GREATER MANCHESTER PENSION FUND

POLICY AND DEVELOPMENT WORKING GROUP

26 May 2016

Commenced:	**3.30pm**		**Terminated: 5.00pm**
	Councillor K Quinn (Chair)		
	Councillor J Fitzpatrick		
	Councillor Cooney		
	Councillor J Lane		
	Councillor S Quinn		
	Councillor Pantall		
	William Marshall	**Hymans Robertson LLP**	
	Mark Powers	**Advisor to the Fund**	
Apologies for absence:	**Councillors M Smith and Taylor**		

1. DECLARATIONS OF INTEREST

There were no declarations of interest.

2. MINUTES

The Minutes of the proceedings of the meeting of the Policy and Development Working Group held on 2 February 2016, having been circulated, were agreed as a correct record.

The Minutes of the proceedings of the meeting of the Policy and Development Working Group held on 7 April 2016, having been circulated, were agreed as a correct record.

3. POOLING OF ASSETS

The Executive Director, Governance, Resources and Pensions submitted a report, which provided an update on recent developments relating to the proposals for pooling investments across the LGPS in England and Wales and the recent activities of GMPF in this area.

Members were reminded that, as reported at previous meetings of the Panel and the Working Group, discussions regarding collaboration had been ongoing on a regular basis with a number of other, predominantly northern based LGPS funds. During this process, the Funds involved in discussions had developed a Memorandum of Understanding setting out the operation of a 'Collective Asset Pool' and the proposed steps in its formation. The Memorandum of Understanding had been signed by GMPF, Merseyside Pension Fund (MPF) and West Yorkshire Pension Fund (WYPF). A copy of the Memorandum of Understanding was appended to the report.

It was reported that the 3 Funds had combined assets of around £35 billion, therefore clearly meeting the scale criteria (in excess of £25 billion).

Members were informed that there were currently 8 proposed pools, made up as follows:

- Northern Powerhouse;

- London CIV (the 33 London Boroughs) – this has already been established;
- South West Funds plus Environment Agency ('Project Brunel');
- 'ACCESS' (Most of the south East County Council Funds);
- Midlands;
- 'Border to Coast' (The remaining northern funds plus a small number of others);
- Wales; and
- LPFA/Lancashire (plus potentially Berkshire) ('the Local Pensions Partnership – LLP').

Members were informed that Government had previously stated that it was looking for around 6 pools, each of at least £25 billion. The Wales and LPFA/Lancashire pools do not currently meet the Government's scale criteria. However, the Welsh pool had been granted an exemption from the scale criteria. The Northern Pool had links with the pool of LPFA and Lancashire (£10 billion or £12 billion with Berkshire) via GMPF's joint infrastructure vehicle with LPFA. The intention was for the Northern Pool to work alongside LPP on infrastructure investment going forward.

In late March 2016, all pools received a response from Government to their February submissions. The Northern Pool's response was appended to the report. The response confirmed that the Northern pool clearly met the scale criteria.

In respect of the progress of the Northern Pool, it was explained that, for the foreseeable future, the funds in the Northern Pool would be allocating considerable resource towards completing the July submission to Government and creating the pooling arrangements.

Five workstreams had been created to progress the various aspects, as follows:
- Asset Pools;
- Governance;
- Cost Savings;
- Infrastructure and Property; and
- Other alternative assets.

A particularly important task prior to the July submission was to determine the most appropriate operating model for the management of the Pool's assets. The main options for consideration were detailed in the report.

Members were informed that a 'cross-pool' group with representation from each of the individual pools had been created. The purpose of this group was to share best practice amongst the pools and to liaise effectively with the LGA pensions team and the civil servants at DCLG and HMT. The group would also play a role in developing the capability and capacity in infrastructure investment across the LGPS in England and Wales. The cross-pool group was helping Government to develop a standard template for the July submissions. This template effectively removed the requirement for Funds to submit an individual submission in addition to the joint pool submission, although each pool would still be able to submit feedback to Government on particular aspects of pooling. Each pool was expected to be asked to make presentations to the Government assessment panel in advance of the July submission. The Northern Pool's presentation would be on 16 June 2016.

In respect of developing capacity and capability in infrastructure, it was reported that general consensus across the LGPS was that improved access to infrastructure investment and lower cost was most likely to be achieved through a national platform accessible to all the LGPS asset pools. The cross-pool group was considering how the national platform could be established and whether it built on or ran alongside any existing arrangements.

Ahead of the pooling agenda, GMPF, which had a long track record of investing in infrastructure funds, had developed capacity to invest in direct infrastructure opportunities through its joint venture with the London Pension Fund Authority (LPFA). The joint venture partnership was known as 'GLIL'. This vehicle had been designed to be extended to accommodate other Funds and could form part of the national solution.

Detailed discussion with regard to the Pooling agenda ensued and Members raised a number of issues, including; the importance of establishing, robust governance and decision making arrangements at the out set and the need to ensure that the operating model for the management of the Pool's assets met the needs of GMPF, going forward.

RECOMMENDED
That progress and developments, which have taken place since the March meeting of the Management Panel, be noted.

4. INVESTMENT INITIATIVES

Consideration was given to a report of the Executive Director, Governance, Resources and Pensions, which provided an update on progress of a number of specific investment initiatives undertaken by the Fund. Members were asked to note certain specific actions that had been taken under delegated authority following consultation with the Chair.

It was reported that since the last meeting of the Working Group actions had been implemented in the Impact Portfolio, which were detailed in the report. It was further reported that discussion with other LGPF's to pursue joint investment collaboration was currently on hold, whilst Funds were working towards the deadline submission for the pooling agenda.

The LPFA Joint Venture had actively pursued two deals, with both achieving full investment approval. The first of these transactions was for the purchase of a minority stake in a regulated water utility. Unfortunately, however, the Fund's offer for a minority share was declined and, following a subsequent attempt by the Fund to purchase a larger stake, it became apparent that the complexities surrounding the transaction and the various existing shareholder interests were too great.

In the second transaction, it was reported that the Fund had been approached to purchase a stake in a large offshore wind farm. This was believed to be a successful deal because it had demonstrated to the market that the Fund was able to source and execute attractive deals at a scale and complexity at which few others were able to transact.

The Working Group were notified that in relation to the first phrase of Matrix Homes all units had been completed and handed over across the five sites (222 properties). GVA's latest forecast was that the overall construction cost would be in line with the target estimate.

With regard to Matrix Homes 2, it was reported that Manchester City Council (MCC) had given formal approval to release five sites, which they believed were suitable for development using the Matrix Homes Model. GVA had reviewed the sites and the financial model prepared by Manchester City Council to illustrate financial viability. GVA did not accept the assumptions used in the model for costs/sales values, and were liaising with Manchester City Council to amend the model to more prudent levels.

It was further reported that GVA had reviewed a financial model prepared by Rochdale MBC for a number of sites close the town centre, which they believed would be suitable for the Matrix model. The view from GVA was that the proposed development was extremely challenging, information had been requested from Rochdale on site remediation and abnormal costs expected and whether any additional sites were available which would improve the overall viability.

Members were informed that Tameside Council and GMPF had agreed to work together to develop a number of sites across Tameside. GVA were working through a programme to prove the viability of development at six sites. Initial site investigation reports had identified moderate risk of abnormal ground conditions. To understand the risks further, intrusive ground investigations were being carried out on the sites during May 2016. Once the outcome of the survey results and the impact on the site layouts were known, GVA would then be able to update the financial model for each site and provide feedback to the partners on the overall financial viability.

RECOMMENDED:
That the report be noted.

5. DETAILED PROPOSALS FOR THE OPERATION OF A GLOBAL EQUITY 'PURCHASE/SALE' TRIGGER PROCESS

A report was submitted by the Executive Director of Governance, Resources and Pensions, which explained that, during the Investment Strategy review in May 2015, Mark Powers, Advisor to the Fund, suggested that the Fund should undertake a 'Scenario Planning' exercise to be better placed to capitalise on market opportunities as they arose. The aim was to build upon the Fund's hitherto 'ad hoc' approach. The report provided Members with detailed proposals regarding a 'trigger process' for Global Equities to be implemented via an account with Legal and General (L&G).

It was explained that under normal market circumstances, the Fund relied upon the expertise of its appointed active multi-asset managers to take advantage of tactical asset allocation opportunities that presented themselves. The process of working up proposals had been systematic and comprehensive, involving; meetings and conference calls with Advisors and Fund Managers; a dedicated workshop held in November 2015; reports by Hymans Robertson which were considered by the Management Panel and engagement with Fund Managers on the practicalities of implementation etc. It was reported that the meetings had been wide ranging and productive and a significant consensus had been reached on a number of key principles and issues and the 'direction' of the exercise.

Members were informed that the Advisors had been consulted on the detailed proposals set out in the report and were supportive of them. The proposed trigger process represented a considered approach to implementing a global equity trigger. In addition, it did so in a way that provided an 'infrastructure' or platform (in terms of the approach taken to designing triggers, the proposed inception of a dedicated arrangement with L&G together with new governance arrangements) upon which future developments could build in light of experience and reflection.

RECOMMENDED
(1) That the detailed proposals set out within the report for the operation of a global equity trigger process be adopted;
(2) That L&G be used to implement the proposed trigger process subject to satisfactory conclusion of legal and other documentation (including as to levels of charges) and finalisation of any other necessary arrangements;
(3) That the 'Designated Officer of the Fund' for the purposes of exercising a veto, in connection with the Global Equity trigger process, as described at Section 10 of the report, shall be the Assistant Executive Director of Pensions (Investments), but that the Designated Officer of the Fund shall not exercise any veto without having consulted the Executive Director of Governance, Resources and Pensions.

6. INVESTMENT STRATEGY AND TACTICAL POSITIONING 2016/17

A report was submitted by the Executive Director of Governance, Resources and Pensions to facilitate a discussion of key relevant points between Working Group members and the Advisors in order to inform the finalised version of the report to Panel.

It was noted that the current benchmark was forecast to achieve the Fund's investment return target over the medium/long term and was efficient. It wasn't possible to adopt a benchmark which would deliver strong returns in all scenarios. No material changes to the benchmark were proposed.

With regard to Infrastructure, it was reported that the Fund had an established programme of commitments to Infrastructure Funds, with a current strategic allocation of 4% of the Main Fund, which, it was proposed, be increased to 5%. In addition, the Fund was progressing a joint venture with the London Pensions Funds Authority (GLIL), which was making direct investments in UK infrastructure, and it was proposed that a 5% strategic allocation to Direct UK Infrastructure be established. The result would be a 10% strategic allocation to infrastructure that reflected the Fund's direction of travel, and matched the scale of ambition set out within the Fund's February 2016 pooling proposal to Government.

It was proposed to increase the Infrastructure 'realistic' benchmark from 1% to 3.5% and the Private Equity 'realistic' benchmark from 2.5% to 3% to reflect further progress made in implementing these portfolio's during 2015/16.

With regard to specialist managers, it was further proposed that, within the pre-agreed range of 3-5%, 5% be allocated to the new Global Credit Manager.

In respect of the Global Equity Manager's allocation, it was proposed that this be increased to 5% to correct the dilution effect of the assimilation of Probation Assets.

Hedging liability risks were highlighted as a longer term consideration, after other key changes currently planned had been implemented. It was explained that the Fund's typical approach would be to 'dial-down' equity exposure to increase the hedging properties of the Main Fund, but other more specific tools which might prove useful regarding inflation hedging or interest rate hedging may facilitate more efficient fine tuning at good prices.

RECOMMENDED

(i) That there be no material change to asset allocations;

(ii) That the Infrastructure strategic benchmark be increased from 4% to 10% (5% Infrastructure Funds and 5% Direct UK Infrastructure);

(iii) That the Infrastructure 'realistic' benchmark be increased from 1% to 3.5% and the Private Equity 'realistic' benchmark be increased from 2.5% to 3%;

(iv) That within the pre-agreed range of 3-5%, 5% be allocated to the new Global Credit manager;

(v) That the Global Equity manager's allocation be increased to 5%, to correct for the dilution effect of the assimilation of Probation Assets;

(vi) That the Hedging liability risks highlighted in the report be noted for future consideration.