

GREATER MANCHESTER PENSION FUND
POLICY AND DEVELOPMENT WORKING GROUP

20 December 2018

Commenced: 11.00am

Terminated: 12.45pm

Councillor Cooney (In the Chair)	
Councillor M Smith	
Councillor J Fitzpatrick	
Councillor Taylor	
Councillor Pantall	
John Thompson	
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)
Neil Cooper	Senior Investments Manager
Andrew Hall	Investments Manager
Kevin Etchells	Investment manager

Apologies for absence: Councillors: Warrington, Quinn and Ms Herbert

9. DECLARATIONS OF INTEREST

There were no declarations of interest.

10. MINUTES

The Minutes of the proceedings of the meeting of the Policy and Development Working Group held on 14 June 2018, having been circulated, were agreed as a correct record.

11. MANAGER MONITORING REGIME INCLUDING MONITORING ESCALATION

The Assistant Director of Pensions, Investments, submitted a report detailing the Fund's approach to manager monitoring and summarising the results from the Monitoring Escalation Protocol as at 30 September 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 also 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.

The Director of Pensions added that the Advisors, who had commented on the reports included in the agenda in advance of the meeting, supported the protocol as a matter of good discipline and governance.

RECOMMENDED

That the content of the report be noted.

12. SPECIALIST ADVISER – PRIVATE EQUITY AND INFRASTRUCTURE

The Assistant Director of Pensions, Investments, submitted a report informing the working group of changes in circumstances relating to GMPF's specialist adviser in the areas of Private Equity and Infrastructure fund investing, the implications of these changes and officers' recommendations regarding the best way forward for the Fund in these asset classes.

The report summarised that GMPF had enjoyed a mutually beneficial relationship with its specialist adviser over many years but it was apparent that changes at Capital Dynamics had culminated in a position where services relating to infrastructure fund investments would end.

Officers were confident that the planned end to infrastructure services currently provided by Capital Dynamics was something that could be comfortably accommodated through new arrangements and the capabilities and experience of internal officer resource.

The Director of Pensions added that the Advisors supported the proposals contained within the report.

RECOMMENDED

That the content of the report be noted and the proposals contained in the appendices be agreed.

13. POOLING UPDATE

Consideration was given to a report of the Assistant Director of Pensions, Funding and Business Development providing an update on the recent activity of the Northern Pool and other relevant pooling developments.

The Assistant Director began by informing Members of the recent sudden death of the former Chair of the Northern Pool Shadow Joint Committee, Councillor Ian Greenwood and explained that a replacement Chair would be considered at the next meeting of the Shadow Joint Committee. It was explained that the Northern Pool submitted its most recent progress update to Government on 22 October 2018. This covered the period up to 30 September 2018. A link to a copy of the progress report and its appendices was provided in the report. Included in the appendices to the progress report were the draft CEM Benchmarking reports for the Northern Pool funds for the period ending 31 March 2018. These analysed the performance and costs of the Northern Pool funds against LGPS and global comparators.

It was further explained that, following the receipt of the QC opinion which was discussed at the Management Panel meeting (and appended to the report), officers of the Northern Pool funds attended a productive workshop with the Pool's legal advisors, Squire Patton Boggs, to further develop the Northern Pool's proposals and in particular how managers of public market assets could most expediently be procured, appointed and monitored via the Northern Pool's proposed governance arrangements, whilst remaining compliant with LGPS regulations and guidance and financial services legislation.

The Working Group was updated on progress regarding finalising the inter-authority agreement, the sealing of which would formally establish the Northern Pool joint-committee, and the revisions proposed

to each fund's Investment Strategy Statement (ISS), in which funds were required to set out their approach to pooling and how their pooling arrangements were in accordance with the guidance. The intention was for the pooling section of the ISS to be consistent across all of the Northern Pool funds.

It was further reported that, it was understood from comments made at recent Scheme Advisory Board and Cross-Pool meetings that Government was seeking to revise and expand the guidance on preparing and maintaining an Investment Strategy Statement. The revisions may result in the withdrawal of the Pooling Criteria and Guidance issued in November 2015.

Members were also informed that a consultation had recently commenced on technical amendments to LGPS benefits, which was due to close on 29 November 2018. Whilst this consultation mainly related to benefit administration, it contained a provision to allow to issue statutory guidance, which could have implications for pooling. A link to details of the consultation was provided in the report. GMPF's draft response to the consultation was appended to the report.

Details of ongoing work streams for the Northern Pool were also set out in the report.

The Minutes of Northern Pool Shadow Joint Committee meeting which took place on 20 September 2018 were appended to the report for information.

The Director of Pensions informed Members of the following comments from Advisors in respect of the Pooling Update report:

Mr Bowie commented on the Pool's continued progress in areas where collaboration was in the interests of the taxpayer and the risk associated with this should the government's focus change. He further commented on the CEM benchmarking data, in particular with regard to Property benchmarks and GMPF and Northern Pool costs when compared to the peer group.

Mr Powers commented on CEM benchmarking data in relation to Private Equity and the difficulties in gauging objective and accurate return comparisons. He further commented on the proposed governance arrangements for the Pool.

Discussion ensued with regard to the content of the report and the Advisors' comments, in particular the issues highlighted in respect of the CEM benchmarking data and it was agreed that further discussion on these complex matters be ongoing at future meetings of the Working Group.

The Director of Pensions made reference to the Northern Pool Stewardship event on 23 January 2019, a conference for those involved with the creation of the Northern Pool and others with a direct interest. The Director explained that the objective was to summarise what the three funds needed to do to meet legislative requirements, achieve good investment returns together with a collective view on developing strong stewardship arrangements for the assets the funds' owned and those they owned through the pooling arrangements.

She added that appropriate travel arrangements would be arranged and asked that anyone interested in attending contact either Carolyn Eaton or Loretta Stowers, should they wish to take advantage of transport to the venue.

RECOMMENDED

That the content of the report be noted and that further discussion be ongoing in respect of the issues highlighted by the CEM benchmarking data, at future meetings of the working group.

14. INSURING PENSION LIABILITIES

Consideration was given to a report of the Assistant Director of Pensions, Funding and Business Development, explaining that a significant employer had been discussing with GMPF and its Advisors the range of potential long-term investment strategies available for its sub-funds in GMPF. One potential option was to purchase what was known as a 'buy-in' policy from an insurance company. These policies effectively paid the Pension Fund a set of cashflows which were an exact match for the benefit payments that the Pension Fund was required to meet. The report described the investments and outlined the key considerations from GMPF.

The Director of Pensions added that the Advisors were supportive of the exploration of the idea.

RECOMMENDED

- (a) That the content of the report be noted; and**
- (b) An advice paper from Hymans be sought, addressing the issues set out in Section 5 of the report.**

15. INVESTMENT INITIATIVES - GLIL

The Assistant Director of Pensions, Local Investments and Property submitted a report providing an update on progress with GLIL. Members were further asked to note certain specific actions to be taken under delegated authority in consultation with the Chair.

The Director of Pensions outlined the views of the Advisors as follows:

Mr Bowie commented on the need to ensure satisfactory governance in this area.

Mr Powers made reference to the positive pace of capital allocation increasing towards target, and sought further general information of officers' approach to pre-investment due diligence/investment criteria.

Discussion ensued with regard to the content of the report, investment activity and performance. It was agreed that officers provide a response to the issues raised by the Advisors and report back to a future meeting of the working group.

RECOMMENDED

- (a) 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; and**
- (b) That the specific issues raised by the Advisors be addressed by officers and reported to a future meeting of the working group.**

16. IMPACT AND INVEST FOR GROWTH PORTFOLIOS

The Assistant Director of Pensions, Local Investments and Property submitted a report providing an update on progress of the Impact and Invest for Growth Portfolios.

The Director of Pensions informed Members that the Advisors supported the progress made and welcomed the consistency of presentation.

RECOMMENDED

That the content of the report be noted.

17. PACING MODEL IMPACT PORTFOLIO

A report of the Assistant Director of Pensions, Local Investments and Property, was submitted providing the annual review on the growth and management of the Fund's Impact portfolio and recommended that the strategy of impact investing be continued, with the pacing of commitments continuing as previously agreed.

The Director of Pensions added that the Advisors supported the recommendations, with Mr Bowie suggesting potential enhancements for future years in respect of the sensitivity of the strategy to assumptions about fund growth and the governance and oversight of this.

RECOMMENDED

- (i) That the content of the report be noted, including progress to date and highlighting that the strategy on Local Impact Investments remained as reported in previous years;**
- (ii) That the annual review of the 4 year pacing strategy be noted and to continue commitments of £80 million per annum, subject to further annual review, be agreed;**
- (iii) That the updated Investment guidelines, which had been updated for minor factual changes, be agreed.**

18. PROPERTY INVESTMENT: DEPLOYMENT AND PERFORMANCE MONITORING

A report was submitted by 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 progress of this review had been reported to previous meetings of the working group. The review was intended to conclude ahead of the strategic review in 2019 and the action plan was attached as an appendix to the report.

It was explained that, as an exception to normal practice, given that the Property Review was not yet concluded, details were attached in an appendix to the report, of an investment proposal that would usually be dealt with by the Director of Pensions at Investment Committee under her delegated powers. Members' views on the proposal were sought.

The Director of Pensions added that the Advisors were generally in support of the proposal with Mr Bowie expressing caution in respect of property valuations.

Discussion ensued with regard to the proposal and it was:

RECOMMENDED

- (i) That the content of the report be noted; and**
- (ii) That the investment proposal, as detailed in the report, be supported.**