Report To:	**Pension Fund Management/Advisory Panel**
Date:	11 March 2016
Reporting Officer:	Peter Morris, Executive Director of Pensions
Subject:	**MANAGEMENT SUMMARY**
Report Summary	The aim of this report is to provide a short commentary on issues and matters of interest arising during the last quarter.

Recommendations:

1 To note the progress on matters and issues raised in the Management Summary.

2 In respect of "Scenario Planning" to adopt the recommendations set out below

(i) Restrict initial provision to covering triggers in relation to equity markets only;

(ii) Implement any increase and decrease in equity market exposure via the use of "Futures" in the equity market;

(iii) Use a dedicated Fund Manager account to operationalise the trigger monitoring and trading processes;

(iv) Remove the current 3% "tactical cash" benchmark holding as part of the upcoming annual Investment Strategy Review and allocate this to equity markets within the benchmark which forms the basis of the consultation exercise with the Fund Managers;

(v) Ensure that a pre-invoked "veto" form part of the arrangements surrounding the operation of the equity market trigger; and

(vi) Bring a report setting our more detailed proposals to the next meeting of the Policy and Development Working Group.

Policy Implications:	None.
Financial Implications: (Authorised by the Section 151 Officer)	There are no material direct financial implications arising from this report.
Legal Implications: (Authorised by the Solicitor to the Fund)	Legal advice needs to be taken expediently on each of the individual projects referenced in the report as required.
Risk Management:	The report is primarily for information only.

ACCESS TO INFORMATION:	**NON-CONFIDENTIAL**
	This report does not contain information which warrants its consideration in the absence of the Press or members of the public.
Background Papers:	For further information please contact Peter Morris, Executive Director of Pensions tel 0161 301 7150, email peter.morris@tameside.gov.uk.

1 INTRODUCTION

1.1 The aim of this report is to provide a short commentary on issues and matters of interest arising over the last quarter.

2. POOLING OF ASSETS

2.1 The progression of the Government's proposals for pooling of assets is a key area of work for the Panel, Chair of the Fund and officers.

2.2 A separate report will be provided on progress. The Pool's submission was made to Government on 19 February in line with the timetable.

3. LOCAL BOARD – NEW MEMBERS

3.1 The Council approved a move to 5 employee and 5 employer representatives for the Local Board chaired by Cllr Middleton.

3.2 Interviews were held to fill the vacant positions and the following appointments were made:

(i) a non-local authority employer - Paul Taylor, The Manchester College Group

(ii) pensioner representative - Pat Catterall

4. ACTUARIAL VALUATION 2016

4.1 The next actuarial valuation is due to be undertaken as at 31 March 2016 with revised employer contribution rates to take effective from 1 April 2017. This is a major task for all areas of the Pension Service and it is time critical for both employers and the administering authority. Progress will be monitored by the Employer Funding and Viability Working Group with the valuation being the main item at its next meeting. All members are invited to this meeting. Updates will be presented to Panel meetings throughout the year.

4.2 There was a single item agenda with GM treasurers on 15 February on pension and valuation matters and a follow up is planned for late summer when the whole fund results should be available.

4.3 Financial markets have been very challenging over the first 6 weeks of 2016 and Mr Bowie will give an update on the valuation implications at the meeting.

4.4 At the last meeting of the Employer Funding and Viability Working Group, consideration was given to the case for giving employers a discount for paying employer contributions in advance. This matter has also been discussed with local authority treasurers who have expressed interest in participating. A copy of the report is attached as an appendix to this item. Discussions are being held with the auditor on potential accounting requirements regarding this matter.

5. GMPVF - ONE ST PETER'S SQUARE

5.1 An update will be given at the meeting on the progress of the lettings and the possible sale of One St Peter's Square.

6. FIRST STREET

6.1 The Property Working Group heard details of a new Joint Venture for GMPF with Patrizia, a German company to build a major office development at First Street. Work has just started on site and there is 1 pre-let.

7. FOSSIL FREE GREATER MANCHETER

7.1 On 13 February 2016, Fossil Free Greater Manchester campaigned in Manchester City Centre, seeking signatures for their divestment petition, and followed this up with an email to Members of the Advisory Panel. The actions sought from the Fund were:

- Immediately freeze any new investment in fossil fuel companies.
- Divest from any company which is involved in the exploration or production of coal and unconventional oil or gas within 2 years and from all fossil fuel companies within 5 years.
- Work with the Greater Manchester Combined Authority to develop and fund a sustainable low-carbon investment programme for Greater Manchester.

The headlines of the Fund's response to this request are

1) The primary duty of the Management Panel is to pay the pension promises earned by its members. In doing this it is also critically important that the cost is affordable to members and employers and the taxpayer. Moreover, in reaching decisions it complies with its fiduciary responsibilities with which it must comply.

2) GMPF has an excellent long term investment track record. Over the last 25 years, the value of its returns has been over £2bn more than would have been the case if it had achieved the average LGPS fund return. All employers and the taxpayer have benefited from this outperformance through lower employer contribution rates and GMPF being better funded than most LGPS funds. This will provide more long term benefits to employers in the Fund and enables more to be spent on local services.

3) The Management Panel has no plans in the medium term to instruct its investment managers to disinvest from fossil fuel companies. The Government is looking at more regulation to stop Councils and pension funds from making decisions on ethical bases where there is no other legal reason for not investing or procuring services from businesses.

4) The Fund does so far as possible use its weight to bring about governance and ethical change. The Fund has long identified climate change as a key risk which the Panel is working hard to understand and manage. This is illustrated in the actions that it takes. It also challenges its fund managers asking difficult questions to satisfy the Panel that decisions are taken for the long term benefit of the Fund and its employers. The Management Panel hosted a debate on the issue involving a climate change think tank to help consider the Fund's position on these matters. These are set out in its climate risk pamphlet, available on the following link: http://www.gmpf.org.uk/investments/climaterisk.htm.

5) GMPF are members of the Institutional Investors Group on Climate Change and was one of nearly 400 investors around the world representing $24 trillion in assets who called for a strong global climate deal at COP21 in Paris. By signing the Paris Pledge for Action (http://www.parispledgeforaction.org), GMPF then signaled its support for the Paris Agreement, and its commitment to help implement it.

6) In late December, the Fund co-filed shareholder resolutions at Anglo American, Glencore and Rio Tinto. Following the success of similar resolutions filed at BP and Shell, the Fund is confident that this will lead to better management and disclosure of climate risks at the companies in which it invests.

7) GMPF, as a member of LAPFF (Local Authority Pension Fund Forum), is also looking forward to developing a strategy on how best to engage with oil and gas companies on aligning their business plans with a 2 degrees warming scenario, and to undertake a study on 'Value at Risk' to help engagement with companies on long term value and returns. http://www.lapfforum.org/Archive/unprecedented-investor-call-for-climate-risk-transparency-from-mining-giants refers.

8) GMPF also invests in a number of renewable energy projects, the most recent example is IONA which is building a number of anaerobic digestion plants around the country with a particular focus on the North West in which the Fund has earmarked funds.

8. GLOBAL CREDIT MANAGER

8.1 GMPF is seeking to establish a Framework Agreement of three active multi-credit managers with Hymans Robertson assisting on the procurement process.

8.2 The OJEU contract notice was published during 2015 and applicant managers were required to submit a completed Pre-Qualification Questionnaire (PQQ). Having reviewed the responses to our PQQ, twelve managers were invited to the next stage of the review process. This required them to reply to the Request for Proposal (RfP) which was issued during Autumn 2015.

8.3 All managers returned RfPs and six of those passed the qualifying hurdle for the next stage of the search process which consisted of an interview by Officers and consultants from Hymans Robertson. The six qualifying managers were interviewed on 2 or 3 February 2016.

8.4 The highest scoring three global credit managers were chosen and subject to a standstill period of 10 days and assuming no objections are raised during that time, all three managers will be appointed to the Framework Agreement.

8.5 The next step is to issue a mini-competition questionnaire which will be reviewed by Hymans Robertson who will then issue a report with scoring. The final step of the procurement process is for each of the three framework managers to be interviewed by Members of the Panel and the appointment of a preferred manager in the first week of April 2016.

9. SCENARIO PLANNING

9.1 At the 11 December 2015 meeting of the Panel, a work programme, prioritising 'Tactical Cash Scenarios', was agreed as follows:

- Officers to develop the Fund's approach to implementation, likely by way of a segregated account with one of the Fund's existing Securities Managers;

- Hymans be commissioned to propose a 'handful' of suggested ideas/triggers (a maximum of 4 or 5), along with respective 'simple in/out' (eg price based) trigger levels, derived from analysis of fundamentals; and

- Officers to develop proposed governance arrangements around tactical asset switching, the use of triggers, and how a veto might be incorporated to block the action triggered if circumstances have changed significantly.

9.2 Officers met with representatives of L&G, and separately with representatives of UBS, in order to develop an understanding of each respective Fund Managers' capabilities in relation to their potential approaches to providing segregated accounts which would deliver the operational implementation of trades in response to a trigger being breached. A preferred supplier has been identified but this will need confirming and further detailed work (including legals etc) will be required when there is greater clarity on the likely agreed trigger scenarios and trigger levels.

9.3 Hymans Robertson were also commissioned to propose a 'handful' of suggested ideas/triggers. The Hymans paper was forwarded to the Fund Managers and Advisors for their input. Hymans proposed a "phase 1" involving four triggers/metrics and associated trigger levels involving Gilts, Corporate Bonds and Equities. A "phase 2" would extend to triggers relating to inflation protection. Comments were received in late January and early February and were generally supportive.

9.4 A conference call took place on 19 February 2016 involving Peter Moizer, Mark Powers and John Dickson of Hymans Robertson. A concern had been raised about the potential danger of 'over-engineering' the proposed approach and this was discussed on the call. The agreed consensus reached was that during the first year of operation of the trigger-based approach, provision should be restricted to scenarios involving triggers in relation to equity markets only, with a view to considering incremental enhancement to this initial framework (to cover triggers relating to other asset markets) in the light of experience gained.

9.5 Other matters that were confirmed or agreed during the 19 February 2016 conference call were:

- The increase in (purchase) and decrease in (sale) of equity market exposure would most efficiently be implemented via the use of "Futures" on the equity market. This would likely best be facilitated by using a new, dedicated account with one of the Fund's current external managers;

- There was no need for a "tactical cash" holding of 3% of Main Fund since only Futures "margin" would be required to facilitate the purchase/sale of the equity market, and such a 'ring-fenced' separate cash holding (which by its very nature would be held most of the time) would very likely be a long term 'drag' on investment performance; and

- A 'veto' on the operation of the equity trigger would be available to each of the three Advisors and to the appropriate Officer of the Fund, but the veto would need to be invoked as and when it was felt that economic/market circumstances had changed sufficiently to invalidate the trigger levels set, rather than at the time a trigger was breached or about to be breached.

9.6 A report setting out detailed proposals consistent with the above will be taken to the next meeting of the Policy and Development Working Group.

10. CONSULTATION ON REFORMS TO PUBLIC SECTOR EXIT PAYMENTS

10.1 The Government has made it clear that it intends to take action to curb the incidence of, and costs associated with, early termination of employment across the public sector, including local government. Consultations have already been published relating to the recovery of termination payments for certain higher earners who are re-employed in the public sector within 12 months of having been made redundant, as well as introducing an overall cap on exit payments of £95,000. It has now published the final part of its trilogy of consultations looking at the reform of public sector exit payments. This latest consultation considers the options for change relating to the calculation of discretionary exit payment lump sums (over and above statutory redundancy payments) as well as the early release of pension benefits resulting from efficiency/redundancy terminations.

10.2 The consultation considers options for:

- the setting of a maximum tariff for the calculation of exit payments (a maximum of 3 weeks per year of service has been suggested);
- capping the maximum period over which salary can be used when calculating redundancy payments (15 months has been suggested);
- setting a maximum salary on which exit payments can be based (£80,000 has been suggested, as per the NHS scheme);
- capping or removing the ability for employers to fund early release of pension benefits on efficiency/redundancy grounds, or increasing the minimum age at which an employee can receive such payments from an employer (5 years from an individual's normal pension age has been suggested).

10.3 Most of the above suggestions, if taken forward by Government could have implications for local government employers, who would be required to reconsider their policies around workforce management and termination policies.

10.4 The LGPS regulations would also require amendment to reflect any changes to remove or restrict the current automatic right to unreduced LGPS benefits for those being made redundant, or retiring on the grounds of efficiency, from age 55. The latter could become at least age 60, and benefits - when they are payable - that had hitherto been awarded on an unreduced basis could become partially or wholly reduced, subject to the terms of a termination package.

10.5 The consultation closes on 3 May 2016.

11. INVESTMENT REGULATIONS CONSULTATION

11.1 The Investment Monitoring and ESG Working Group considered the Government's consultation on new investment regulations at its last meeting. A copy of the Fund's response is published on its web site at: http://www.gmpf.org.uk/documents/investments/regulationsresponse.pdf

12. RECOMMENDATION

12.1 To note the progress on matters and issues raised in the Management Summary.

12.2 In respect of "Scenario Planning" to adopt the recommendations set out below

(i) Restrict initial provision to covering triggers in relation to equity markets only;

(ii) Implement any increase and decrease in equity market exposure via the use of "Futures" in the equity market;

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