GREATER MANCHESTER PENSION FUND - INVESTMENT MONITORING AND ESG WORKING GROUP

Friday, 29 January 2016

Commenced: 10.30 am **Terminated:** 12.30 pm

Present: Councillors Taylor (Chair), R Miah, Brett, M Francis, Grimshaw, Mitchell and Pantall

Apologies for Absence: Councillor Akbar and Mr Llewellyn

17. DECLARATIONS OF INTEREST

There we no declarations of interest.

18. MINUTES

The Minutes of the meeting of Investment Monitoring and ESG held on 16 October 2015 were approved as a correct record.

19. UNDERWRITING, STOCKLENDING AND COMMISSION RECAPTURE

The Executive Director of Pensions 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 ending September 2015. Stocklending income during the quarter was £134,890 and commission 'recaptured' was £26,237.

It was noted that activities were 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.

20. DCLG CONSULTATION PAPER - REVOKING AND REPLACING THE LOCAL GOVERNMENT PENSION SCHEME (MANAGEMENT AND INVESTMENT OF FUNDS) REGULATIONS 2009

The Executive Director of Pensions submitted a report, advising Members of the DCLG Consultation in relation to proposed new Local Government Pension Scheme (Management and Investment of Funds) Regulations, which were intended to come into force on 1 April 2016, and the Fund's proposed response.
It was reported that in November 2015, following the Chancellor's spending review and Autumn Statement, a consultation paper, which would run until 19 February 2016, was circulated. The proposed regulations concentrated on two main areas of reform, in addition to a number of ancillary changes, which were outlined to the Group.

The Working Group heard that the first main area of proposed reform focused mainly on deregulation and adoption of a local approach to investment where a prudential approach, rather than a prescriptive list of permitted investments with a maximum limit on holdings, was suggested. There would be a requirement for Funds to produce an 'Investment Strategy Statement', which would replace the current 'Statement of Investment Principles'.

The second main area of reform related to a proposal to introduce a Secretary of State power of intervention in the investment function of an Administering Authority if they believed that it had not had regard to guidance and regulations.

The Fund's draft response, which was broadly supported by Unison, was highlighted and discussed. There were a number of comments of support and detail but apprehension about the Government's power of intervention, from Members of the Working Group.

RECOMMENDED:
That the Executive Director of Pensions submits a response to DCLG as set out in draft form as an Appendix to the Report, following consultation with the Chair of the Panel.

21. UBS REPORT ON TRADING COSTS

The Working Group welcomed Ian Barnes, Head of UK & Ireland UBS, who attended the meeting to notify the Group of a reimbursement for certain payments made by UBS out of equity dealing commissions between 2008 and 2013.

It was reported that in 2006 the Financial Services Authority introduced rules limiting the scope of items which could appropriately be purchased by Managers using client dealing commissions. Further guidance was published in 2008 and 2013, after which updated rules on the use of dealing commission came into force in June 2014.

The Working Group heard that during the course of the 2013 review it became apparent to UBS that they had been using equity dealing commissions to pay for certain services such as index data and market data services which were ineligible under the UK rules. UBS made a redress payment to GMPF based on the proportion of the commission pool used to pay for services and applied this percentage to the total equity dealing commissions on GMPF's account during the relevant time period.

The Working Group were informed that steps had been taken by UBS to prevent a recurrence by strengthening the controls and processes where required through a new equities operating model, an independent review and new policy and training. UBS are now compliant with the updated rules as of June 2014 and it should be noted, were not fined nor was any enforcement action taken against them by the Financial Conduct Authority.

It was confirmed and accepted by the Regulator that GMPF and other clients were not disadvantaged by this error, and the full service commission rates would have been identical regardless of what the commission was spent on.

RECOMMENDED:
That the report be noted.

22. UPDATE ON SHAREHOLDER LITIGATION

It was explained that two specialist law firms had been appointed by the Fund to provide portfolio monitoring services in relation to shareholder litigation. Representatives of Robbins Geller Rudman & Dowd LLP (RGRD) attended the Working Group meeting held in October 2015.

The Working Group welcomed Mark Willis, Spector Roseman Kodroff and Willis (SRKW) who attended the meeting to present their portfolio monitoring services in relation to shareholder litigation to the Working Group.

The Working Group heard that the firm had a global reach with offices in 22 cities around the world in addition to Washington and Philadelphia. The UK client base was outlined to the Group in addition to the US State Funds and Investment Managers.

The Working Group received information on the firm's focus on corporate governance, their conservative litigation philosophy and the differences between their US and non-US action approach.

RECOMMENDED:
That the report and presentation be noted.

23. LEGAL & GENERAL CORPORATE GOVERNANCE REVIEW

The Working Group welcomed James Sparshott, David Patt and Catherine Ogden from Legal & General Investment Management who attended the meeting to present their corporate governance activity over the last 12 months.

It was reported that the governance team were a dynamic and passionate team consisting of 9 people who reported directly to the CEO and believed strongly in corporate governance as this generally delivered better investment value over the long-term. The current engagement focus included diversity, executive pay, climate change and the importance of engagement and face to face dialogue.

Two case studies relating to Sports Direct and Royal Dutch Shell were outlined and discussed with the Group.

RECOMMENDED:
That the report and presentation be noted.

24. UPDATE ON MARKETS IN FINANCIAL INSTRUMENTS DIRECTIVE II (MIFID II)

The Executive Director of Pensions submitted a report, which provided members with an update on the European Commission's Markets in Financial Instruments Directive (MiFID II) which was currently progressing through the European Commission's legislative process.

It was reported that the update was built upon the groundwork set out by MiFID I, which was implemented in 2007 and sought to regulate financial markets across the EU. MiFID II was published in June 2014 after more than two years of negotiations between EU member states, with a proposed implementation date of January 2017. However, due to the complexity of the technical standards, and due to a number of unresolved issues, it was likely that the implementation date would be pushed back to January 2018.

The Working Group were informed that the implementation of MiFID II would have a direct and significant impact on GMPF in that local authorities would be automatically classified as 'retail clients'. This reclassification would provide additional protection for GMPF and similar investors across Europe but would potentially restrict the range of Fund Managers and investment products available. GMPF could seek classification as a 'professional client' once qualitative and quantitative criteria were confirmed and met.

The Financial Conduct Authority had issued a consultation paper on the MiFID II implementation in the UK during December 2015, which the LGA intended to respond to.

RECOMMENDED:
That the report be noted and further updates be submitted to the Working Group as the directive progresses.

25. CARBON DISCLOSURE PROJECT

The Executive Director of Pensions submitted a report, outlining an invitation from the Carbon Disclosure Project (CDP) to become a signatory to four CDP information requests. The Fund had previously accepted an invitation in 2015.

The Working Group heard that the CDP was an independent not-for-profit organisation which held the largest database of primary information on company policies and practices relating to climate change. The CDP sent information requests to organisations on an annual basis and in order to encourage voluntary responses, financial institutions were invited to become signatories to the requests.

It was reported that the invitation was to become a signatory for the CDP information request, the CDP Water Disclosure, the CDP Carbon Action and the CDP Forest Footprint Disclosure.

RECOMMENDED:
That the Working Group accepted the invitation to become a signatory, at no charge, to the four Carbon Disclosure Project information requests.

26. ROUTINE PIRC UPDATE

The Working Group welcomed Tim Bush, Head of Governance and Financial Analysis PIRC Ltd, who attended the meeting to present PIRC's report, entitled "Proposal for Change of Policy: Oppose All Share Buybacks".

It was reported that a large number of UK listed companies were requesting general authority to buy their own shares. It was highlighted that there was growing criticism of buybacks and the range of problems associated with them. PIRC were currently seeking client opinion on whether their policy should be changed to recommend voting against share buy-back authorities unless the board had made a clear, cogent and compelling case demonstrating the benefits for long-term shareholders, and had provided confirmation that directors were not conflicted in recommending the authority.

The Working Group heard that on the basis of finance theory, the outcome of undertaking a buyback or dividend issue was financially neutral, however, in the UK buybacks incurred a 0.5% Stamp Duty charge and also resulted in investment banking and broker fees. The report suggested that buybacks resulted in a lack of transparency on real financial performance and gave the impression of earnings growth by creating 'earnings per share' (EPS) growth, which some management remuneration performance schemes were linked to.
Examples of different buyback scenarios were outlined to the Group together with a range of potential policy outcomes.

RECOMMENDED:
That the report be noted.

27. URGENT ITEMS

The Chair reported that there were no urgent items for consideration at the meeting.

CHAIR