

GREATER MANCHESTER PENSION FUND - INVESTMENT MONITORING AND ESG WORKING GROUP

8 April 2016

Commenced: 10.30 am

Terminated: 12.30 pm

Present: Councillors Taylor (Chair), Ricci, Brett, Akbar, Pantall, Grimshaw, M Francis, Mitchell and Mr Llewellyn

Apologies for Absence: None

28. DECLARATIONS OF INTEREST

There were no declarations of interest.

29. MINUTES

The Minutes of the meeting of the Investment Monitoring and ESG Working Group held on 29 January 2016 were approved as a correct record.

30. REPORT OF THE GLOBAL EQUITY MANAGER

The Working Group welcomed James Hand and Stephen Lee of Investec who attended the meeting to present GMPF's Investment Activity for the 9 months to 31 December 2015. An extract of Investec's latest report, which detailed the management of the assets entrusted to Investec, was appended to the report.

Investec were appointed by the Fund in February 2015 as a specialist investment manager with a Global Equity Mandate representing 5% of Main Fund assets. Investec had a relatively unconstrained brief to invest against a Global Equity benchmark, which they were expected to exceed by 2-3% per annum on a three year rolling average basis.

Investec adopted a '4Factor' investment philosophy and process to managing GMPF's portfolio. Companies were scored against the four factors of 'Strategy, Earnings, Technical and Value'. Companies who scored highly against these four factors were subject to detailed fundamental research and reviewed on a weekly basis for possible purchase. Investec believed that the 4Factor global core equity strategy aimed to achieve long-term capital growth primarily through investment in a diversified portfolio of the more liquid equity securities around the world. The strategy would not be dominated by a specific investment style.

The 4Factor Global Equity team was unified around a clear philosophy and disciplined process and were highly experienced global sector specialists with an average experience of over 16 years. Over 3000 stocks were screened against the 4Factor framework. The top five positive and top five negative stock contributions were outlined to the group and details of significant transactions were provided. The portfolio's tracking error was also outlined.

A review of the 2015 markets showed many of the same trends that were evident in 2014. It was explained that the three drivers of equity returns over time were valuation, growth and yield. The outlook for these drivers was discussed.

RECOMMENDED:

That the report be noted.

31. INVESTEC CORPORATE GOVERNANCE REVIEW

The Working Group welcomed Naasir Roomanay of Investec who attended the meeting to report on Corporate Governance activity in the last 12 months. The Working Group heard that Investec Asset Management embraced the concept of active stewardship and that the aim of their work was to preserve and grow the real purchasing power of the assets entrusted to them by their clients over the long term. They monitor, evaluate, actively engage or withdraw investments with the aim of preserving or adding value to client portfolios.

The Environmental Social and Governance (ESG) strategy was outlined to the group including integration, active ownership and reporting/publications. As a multi strategy business it was important to develop ESG integration as Investec believed it added value if ESG issues were an integral part of the investment analysis and decision making process rather than a separate consideration. An internal framework for assessing the relevance of ESG integration through the varying stages of the investment process had been developed. This framework allowed Investec to apply a consistent approach to integration analysis and allowed teams to develop their own unique approach to ESG.

It was reported that Investec voted against management resolutions at 45% of meetings relating to directors resolutions, remuneration, capitalisation and fundamental transactions. There had been 88 engagements in 2015, 62 of which related to proxy voting. The engagements across the GMPF portfolio during 2015 and to date in 2016 were outlined to the group.

The Working Group heard that Investec were committed to addressing climate change risk and had formed a collaborative partnership with the Carbon Disclosure Project. A number of letters had been sent to companies across the GMPF portfolio highlighting the risks, benefits and importance of good carbon data and timely disclosure.

A wide ranging discussion took place on the content of Investec's report.

RECOMMENDED:

That the report be noted.

32. TRADING COSTS

The Executive Director of Pensions submitted a report, which facilitated Members' scrutiny of Investec's approach to and practice with regard to trading costs. Investec's 'Level One' disclosure report and GMPF's 'Level Two' disclosure report for the period since inception to 31 December 2015 were appended to the report. A discussion took place on the content of the reports.

It was confirmed that officers of the Fund had reviewed the 'Level One and Level Two' reports and any questions had been satisfactorily answered by Investec.

RECOMMENDED:

That the report be noted.

33. ROUTINE PIRC UPDATE

The Working Group welcomed Alan MacDougall and Janice Hayward of PIRC Ltd, who attended the meeting to present PIRC's report entitled 'UK Shareholder Voting Guidelines 2016' a copy of which was appended to the report.

Members were informed that PIRC had taken the decision not to adopt a blanket recommendation against share buybacks and that the rationale behind such transactions was now being analysed in addition to examining the nature and value of the consideration, comparisons to previous years

stock prices and track record. It was reported that PIRC would also now be focusing its efforts on ensuring that details of the appointment dates of companies auditors be disclosed to shareholders.

RECOMMENDED:

That the report be noted.

34. 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 December 2015. Stocklending income during the quarter was £137,921 and commission 'recaptured' was £4,503.

The report outlined that income generated from these 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.

35. CLASS ACTIONS

The Executive Director of Pensions submitted a report, which provided Members with an update on Class Actions.

It was reported that GMPF was invested in various company shares and bonds around the world and periodically legal actions in relation to securities ownership may be brought against companies where there was alleged wrongdoing. There could be a number of potential types of legal action which could be pursued, dependent on the jurisdiction within which the action was brought. The majority of litigation occurred in the US with the European system significantly less well established where investors must actively decide to join the litigation.

GMPF used the services of JPMorgan to file Class Action claims in the US. The service provided by JPMorgan was 'audited' in 2013 to confirm that all settled Class Action claims had been correctly filed by JPMorgan.

The Working Group was notified that the Fund received portfolio monitoring services from two US law firms, Spector Roseman Kodroff & Willis (SRKW) and Robbins Geller Rudman & Dowd, who provided timely notification of potential actions where the Fund had suffered a material loss, and provided legal advice on the merits of potential actions. The specialist databases of the two firms were used to extend the original 'audit' of JPMorgan's Class Action filing service, and it was found that the Fund had not missed filing any claims in respect of settled Class Actions where GMPF had an entitlement to recover monies during the period 1 January 2010 to 29 February 2016.

Members were provided with a detailed analysis from SRKW of seven competing shareholder actions against Volkswagen (VW), six of which were in Germany and one in the Netherlands, and it was reported that these actions were seeking to recover losses investors had suffered as a result of VW's failure to disclose its practice of using software to manipulate the results of emissions tests in the US.

Members were advised of GMPF's estimated losses under the VW claim, the tentative nature of these estimates, and the likely 'payout ratio' if the case was successful. It was reported that significant analysis had been undertaken by SRKW to determine which litigation would be most

appropriate for GMPF to join. As a result of this analysis, SRKW recommended that GMPF join the Bentham litigation. Following a review of this analysis, officers recommended that GMPF join the Bentham litigation against VW in Germany subject to the completion of the legal due diligence work.

RECOMMENDED:

- (1) That the report be noted; and**
- (2) That the Fund joins the litigation currently being brought by Bentham against Volkswagen in Germany.**

36. URGENT ITEMS

There were no urgent items.

CHAIR