach to Climate Risk. The Fund whole-heartedly supported the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures. Financial decarbonisation of the economy was a complex and challenging issue, particularly for long-term investors such as pension funds. However, this had not stopped the Fund's commitment to the Paris Agreement goal of 100% of assets being compatible with the net-zero emissions ambition by c2050. Progress towards this goal would be regularly evaluated in line with the objective of maintaining long-term financial performance, taking care to avoid stranded assets and ensuring that the Fund could continue to deliver affordable and sustainable pensions for employers and taxpayers. The Fund would continue to use its position on the Local Authority Pension Fund Forum (LAPFF) and the Institutional Investor's Group on Climate Change to engage with and challenge companies in which it had an interest.

The Chair concluded by extended congratulations to the Fund's Private Markets Investment Team, who had been awarded the prestigious Fund Selection Team of the Year 2018 by the Institutional Investor Institute.

2. DECLARATIONS OF INTEREST

There were no declarations of interest submitted by Members.

3. MINUTES

The Minutes of the proceedings of the meeting of the Pension Fund Advisory Panel held on 23 March 2018 were signed as a correct record.

The Minutes of the proceedings of the meeting of the Pension Fund Management Panel held on 23 March 2018 were signed as a correct record.

4. 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:

Items	**Paragraphs**	**Justification**
7,8,9,10,11,12,13	**3&10, 3&10, 3&10, 3&10, 3&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.**

5. LOCAL PENSIONS BOARD

The Chair explained that the Chair of the Local Pensions Board was unable to attend the meeting today, however, in his absence, she read out his report that the Board had a productive meeting and items discussed included training requirements for Board members, the continued development of the Northern Pool and the governance arrangements for the completion of the annual pension fund accounts. In particular, a helpful discussion had taken place regarding the Pension Regulator’s increased scrutiny of the LGPS and how the fund assessed its compliance with the Pension Regulator’s Code of Practice together with comprehensive updates from GMPF’s administration section and from the internal audit team on the work they had been doing.

RECOMMENDED
That the Minutes of the proceedings of the Local Pensions Board held on 29 March 2018 be noted.

6. POLICY AND DEVELOPMENT WORKING GROUP

The Minutes of the proceedings of the Policy and Development Working Group held on 14 June 2018 were considered

The Chair of the Working Group, Councillor Warrington, advised that it had been an interesting and constructive meeting and she thanked the Advisors for their input. The Chair, as a reminder, explained that the Fund had implemented a Global Equity Trigger Process, which was designed to either protect the Fund when the stock market became very expensive, or enhanced the Fund's returns by investing at times of extreme stock market lows. When the stock market continued to rise at the start of 2018, a trigger was hit and the Fund protected itself against falls in the market on £120 million of its equities. Officers provided Members with an updated estimate of Fair Value, along with the updated trigger points at which the Fund would buy or sell equities. The updates were recommended for adoption by the Panel today.

Separately, the Working Group, along with the Advisors, devoted substantial time to considering a draft of the Investment Strategy report. The final report, which had been updated to reflect feedback from the Working Group, would be presented later in the agenda.

RECOMMENDED

(i) That the Minutes be received as a correct record;

(ii) In respect of Property Investment: Deployment and Performance Monitoring, that the revised project summary as set out in an appendix to the report, be noted;

(iii) In respect of Investment Initiatives, that the actions proposed on additional investment initiatives to be taken by officers in consultation with the Chair of the Fund, be noted;

(iv) In respect of the Global Equity 'Purchase/Sale' Trigger Process – Update of Fair Value Estimate, Trigger Points and Size of Switch, that 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, be adopted;

(v) In respect of the Introduction to Private Debt Allocation, that the Fund creates a new strategic allocation to ' Private Debt' of 5% of Main Fund assets; and

(vi) In respect of Investment Strategy and Tactical Positioning 2018/19:

- **(a) To change the Public Equity mix from 35% UK: 65% Overseas to 30% UK: 70% Overseas;**
- **(b) 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;**
- **(c) That all increases in realistic allocations to Private Equity, Infrastructure and the Special Opportunities portfolio to come entirely from Public Equities;**
- **(d) To develop a Smart Beta proposal which would provide a rapidly implementable solution to address a number of key issues for the Fund; and**
- **(e) 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.**

7. INVESTMENT MONITORING AND ESG WORKING GROUP

The Minutes of the proceedings of the meeting of the Investment Monitoring and ESG Working Group held on 6 April 2018 were considered.

Councillor Pantall, who chaired the Working Group in Councillor Taylor's absence, was pleased to report that Investec gave an informative update on their corporate governance activity, and trading costs over the last 12 months. Investec highlighted that it had been an important year for ESG integration and their 4factor process with the development of an ESG portfolio screener which enabled the portfolio managers to understand the ESG footprint of any existing and future investments they make on behalf of the Fund. Investec outlined companies within our portfolio where they had identified ESG issues, and gave details of engagements that they had undertaken, with a current priority being the board composition at Samsung. Members had also been provided with an update from PIRC on their '2018 UK Shareowner Voting Guidelines'.

RECOMMENDED
That the Minutes be received as a correct record.

8. PENSIONS ADMINISTRATION WORKING GROUP

The Minutes of the proceedings of the meeting of the Pensions Administration Working Group held on 6 April 2018 were considered.

The Chair of the Working Group, Councillor J Lane, reported that the Working Group had heard about the improvements made to the Death Grants procedure to date. The Death Grant Discretion Board was established some months ago to advise the Director of Pensions in making decisions regarding the beneficiaries in unusual or complex cases and had so far considered 30 cases. All potential beneficiaries considered were now informed of the information considered when making the decision and the reasons why the decision had been made. These improvements were ensuring that robust decisions were being made and were resulting in less challenges being received from potential beneficiaries.

The Working Group also received an update on the Communication activities for the quarter and the improvements being made regarding communications with members. Following feedback from members, it had been identified that there was a lack of awareness regarding processes and timescales for member events. To aid the members understanding with this, illustrative timeless for key member processes had been produced and put on the members' website. Further surveying of members was being undertaken to gain a greater understanding of their needs and expectations.

RECOMMENDED
(i) That the Minutes be received as a correct record; and
(ii) In respect of the Pension Administration Strategy, that a revised strategy be implemented and that an eight week consultation period with employers and other interested stakeholders take place.

9. ALTERNATIVE INVESTMENTS WORKING GROUP

The Minutes of the proceedings of the meeting of the Alternative Investments Working Group held on 8 June 2018 were considered.

The Chair of the Working Group, Councillor Cooney, reported that the Working Group had heard from the Fund's specialist advisor, Capital Dynamics, who presented its annual reviews of GMPF's Private Equity and Infrastructure portfolios to 31 December 2017. Both of these portfolios continue to develop well, with 'since inception' returns of 16.7% per annum and 10.2% per annum respectively.

In addition, review of strategy and implementation for both of these portfolios were discussed. The private equity portfolio report gave particular focus to changes relating to geographic and investment stage diversification, changes that were linked to the creation of the Northern Private Equity Pool LP.

Recognition was also made of officers' significant efforts during 2017 in the implementation of the private equity and infrastructure strategies, particularly given the demands of the creation of the Northern Private Equity Pool LP.

RECOMMENDED
(i) That the Minutes be received as a correct record;
(ii) In respect of Private Equity – Review of Strategy and Implementation,
That:-

(a)The medium term strategic allocation for private equity remains at 5% value of the total Main Fund assets.

(b)The target geographical diversification of the private equity portfolio be revised, in line with the Northern Private Equity Pool strategy to:-

Geography	
Europe inc UK	35% to 50%
USA	35% to 50%
Asia & Other	10% to 20%

(c)The investment stage diversification of the private equity portfolio be revised, in line with the Northern Private Equity Pool strategy to:-

Stage	
Lower Mid-Market & Growth	10%-20%
Mid-Market	45%-55%
Large Buyout	30%-40%

(d) The scale of commitment to funds be £280 million per annum, to work towards achievement of the strategy allocation over the next 2/3 years.

(e) GMPF's private equity strategy is implemented through appropriately sized commitments to Northern Private Equity Pool such that the anticipated deployment be consistent with the above pacing recommendation.

(f) To continue to recognise that the portfolio may not fall within the target ranges detailed at recommendations (b) and (c) from time to time to reflect portfolio repositioning.

(iii) In respect of Infrastructure – Review of Strategy and Implementation; That:-

(a) The medium term strategic allocation to Infrastructure funds remains at 5% value of total Main Fund assets.

(b) The target geographical diversification of the infrastructure portfolio remains as:-

Geography	Target Range
EUROPE, inc UK	50% to 70%
N AMERICA	20% to 30%
ASIA-PACIFIC/OTHER	0% to 20%

(c) The target stage diversification of the infrastructure portfolio remains as:-

Investment Stage	Relative Risk	Target Range
CORE & LT CONTRACTED	LOW	30% to 40%
VALUE ADDED	MEDIUM	40% to 60%
OPPORTUNISTIC	HIGH	0% to 20%

(d) The scale of fund commitments remains at £210 million per annum to work towards achievement of the strategy over the coming years.

(e) The Private Markets team continue to implement the Infrastructure strategy via 3 year programmes of commitments, across between 2 and 4 new funds per annum (averaging 3 new funds per annum)

(f) **Commitments to primary funds be made directly to partnership vehicles.**

(g) **It is recognised that the portfolio may not fall within the target ranges at (b) and (c) from time to time to reflect portfolio repositioning.**

10. EMPLOYER FUNDING VIABILITY WORKING GROUP

The Minutes of the proceedings of the meeting of the Employer Funding Viability Working Group held on 20 April 2018 were considered.

The Chair of the Working Group, Councillor J Fitzpatrick, reported that the Working Group had discussed the work ongoing to analyse the most effective way to deliver bespoke employer investment strategies. This was a significant project for the fund and would be discussed further at future meetings, with the intention of implementing these strategies this time next year. A report had also been received setting out the governance arrangements for approval of the Fund's 2018 accounts, which were to be considered later on the agenda.

RECOMMENDED

(i) **That the Minutes be received as a correct record;**

(ii) **In respect of GMPF Statement of Accounts 2017-2018 Governance Arrangements, that the governance arrangements for the approval of GMPF accounts be noted; and that the assumptions for estimates used in the GMPF accounts be noted;**

(iii) **In respect of Pooling Ill-Health Retirement Experience and Costs Between Employers, that the proposal to trial an internal ill-health insurance arrangement for the sixth form colleges be noted; and**

(iv) **In respect of Security Arrangements for Admitted Bodies, that approval be given to implement alternative security arrangement to employers renewing a bond, subject to the receipt of appropriate legal and actuarial advice and a satisfactory valuation of the asset.**

11. PROPERTY WORKING GROUP

The Minutes of the proceedings of the Property Working Group held on 20 April 2018 were considered.

Councillor Cooney, who chaired the Working Group in Councillor Quinn's absence, reported that the Working Group considered a report on the overall performance the Fund's property assets and the pace of deployment of capital, the focus was on the underperformance of La Salle. There was a project being undertaken by officers and advisors to ascertain reasons and potential remedies, which would report back in due course.

There were also standard quarterly reports on aged debt and from La Salle and GVA

RECOMMENDED
That the Minutes be received as a correct record.

12. INVESTMENT STRATEGY AND TACTICAL POSITIONING

A report was submitted by the Assistant Director of Pensions, Investments, and a presentation delivered by the Actuary to the Fund, reviewing the benchmark asset allocations for the Main Fund and Investment Managers and considered changes to the investment restrictions.

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. Members were advised that the Advisors had been consulted initially for their comments on the Managers' submissions, and also through their attendance at the Policy and Development Working Group on 14 June 2018, where detailed discussion on the key relevant points of an initial draft of the report had taken place. They were supportive of the recommendations.

RECOMMENDED
That:

1. **Any requirements for cash to be withdrawn from the securities managers to be taken from L&G, pending the outcome of the ongoing Structure Review.**

2. **Main Fund Overall Asset Allocation**

   (a) **Adjust the Public Equity to take account of the changes in 'realistic benchmark' allocations to Private Debt, Private Equity, Infrastructure, Local Investments and the Special Opportunities Portfolio *[see 7. (a), 8. (d) and 11. (b) below].***

3. **Public Equity Allocation**

   (a) **Change the Public Equity mix of 35% UK : 65% Overseas to 30% UK : 70% Overseas.**

   (b) **Maintain the Overseas equity split at : North America 32.5%; Europe (ex UK) 27.5%; Japan 15%; Pacific 10% and Emerging Markets 15%.**

4. **Debt Related Investments (inc Bonds)/Cash Allocation**

   (a) **No changes proposed for the overall bond position at this time – further consideration to be given to the bond allocations and proposals brought to a future Panel meeting.**

   (b) **No change to the 3.2% allocation to Strategic Cash.**

   (c) **Continue to source the majority of the 2018/19 cash requirements from L&G, pending the outcome of the ongoing Structure Review.**

5. **Environmental, Social and Governance Factors**

   (a) **No changes proposed for the Fund's incorporation of ESG factors into the strategic benchmark and investment strategy.**

6. **Capital's Replacement Management Arrangements**

   (a) **Work will be undertaken with Hymans to first design an appropriate set of management arrangements to replace the Capital mandate with, before conducting any procurement exercises as necessary. Consideration will be given to issues such as multi-asset vs specialist managers and global vs regional management of assets.**

7. **Private Debt**

   (a) **The current relatively small allocation to Senior Secured Private Debt currently held in the Special Opportunities Portfolio to be promoted into a Main Fund Private Debt allocation, with a realistic allocation of 0.5% of Main Fund assets and a strategic allocation of 5% of Main Fund assets.**

   (b) **Review the Fund's current exposures to Private Debt and report back to Panel.**

8. Alternative Investments

(a) Private Equity : The recommendations of the Alternative Investments Working Group be adopted (minute 23 refers).

(b) Infrastructure : The recommendations of the Alternative Investments Working Group be adopted (minute 25 refers).

(c) Special Opportunities Portfolio : The recommendations of the Alternative Investments Working Group be adopted (minute 12 refers).

(d) Change the realistic allocation to Private Equity from 3% to 4%, Infrastructure from 2% to 2.5% and the Special Opportunities Portfolio from 1.5% to 2.5%.

(e) All increases in realistic allocations to Private Equity, Infrastructure and the Special Opportunities portfolio to come entirely from Public Equities.

9. Direct UK Infrastructure

(a) No changes proposed to the 1.5% realistic allocation to GLIL.

(b) Increase the commitment to GLIL from £500m to £1bn, with the phasing of commitments above the current £500m being at the discretion of the Director of Pensions.

10. Property

(a) Maintain the long term target allocation to property at 10% of total Main Fund assets, broadening the range of approaches to obtaining the target 10% exposure.

(b) Subject to results of review, continue to phase in 'realistic benchmark' allocations and movement towards the 10% target, pending the outcome of the review of property performance, as follows :

	2018/19 Realistic% Range% Cash flow	2019/20 Realistic% Range% Cash flow
Main Portfolio External	5 4-6 £200m	6 5-7 £200m
Indirect	1 0-2 (£0m) -(£25m)	1 0-2 (£0m) -(£25m)
Overseas	1.5 1-3 £100m	2 1-3 £100m
Other	0.75 0-1 £50m	1 0-1 £50m
Total	9 6-14 £200m-£450m	10 6-14 £150m-£250m

(c) Review the use of leverage within Property and the wider Fund and report back to Panel.

11. Local Investment

(a) **Maintain the overall limit on those assets which are locally invested at 5% of Main Fund as agreed at the July 2011 Panel whilst recognising the new collaborative initiatives of the North West Impact Portfolio.**

(b) **Continue to phase in 'realistic benchmark' allocations to reflect the movement towards the respective targets, as follows:**

	2018/19 Realistic% Range% Cash flow	2019/20 Realistic% Range% Cash flow	2020/21 Realistic% Range% Cash flow
GMPVF and housing	2 1-3 £100m	2.5 2-3 £100m	2.5 2-3 £100m
Impact Portfolio and legacy I4G	1.25 0.75-1.75 £50m	1.5 1-2 £50m	1.5 1-2 £95m
Total	3.25 1.75-4.75 £150m	4 3-5 £150m	4 3-5 £195m

12. Factor Based Investing

(a) **The Fund to develop a Smart Beta proposal which would provide a rapidly implementable solution to address a number of key issues for the Fund.**

13. Rebalancing

(a) **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.**

14. Implementation

(a) **The nature, timing and detailed implementation of any benchmark changes necessary to reflect the decisions of the Panel be settled by the Director of Pensions following consultation with the Advisors and/or managers where appropriate.**

13. REVIEW OF INVESTMENT MANAGEMENT ARRANGEMENTS

The Assistant Director of Pensions, Investments, submitted a report in relation to the Fund's consideration of Investment Management arrangements.

It was explained that, over the course of 2017, the Fund conducted a review of its Investment Management arrangements, assisted by Hymans. The Panel resolved to terminate the Capital mandate and the assets were temporarily transferred to L&G pending replacement arrangements might be.

The Investment Management arrangements of the Fund reflected a wide range of significant decisions concerning how the fund chose to position itself in terms of the management of its assets These significant decisions included, amongst others, a consideration of the choice of peer-group versus bespoke benchmark and the detail of any bespoke benchmark, and whether, for example, to adopt active versus passive management or specialist versus multi-asset management. The numbers of appointed managers and their respective investment styles and approaches also needed to be determined. A sequential approach to considering these matters was beneficial.

It was further explained that Hymans Robertson, Actuary to the Fund, were assisting with the review of Investment Management arrangements and it was anticipated that, as part of the review, a report would also be brought to the October 2018 meeting of the Panel.

David Cullinan of PIRC delivered a presentation, which gave information in respect of how the fund was delivering compared to other funds known as the LGPS Universe.

Mr Cullinan gave details of the LGPS Market Environment and Fund performance.

He summarised by explaining that the sector had delivered excellent returns over all periods. The Fund's performance relative to benchmark and its peers had been excellent and a clear, long-term strategy and implementation thereof had been very valuable. Importantly, performance over all meangingful timeframes had outpaced inflation and actuarial assumptions for asset growth.

Mr Marshall of Hymans Robertson then delivered a presentation which set out an introduction to the structural review and provided an update on the fund's strategic and structural evolution and an overview of the areas to be covered in the second stage of the review to the October 2018 Panel meeting.

Mr Marshall summarised that the Fund had evolved considerably over recent years. This was expected to continue in the coming years, most notably evolving the strategy to achieve long-term stable and affordable contribution rates and the introduction of the multiple employer framework. There was also the ongoing regulatory changes and external challenges e.g. pooling. Given all this it was fundamental that the Fund's governance evolved accordingly.

He also briefly outlined points of discussion for Stage 2 of the review, (to be discussed at the October Panel Meeting) and explained that a number of recommendations would be made, including the splits between specialist and multi-asset and active and passive mandates to help ensure the Fund's arrangements reflected the underlying investment beliefs.

Discussion ensued and, in response to comments from Members, Mr Marshall referred to the Fund's historical success as a long-term investor.

Mr Moizer concurred with Mr Marshall's and commented on the Fund's consistent vision over 30 years.

Mr Powers further endorsed the work of the Employer Funding Viability Working Group and Hymans Robertson.

The Chair thanked both Mr Cullinan and Mr Marshall for very informative presentations.

RECOMMENDED
That the content of the report and presentations be noted.

14. PERFORMANCE DASHBOARD

Consideration was given to a report of the Assistant Director of Pensions, Investments, providing high level, investment performance information, including the value of the Pension Fund Investment Portfolio, the performance of the Main Fund, and the over/under performance of the external Fund Managers against benchmark.

The key information from the Quarter 1 Performance Dashboard was summarised. Global equity markets fell in Q1 2018, the first quarterly fall in two years. The continued positive outlook for growth and the increased expectations for future rate rises saw yields on many benchmark government bonds rise sharply. These rises in yield moderated later in the quarter, as investors considered evidence that the rate of acceleration in global demand growth may be set to ease off. Credit focused areas of the bond markets fell as credit spreads widened modestly over the quarter (having initially narrowed) as concerns grew about tighter monetary policy and rising trade tension. Market volatility had continued to be low relative to history but had significantly increased across all asset classes in Q1.

Over the quarter total main Fund assets decreased by £600m to £21.9 billion. The benchmark allocation was updated at the end of January to reflect the removal of the tactical cash weighting (reduced over the quarter by around 1% to c 3%) and the concomitant increase in the equity weighting (increase of 3% to c. 58%). As a result, within the Main Fund, there was an underweight position in equities (of around 2% versus target). Also, the property allocation continued to be underweight versus its benchmark, although the magnitude of the underweight reduced over the quarter (by around 1% to c. 3%).

On a cumulative basis, over the period since September 1987, the Main fund has outperformed the average LGPS, equating to over £3.7 billion of additional assets. The Main Fund outperformed its benchmark over the quarter and had outperformed its benchmark over the quarter and all periods (1, 3, 5 and 10 years) mainly due to stock selection. The active risk of the Main Fund was broadly consistent at around 1% but risk in absolute terms (for both portfolio and benchmark was lower than that observed historically. At the end of Quarter 1, each of the active managers had achieved positive performance on an absolute and relative basis over 1 year.

RECOMMENDED
That the content of the report be noted.

15. ANNUAL PERFORMANCE REPORTS

(a) Long Term Performance 2017/18 – Main Fund and Active Managers

Consideration was given to a report of the Assistant Director of Pensions, Investments, which advised Members of the recent and longer term performance of the Main Fund as a whole and of the external Public Markets active Fund Managers. Detailed results covering periods up to 30 years were given.

It was reported that the Main Fund was in the top 10% of the Local Authority Pension Funds surveyed over 30 years and was the fourth best performing Local Authority Fund over the 30 year period.

The performance of UBS over their time as a Manager for the Fund had been excellent. Short term only performance for Investec since their inception in 2015/16, was displayed.

RECOMMENDED
That the content of the report be noted.

(b) Cash Management

A report was submitted by the Assistant Director of Pensions, Investments, which explained that the Fund adopted a relatively prudent approach to its cash management. The report outlined the constraints in place to ensure an appropriate level of prudence, focusing primarily on capital preservation and secondly on higher returns. It also detailed the performance achieved last year and over the last three years.

The report concluded that the Pension Fund's cash had been generally well managed. Performance in 2017/18 exceeded market returns and total interest received was £2.9 million.

RECOMMENDED
That the content of the report be noted.

(c) Property Investment 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 performance monitoring.

The background to the property investment programme at the Fund and the reasons for its detrimental overall performance were outlined, including the steps taken by the Management Panel and Property Working Group to correct this.

It was explained that a meeting had been held with 3 of the Fund's Advisors, the senior management group, the property team and IPD and LA Salle on 17 May 2018. The agenda and summary of the discussion was detailed in an appendix to the report.

Key outcomes from the meeting were reported as follows:

- An agreement that the rate and timing of deployment had a significant impact on performance;
- An agreement that La Salle had done well with asset management on existing properties whilst some questions remained over acquisitions noting that it was early in the life cycle for these;
- An agreement to explore changing the overall target allocation for La Salle and giving more flexibility over timing of deployment; and
- A desire to understand more fully how the other internally managed portfolios fit in with the La Salle portfolio and to examine what was an appropriate benchmark for each of the components.

Members were informed that, following these outcomes the project plan had been revised and further meetings were being arranged. The revised project summary sheet was also appended to the report.

RECOMMENDED
That the content of the report be noted.

16. NORTHERN POOL UPDATE

The Assistant Director of Pensions, Funding and Business Development, provided an update on recent activity of the Northern Pool and other relevant developments related to pooling assets across the LGPS in England and Wales.

It was reported that all LGPS pools were asked to submit a further progress report to Government covering the period up to 13 April 2018. As was the case for previous progress reports, MHCLH issued a template for pools to complete. The template for this update was more detailed than the ones issues for previous submissions. A link to the progress update from the Northern Pool which was submitted on 10 May, was provided.

The response summarised the Northern Pool's progress in meeting each of the Government's four headline pooling criteria, as set out in the report. Supporting information provided with the progress update included the CEM benchmarking analysis for the Pool and details of the current GLIL investments. The main ongoing work streams for the Northern Pool were also set out in the report.

Members were informed that Rishi Sunak MP, the current Minister with responsibility for local government pensions, met with members of the Northern Pool Shadow Joint Committee and the Director on 23 May 2018 to discuss plans for implementation.

Matters discussed included the Northern Pool's infrastructure and housing investment, the evidence obtained via the CEM benchmarking reports of the Northern Pool's low costs compared to its peer group and where the responsibility for selecting fund managers lie in the Pool.

Following the meeting, MHCLG were provided with a copy of legal advice obtained by the Northern Pool, which set out the potential operation of a vehicle of similar structure to NPEP, which could be used to select and monitor external managers of listed assetssubject to further consideration that this would deliver vale for money. This advice was attached in an appendix to the report. One of the sub-criteria in the pooling guidance issued by Government was that external managers must be selected at the Pool level rather than by individual funds.

The vehicle envisaged to select and monitor external managers of listed assets would not be able to appoint any manager which was not FCA regulated. As a result, any internally managed listed assets in the funds participating in the Northern Pool (which included the bulk of West Yorkshire Pension Fund's assets) would effectively be held outside of the pooling arrangements.

Consideration would need to be given to whether WYPF was represented on the externally managed listed assets vehicle given it would not have any investment in this area at outset. It was noted that further legal advice was being sought from Leading Counsel.

Minutes of the Northern Pool Shadow Joint Committee meetings which had taken place on 26 February 2018 and 22 March 2018 were attached to the report for information. Ian Greenwood, the vice-chair of the West Yorkshire Pension Fund, was agreed as Chair of the Shadow Joint Committee at the 26 February 2018 meeting. The Shadow Joint Committee also met on 24 April 2018 and the minutes of the meeting would be provided at a future Panel meeting once finalised.
LGPS National Pooling developments were also detailed and discussed.

RECOMMENDED
That the content of the report and the progress of the Northern Pool be noted.

17. REPROCUREMENT OF GM WASTE DISPOSAL CONTRACT

The Assistant Director of Pensions, Local Investments and Property, submitted a report, which explained that, as part of the re-procurement of the GM waste disposal contract, Greater Manchester Combined Authority was considering seeking admission body status in GMPF for the successful bidders and seeking GMPF's consent to receive a built transfer of benefits from the incumbent provider's private sector defined benefit arrangements.

The report summarised the issues for the Panel to consider in relation to this project.

RECOMMENDED
That the Director of Pensions working with the GMPF actuary be authorised to progress the matters outlined in the report.

18. GMPF STATEMENT OF ACCOUNTS AND ANNUAL REPORT 2017-2018

The Assistant Director of Pensions, Local Investments and Property, submitted a report for information, giving details of:

- Governance arrangements for the approval of the accounts;
- Audit Findings Report;
- Simplified summary of the accounts for this year; and

- Annual Report.

RECOMMENDED
(i) That the completion of governance arrangements for the approval of GMPF's accounts be noted;
(ii) That the Audit Findings Report from Grant Thornton be noted; and
(iii) That the Annual Report be approved.

19. REVIEW OF SCHEME GOVERNANCE AND WORKING GROUPS

A report was submitted by the Director of Pensions, which set out the need to review the Fund's governance, which had incrementally increased to reflect a changing legislative landscape without undertaking a full review as to whether fit for purpose. The inordinate number of formal governance meetings was not impacting on the ability to undertake and implement decision or to ensure appropriate oversight and accountability. The Funds success had routed in its simplicity and good and effective governance. A review was required to ensure it was fit for purpose and to do that a revision in the interim was required to address pooling and the need to comply with best practice re: governance as PASA accreditation was sought.

The interim proposal allowed:
- Focus on risks and improved accountability;
- Ensured, in the short term, that a focus on property was retained; and
- Enabled appropriate time to work with advisors on a way forward that was long term and in line with the best global funds and academic research.

RECOMMENDED
That the Panel:
- **Acknowledge the need for a complete review of the Fund's governance to ensure fit for purpose taking into account the revised regulatory framework and authorise the Director of Pensions to undertaken a review of the governance of the Fund working with Hymans to bring back a report for further consideration;**
- **Agree the interim proposals with effect from today to reduce the number of working groups and reflect the governance depicted in Appendix A to the report, together with the revised terms of reference set out in Appendix B to the report;**
- **Note and approve the revised Working Group membership at Appendix C to the report subject to any minor changes to be agreed with the Deputy Vice Chair of the Fund; and**
- **Note and approve the revised calendar of meetings at Appendix D to the report, for the next two year cycle.**

20. PENSIONS ADMINISTRATION UPDATE

Consideration was given to a report of the Pensions Policy Manager, detailing key items of work affecting or being carried out by, the administration section over the last quarter:
- LGPS (Amendment) Regulations 2018;
- 'My Pension' upgrade;
- GMP Reconciliation;
- The Pensions Regulator; and
- PASA accreditation.

RECOMMENDED
That the content of the report be noted.

21. FUTURE TRAINING DATES

Trustee Training Opportunities were noted as follows:

SPS Credit and private Debt Investing for Pension Funds Conference London	**30 August 2018**
LGS Investment Summit Celtic Manor	**6 – 7 September 2018**
Sustainable and Responsible Investing Forum 2018 – Asset Owners Meet Portfolio Managers London	**11 – 12 September 2018**
LGE Fundamentals Training Leeds Day 1 Day 2 Day 3	** 2 October 2018 6 November 2018 5 December 2018**
PLSA Annual Conference Liverpool	**17-19 October 2018**
Investec Trustee Training Venue: tbc	**14 November 2018**

CIPFA Pensions Network Annual Conference The Leadenhall Building, London	**22 November 2018**
LAPFF Annual Conference Bournemouth	**5 – 7 December 2018**
UBS Trustee Training Venue: tbc	**13 December 2018**
LGS Governance Conference Bristol	**17 – 18 January 2019**

CHAIR