GREATER MANCHESTER PENSION FUND ADVISORY PANEL

1 July 2016

Commenced: 10.00am **Terminated: 12.25pm**

Present: **Councillor K Quinn (Chair)**

Councillors: Francis (Bolton), Grimshaw (Bury), Halliwell (Wigan), Mitchell (Trafford), Pantall (Stockport) and Ms Herbert (MoJ)

Employee Representatives:

Mr Allsop (UNISON), Mr Drury (UNITE), Mr Flatley (GMB), (Mr Llewellyn (UNITE), Mr Thompson (UCATT)

Local Pensions Board Members (in attendance as observers):

Councillors Cooper, Fairfoull and Mr Schofield

Advisors:

Mr Marshall, Mr Moizer and Mr Powers

Apologies for Absence: **Councillors Akbar, Brett, Wilson**

1. DECLARATIONS OF INTEREST

There were no declarations of interest submitted by Members.

2. MINUTES

The Minutes of the proceedings of the meeting of the Pension Fund Advisory Panel held on 11 March 2016 were signed as a correct record.

The Minutes of the proceedings of the meeting of the Pension Fund Management Panel held on 11 March 2016 were signed as a correct record.

3. LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

(a) Urgent Items

The Chair announced that there were no urgent items for consideration at this meeting.

(b) Exempt Items

RESOLVED
That under Section 100 (A) of the Local Government Act 1972 the public be excluded for the following items of business on the grounds that:
(i) they involve the likely disclosure of exempt information as defined in the paragraphs of Part 1 of Schedule 12A of the act specified below; and
(ii) in all circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information for reasons specified below:

Items	Paragraphs	Justification
9, 10, 11, 12, 13, 14, 15	**3&10, 3&10, 3&10, 3&10, 3&10, 3&10, 3&10**	**Disclosure would or would be likely to prejudice the commercial interests of the Fund and/or its agents, which could in turn affect the interests of the beneficiaries and/or tax payers.**

4. INVESTMENT MONITORING AND ESG WORKING GROUP

The Minutes of the proceedings of the meeting of the Investment Monitoring and ESG Working Group held on 8 April 2016 were considered.

RECOMMENDED
(i) That the Minutes be received as a correct record; and
(ii) In respect of Minute 35, Class Actions, that the fund joins the litigation currently being brought by Bentham against Volkswagen in Germany.

5. PENSIONS ADMINISTRATION WORKING GROUP

The Minutes of the proceedings of the meeting of the Pensions Administration Working Group held on 8 April 2016 were considered.

RECOMMENDED
(i) That the Minutes be received as a correct record;
(ii) In respect of Minute 26, the Pensions Regulator's Essential Guide to Issuing Annual Benefit Statements, that the Guide be applied regarding the production of Annual Benefit Statements for active members and deferred members;
(iii) With regard to Minute 27, Academies, that a further update be submitted when more clarity on the proposals and the initial assessment of the implications had been completed; and
(iv) In respect of Minute 28, Performance Standards and Arrears, that the frequency of performance reporting be increased to quarterly.

6. ALTERNATIVE INVESTMENTS WORKING GROUP

The Minutes of the proceedings of the meeting of the Alternative Investments Working Group held on 15 April 2016 were considered.

RECOMMENDED
(i) That the Minutes be received as a correct record;
(ii) With regard to Minute 21, Private Equity – Review of Strategy and Implementation, that:
(a) the medium term strategic allocation for private equity remains at 5% by value of the total Main Fund assets;
(b) the target geographical diversification of the private equity portfolio be amended to;

Geography	Percentage of portfolio Total Value*
EUROPE, inc UK	**40% to 50%**
USA	**40% to 50%**
ASIA	**10% to 15%**

**** Total Value = Net Asset Value + Undrawn Commitments***

(c) the investment stage diversification of the private equity portfolio be amended to;

Geography	Stage as a percentage of Regional Total Value		
	Large Buyout	Mid-Market Buyout	Venture
EUROPE, inc UK	40% to 50%	40% to 50%	5-15%
USA		40% to 50%	
ASIA	40% to 50%	40% to 50%	

** Total Value = Net Asset Value + Undrawn Commitments*

(d) the scale of commitment to funds to be £240m per annum, to work towards achievement of the strategy allocation over the next 5/6 years or so;

(e) the Private Markets team continue to implement the private equity strategy via 3 year programmes of commitments but with the target number of commitments over that period increased from the current target of 20 funds to 24 funds. Each commitment to be of the average size of £30m, in the absence of exceptional factors;

(f) commitments to European and US primary buyout funds to be made directly to partnership vehicles. Secondary investments, Asia and Venture Capital to be accessed via Fund of Funds but officers to continue to assess the viability of a direct approach giving due consideration to risk, diversification and resource availability;

(g) it continues to be recognised that the portfolio may not fall within the target ranges at (b) and (c) above for a period of 5 – 10 years, because of transitioning from the previous target ranges;

(iii) In respect of Minute 23, Infrastructure – Review of Strategy and Implementation; that

(a) the medium term strategic allocation to infrastructure funds remains at 4% by value of total Main Fund assets;

(b) the target geographical diversification of the infrastructure portfolio be amended to;

Geography	Target Range
EUROPE, inc UK	50% to 70%
N AMERICA	20% to 30%
ASIA-PACIFIC/OTHER	0% to 20%

(c) the target stage diversification of the infrastructure portfolio be amended to;

Investment Stage	Relative Risk	Target Range
CORE & LT CONTRACTED	LOW	30% to 40%
VALUE ADDED	MEDIUM	40% to 60%
OPPORTUNISTIC	HIGH	0% to 20%

(d) the scale of fund commitments to be £120m per annum to work towards achievement of the strategy over the coming years;

(e) the Private Markets team continue to implement the infrastructure strategy via 3 year programmes of commitments, across between 2 and 4 new funds per annum (averaging 3 new funds per annum);

(f) Commitments to primary funds to be made directly to partnership vehicles;

(g) It continues to be recognised that the portfolio may not fall within the target ranges at (b) and (c) above for a period of years, because of transitioning from the current portfolio composition.

7. EMPLOYER FUNDING VIABILITY WORKING GROUP

The Minutes of the proceedings of the meeting of the Employer Funding Viability Working Group held on 22 April 2016 were considered.

RECOMMENDED
(i) That the Minutes be received as a correct record; and
(ii) In respect of Minute 33, 31 March 2016 Actuarial Valuation, that the Actuary calculates draft valuation results using the assumptions proposed in the presentation.

8. POLICY AND DEVELOPMENT WORKING GROUP

The Minutes of the proceedings of the Policy and Development Working Group held on 26 May 2016 were considered.

RECOMMENDED
(i) That the Minutes be received as a correct record;
(ii) In respect of Minute 5, Detailed Proposals for the Operation of a Global Equity 'Purchase/Sale' Trigger Process, that:
- **(a) That the detailed proposals set out within the report for the operation of a global equity trigger process be adopted;**
- **(b) 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; and**
- **(c) 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.**

(iii) With regard to Minute 6, Investment Strategy and Tactical Positioning 2016/17, that:
- **(a) That there be no material change to asset allocations;**
- **(b) That the Infrastructure strategic benchmark be increased from 4% to 10% (5% Infrastructure Funds and 5% Direct UK Infrastructure);**
- **(c) 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%;**
- **(d) That within the pre-agreed range of 3-5%, 5% be allocated to the new Global Credit Manager;**
- **(e) That the Global Equity manager's allocation be increased to 5%, to correct for the dilution effect of the assimilation of Probation Assets; and**
- **(f) That the Hedging liability risks highlighted in the report be noted for future consideration.**

9. LOCAL PENSIONS BOARD

RECOMMENDED
That the Minutes of the proceedings of the Local Pensions Board held on 30 March 2016 be noted.

10. WORKING GROUP APPOINTMENTS

Consideration was given to a report of the Executive Director of Governance, Resources and Pensions detailing the appointments to the Working Groups.

RECOMMENDED
That the appointments to the Working Groups be noted.

11. MANAGEMENT SUMMARY

The Executive Director of Governance, Resources and Pensions submitted a report updating Members on issues and matters of interest arising during the last quarter, as follows:

Pooling of Assets
It was reported that the progression of the Government's proposals for the pooling of assets was a key area of work for the Panel, Chair of the Fund and Officers. The final submission from the Pool was due to be made to Government on 15 July 2016 in line with the timetable and a separate progress report would be presented to the Panel later in the agenda.

Actuarial Valuation
Members were advised that the next actuarial valuation was due to be undertaken as at 31 March 2016, with revised employer contribution rates to take effect from 1 April 2017. This was a major task for all areas of the Pension Service and it was time critical for both employers and the administering authority. Progress would be monitored by the Employer Funding and Viability Working Group with the valuation being the main item at its forthcoming meetings. Updates would be presented to Panel meetings throughout the year.

As reported at previous Panel meetings, the Employer Funding and Viability Working Group was giving consideration to the case for giving employers a discount for paying employer contributions in advance. This matter had also been discussed with local authority treasurers, several of whom had expressed interest in participating. Discussions were progressing with the local authorities' auditors on potential accounting requirements regarding this matter.

GMPVF – One St Peter's Square
The Assistant Executive Director, Property and Local Investments, reported that the sale of One St Peter's Square was progressing. There had been some delay following the result of the EU Referendum and progress would be reported at the Property Working Group and future Panel meetings.

Climate Change
It was reported that, on 18 May 2016, 'Fossil Free Greater Manchester' (FFGM) published an open letter to the Chair of the Panel. The letter contained questions to the Chair of the Panel, following a Tameside Radio interview with the Chair and a member of FFGM. The questions related to the Fund's holding in coal mining companies, and the fund's engagement strategy with fossil fuel companies.

On 6 June 2016, the chair of the panel replied to the FFGM letter. The reply reiterated, amongst other things, that the fund had no plans to divest from fossil fuel companies at this time.

Copies of the letter and the reply were attached to the report.

GMPF & LPFA Infrastructure LLP (GLIL)
Members were informed that GLIL continued to proactively pursue a number of infrastructure investment opportunities across a variety of sub-sectors within the UK, achieving full investment Committee approval for two deals in 2016 so far.

One approval was for the purchase of a minority stake in a regulated water utility and the other was for a stake in one of Europe's largest onshore wind farms.

RECOMMENDED
That the progress made and issues raised in the Management Summary be noted

12. POOLING OF ASSETS

The Assistant Executive Director, Funding and Business Development 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 Policy and Development 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 had taken place 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.

The report concluded that, as discussed at previous Panel meetings, one of the requirements of the Government's pooling guidance was that the Pool management team would report in the first instance to an oversight board consisting of a small number of representatives of the 3 participating funds. These were expected to be current Panel members.

This oversight board would act as a forum in which the views of the funds' pension committees on the performance and future direction of the Pool could be expressed and acted upon.

There was considerable work to be done in establishing the Pool and the timescales for obtaining Financial Conduct Authority (FCA) authorisation could be particularly lengthy. In order to ensure the Pool was fully operational by the deadline of 1 April 2018, it was possible that the oversight board may need to be established in shadow form over the next few months.

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
(i) That the developments which have taken place since the March Panel meeting be noted; and
(ii) That approval be given to the Chair of the Panel to select Panel members to sit on any shadow oversight board which may be created.

13. INVESTMENT STRATEGY AND TACTICAL POSITIONING 2016/17

A report was submitted by the Assistant Executive Director of Pensions (Investments), reviewing the benchmark asset allocations for the Main Fund and Investment Managers and considering changes to the investment restrictions.

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 Pension 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.

The Assistant Executive Director (Investments) confirmed that the issue of BREXIT and the result of the EU Referendum was a significant risk event which has been considered throughout the Strategy Process and did not necessitate any change in the recommendations.

The Advisors were then asked to comment.

Mr Moizer noted that the result of the EU Referendum could mean increased challenges in the short term, however, overall, supported the approach.

Mr Marshall concurred with Mr Moizer.

Mr Powers expressed the view that in a potential low return scenario, the Fund may be reliant on Fund Manager outperformance in order to meet the overall investment return target. He was supportive of the approach set out within the Report.

RECOMMENDED
That:

1. **Any requirements for cash to be withdrawn from the securities managers to be taken from L&G, until their share of assets is reduced from approximately 33% to approximately 25% of the Main Fund. Any further cash requirements to be withdrawn from UBS.**
2. **Main Fund Overall Asset Allocation**
   - **(a) Reduce the overall benchmark public equity weighting by 5% with a concomitant increase in allocation to a Multi-Asset Credit Investments asset class.**
   - **(b) Adjust the Public Equity and Bond weightings pro-rata to take account of the increases in 'realistic benchmark' allocations to Private Equity, Infrastructure and Property.** ***[see 5. (a), 5. (b), 6. (b) and 7. (b) below]***
   - **(c) Increase the benchmark and actual allocation for Global Equity to its target 5% with 'funding' taken from the equity assets of L&G.**
   - **(d) Increase the Public Equity weighting by 3% points for the concomitant reduction to 0% for Tactical Cash.** ***[see 4. (d) below]***

3. **Public Equity Allocation**
   (a) **Maintain the Public Equity split at 35% UK and 65% Overseas.**
   (b) **Maintain the Overseas equity split at : North America 32.5%; Europe (ex UK) 27.5%; Japan 15%; Pacific 10% and Emerging Markets 15%.**

4. **Debt Related Investments (inc Bonds)/Cash Allocation**
   (a) **No immediate change to current individual bond benchmark allocations.**
   (b) **Institute a benchmark exposure of 5% points to a Multi-Asset Credit Investments 'asset class' in line with the reduction in the weighting of public equity. *[see 2. (a) above]***
   (c) **Continue to progress to completion the procurement exercise for a specialist manager of Multi-Asset Credit Investments (with a remit to manage 5% of Main Fund assets).**
   (d) **Remove the 3% allocation to Tactical Cash from the Main Fund benchmark. No change to the 3.2% allocation to Strategic Cash.**
5. **Alternative Investments**
   (a) **Private Equity: The recommendations of the Alternative Investments Working Group be adopted (minute 21 refers). Increase the current 'realistic benchmark' allocation from 2.5% to 3%.**
   (b) **Infrastructure : The recommendations of the Alternative Investments Working Group be adopted (minute 23 refers), as amended by the proposed increase in target allocation from 4% to 5%, and with nominal sterling amounts of new annual commitments specified in the Working Group report being pro-rated upwards accordingly with effect from 1 July 2016. Increase the current 'realistic benchmark' allocation from 1% to 2%.**
   (c) **Special Opportunities Portfolio: The recommendations of the Alternative Investments Working Group be adopted (minute 24 refers).**
6. **Property**
   (a) **Maintain the long term target allocation to property at 10% of total Main Fund assets, broadening the range of approaches to obtaining the target 10% exposure.**
   (b) **Phase in 'realistic benchmark' allocations to reflect the forecast investment programmes and movement towards the 10% target, as follows :**

	Brought forward 2015/16 Realistic% Range% Cash flow	Proposed 2016/17 Realistic% Range% Cash flow	Proposed 2017/18 Realistic% Range% Cash flow
Main Portfolio External	4 3-5 £150m-£200m	5 4-6 £50m-£100m	5 5-7 £50m-£100m
Indirect	1 0-2 -	1 0-2 (£0m)-(£50m)	1 0-2 (£0m) -(£25m)
GMPVF	1 0-2 £25m-£50m	1.5 1-2 £50m-£75m	2 2-3 £50m-£75m
Overseas	1 0-2 £50m-£100m	1.5 1-3 £100m-£150m	1.5 1-3 £100-£150m
Other	0 0-1 £25m-£75m	0 0-1 £25m-£75m	0.5 0-1 £25m-£75m
Total	7 6-14 £225m-£375m	9 6-14 £200m-£450m	10 6-14 £150m-£250m

7. **Local Investment**

(a) **Maintain the overall limit on those assets which are locally invested at 5% of Main Fund as agreed at the July 2011 Panel whilst recognising the new collaborative initiatives of the North West Impact Portfolio.**

(b) **Establish a strategic allocation to Direct UK Infrastructure of 5% and a 'realistic' benchmark allocation of 1.5%. Increase the allocation to GLIL from £250m to £500m to work towards the strategic allocation.**

	Range %
GMPVF	**0-3**
I4G	**£50m**
Impact Portfolio	**0-1**
GLIL	**Up to £500m (Not all local)**
Total	**0-5**

8. **Implementation**

The nature, timing and detailed implementation of any benchmark changes necessary to reflect the decisions of the Panel be settled by the Executive Director of Governance, Resources and Pensions following consultation with the Advisors and/or managers where appropriate.

14. REPORTS OF THE MANAGERS

(a) Capital International

Stephen Gosztony, President and Martyn Hole, Equity Investment Director, Capital International, attended before Members to present their quarterly report.

Mr Gosztony began by detailing the composition of the portfolio and outlining Capital's views on the 'Brexit' result of the recent EU Referendum. He explained that the portfolio was not built on Brexit, but did have significant exposure to emerging markets and limited exposure to Europe.

Likely Brexit scenarios were outlined and implications were detailed and discussed as follows:

- Brexit would imply new headwinds for the global economy;
- The possibility of a looser monetary policy by central banks globally;
- Fiscal policy could also be looser, supporting growth;
- Weak sterling – already built into long term assumptions, but with the possibility of more weakness to come;
- The expectation that the Bank of England would cut rates and undertake QE in corporate bonds;
- Brexit policies could: cut free trade; immigration; capital flows; include a fiscal package;
- Consequences could then be higher inflation, lower growth, lower productivity; and
- The uncertainties around Scotland.

Mr Gosztony further explained that the Brexit result had had a massive impact on Sterling investment. He reported that Emerging markets, however, had not been as affected by the result. Fixed income had done better than expected, however it was difficult to predict. Mr Gosztony added that the equity/bond split was a key issue for the Fund going forward.

Mr Hole explained that every analyst at Capital had been asked to write a report on the impact of Brexit on each of their companies.

A summary of capital market assumptions was given and, going forward, it was explained that there may be a need to look to lower assumptions in fixed income areas, however, the picture was less certain in respect of equities.

The 20 largest holdings in the Equity Portfolio were detailed and discussed.

The Advisors were then asked to comment.

Mr Powers sought Capital's views on the scenario that Brexit may not actually take place and the option of renegotiating with Europe with the emergence of a new EU, and asked how much of Capital's strategy was leaning towards this assumption?

Mr Gosztony, in his response, explained that Capital were certain with regard to the weakening of Sterling and that this was already built into their assumptions. He added that whatever happened, confidence in the UK had been shaken and the cost of servicing the deficit had to be addressed.

Mr Hole explained that analysts at Capital had considered this scenario, however, were of the view that Brexit would go ahead.

Mr Moizer agreed with Capital's views on the deficit and added that the fall in Sterling should help and asked what Capital's advice would be on UK investments?

Mr Hole referred to the UK market and explained that by value, 44% of dividends were declared in dollars or euros. However, some sectors had been 'badly hit' – i.e. clothing and banks.

Mr Marshall asked Capital to comment on macroeconomic factors.
Mr Hole explained that daily calls were made to analyse the current situation and that opportunities were constantly being sought.

Panel members sought Capital's views on opportunities going forward, based on analysts reports.

Mr Hole made reference to Emerging Markets being an area of potential interest and added that the rest of the portfolio would be considered on a stock by stock basis.

(b) UBS Asset Management

Ian Barnes, Head of UK and Ireland, Jonathan Davies, Head of Currency and Global Investment Solutions and Steve Magill, Portfolio Manager, UK Value Equities, UBS Asset Management, attended before Members to present their quarterly report.

Mr Barnes also began by commenting on the financial market implications of the result of the recent EU Referendum. He explained that, in his view, Brexit could be seen as an opportunity for investors and that a positive result could come out of it.
Mr Davies explained that the EU would not want to encourage other countries to follow the UK, therefore, he felt that there would not be any concessions for the UK.

He went on to comment on the outlook for the UK, explaining that during an extended period of policy uncertainty, GDP was likely to suffer due to withheld investment, there would a lower interest rate outlook and bond yields would be lower and the Pound weaker due to lower prospective returns. He added that some companies would benefit from a weaker Pound.

Mr Davies further commented on the possible threat of a constitutional crisis triggered by Scotland's demands to remain in the EU and the scenario of an independent Scotland.

Further discussion ensued with regard to the UK's options, including access to the Single market, freedom of movement and the 'Norway solution', which would mean that the UK would still contribute to the EU, to a lesser extent.

The scenario that Brexit may not actually take place was also addressed and Mr Davies explained that although the referendum was not legally binding on Parliament, it would be difficult to ignore the result.

Mr Davies concluded that the immediate response to markets was fairly rational with lots of potential opportunities expected. Heightened uncertainty had raised global risk premiums, offset somewhat by prospects of easier global monetary policy.

Mr Magill then commented on UK equities and reported that overall, the market seemed to have taken the result 'in its stride'. The overall picture, however, masked what had been happening in the market, with great volatility in share price in various shares.

He made reference to the portfolio's significant overweight in the overseas earning Oil and Mining sectors and an offsetting underweight to overseas earning Consumer Staple Stocks. Key UK domestic exposure was the overweighting in the banking sector. Mr Magill added that UBS continued to regard the banks in the portfolio as offering compelling value.

He concluded by reporting that the UK Equity value team would use increased volatility to increase holdings in stocks with attractive long term fundamentals and valuations.

The Advisors were then asked to comment.

Mr Moizer sought further clarification with regard to the future of British banks in light of their constraints in Europe, following Brexit. Mr Magill, in response, stated that many banks could operate from office bases within other EU Countries.

Mr Marshall sought UBS's views on the property sector, post Brexit. Mr Davies reported that the outlook was probably for lower property prices.

Mr Powers asked 'How big is the value opportunity'? Mr Magill responded that it was his view that there was above average level of value opportunity at the present time.

In response to an issue raised by the Chair in respect of tariff barriers, Mr Davies explained that global tariffs were not particularly high at the moment, however they would have to be re-negotiated and the UK would be in a weak bargaining position.

RECOMMENDED
That the content of the Fund Manager presentations and the comments of the Advisors, be noted.

15. EXTENSION OF EXTERNAL ACTIVE MULTI ASSET SECURITIES MANAGERS' APPOINTMENTS AND ASSOCIATED FEE ARRANGEMENTS

A report of the Assistant Executive Director of Pension Fund Investments was submitted, which considered the extension of the appointments of the Fund's external active multi-asset Securities Managers and outlined progress on fee discussions with Capital and UBS.

The Assistant Executive Director further explained that since the report was finalised, further fee discussions had taken place with UBS Asset Management and it was:

RECOMMENDED
(i) That the fee arrangements with Capital International be extended as proposed within the report; and
(ii) The revised fee arrangements with UBS Asset Management be extended as proposed in the communication received by the Assistant Executive Director of Pension Fund Investments and verbally communicated to the Panel at the meeting.

16. QUARTERLY REPORTS OF THE EXECUTIVE DIRECTOR OF GOVERNANCE, RESOURCES AND PENSIONS

(a) Summary Valuation of the Pension Fund Investment Portfolio as at 31 December 2015 and 31 March 2016

A report of the Assistant Executive Director of Pension Fund Investments was submitted, detailing and comparing the market value of the Fund's investment portfolio as at 31 December 2015 and 31 March 2016.

RECOMMENDED
That the report be noted.

(b) External Managers' Performance

The Assistant Executive Director of Pension Fund Investments submitted a report, which advised Members of the recent performance of the external Fund Managers.

It was noted that in the quarter to 31 March 2016, Capital had underperformed by 0.8% against their benchmark index of 3.3%. UBS had outperformed by 0.5% against their benchmark index of 1.5% and Legal and General had broadly succeeded in tracking their benchmark.

Performance figures for the twelve months to 31 March 2016 were detailed which showed that Capital had underperformed their benchmark by -0.4% and UBS had also underperformed their benchmark by -1.2%. Legal and General had broadly succeeded in tracking their benchmark.

RECOMMENDED
That the content of the report be noted.

17. ANNUAL PERFORMANCE REPORTS

(a) Long Term Performance 2015/16 – Main Fund and Active Managers

Consideration was given to a report of the Assistant Executive Director of Pension Fund Investments which advised Members of the excellent long term results for UBS and the Main Fund as a whole, as measured by WM. Detailed results covering periods up to 25 years were given.

The Main Fund was in the top 10% of the Local Authority Pension Funds surveyed by WM over 20 years and was the fourth best performing Local Authority Fund over the 25 year period.

The performance of UBS over their time as a Manager for the Fund had been excellent. Capital International had, however, underperformed their benchmark over 5, 10 and 15 years, and they had outperformed in only 1 of the last 3 years.

(b) Cash Management

A report was submitted by the Assistant Executive Director of Pension Fund Investments, which explained that the Fund adopted a relatively prudent approach to its cash management. The report outlined the constraints in place to ensure an appropriate level of prudence, focusing primarily on capital preservation and secondly on higher returns. It also detailed the performance achieved last year and over the last three years.

The report concluded that the Pension Fund's cash had been generally well managed. Performance in 2015/16 exceeded market returns and total interest received was £2.5 million.

(c) Long Term Property Performance (IPD review 2016 etc)

The Assistant Executive Director of Pensions – Local Investments and Property submitted a report, which advised Members of the recent and longer term investment performance of the Direct Property Portfolio (comprising directly owned properties and 'Specialist' Indirect Funds now managed externally by LaSalle Investment Management)) and of the 'Balanced Property Pooled Vehicle Portfolio' and 'Overseas Property Portfolio' (both managed by the Executive Director of Governance, Resources and Pensions).

With regard to the Main Property Portfolio managed by La Salle, in 2015, the Fund's total return for the LaSalle Managed Portfolio was 10.5% compared with the benchmark (IPD All-Property Universe) of 13.3%, showing underperformance of 2.8%. The directly held properties in isolation delivered a below benchmark return of 11.7%. This resulted in an overall ranking for GMPF in the 76th percentile of the All-Funds IPD Universe.

The Fund's direct property holdings had a relatively strong income base and significant work had been undertaken to reduce voids again this year. Open Market Rental Growth of the direct assets was significantly above the IPD average, suggesting more scope for rents to rise in the future through lease events.

The net investment of £132.5 million constitutes the busiest year in the history of the GMPF direct property portfolio in terms of transaction activity by value. The sales and purchase activity had seen the average lot size in the directly owned portfolio rise to be just short of £10 million, which was slightly below the IPD median level.

La Salle's purchases and sales in 2015 brought the directly-owned portfolio more in line with the IPD average portfolio in terms of composition, in particular, the overweight position in the retail sector and underweight position in the office sector, had been effectively neutralised.

In respect of the GMPF Balanced Property Pooled Vehicle Portfolio, it was reported that there were no sales of balanced property pooled vehicles during the year, though GMPF did acquire some additional units in the UBS Triton Fund. The value of the Balanced Property Pooled Vehicle Portfolio stood at circa £336 million as at 31 December 2015.

With regard to the GMPF Overseas Property Portfolio, details of total commitment plus drawdown values as at 31 December 2015 were reported. It was explained that these investments were in the draw down stage of a 4 year investment period, and it was too early to judge performance.

RECOMMENDED

(i) That the content of the reports be noted; and

(ii) That the Fund updates its Treasury Management Investment List as described within Section 4 of the Cash Management Report.

18. EXTERNAL AUDIT PLAN 2015/16

Consideration was given to a report of the External Auditor, Grant Thornton, which set out their approach to the 2015/16 audit.

RECOMMENDED

That the content of the report be noted.

19. GMPF STATEMENT OF ACCOUNTS 2015/16 GOVERNANCE ARRANGEMENTS

Consideration was given to a report of the Assistant Executive Director of Pensions – Local Investments and Property, proposing the governance arrangements for approval of the 2015/16 accounts for the Greater Manchester Pension Fund. The report further sought approval of the key assumptions for estimates to be used in the accounts and to note the pre-audit simplified accounts.

It was explained that the key decision making bodies for the Council was the Audit Panel, which received accounting policies reports for both the Fund and the Council and the Overview (Audit) Panel, which received the report of the external auditor following the audit of the accounts. The Council retained overall responsibility for the accounts of both and the follow-up on the audit reports received for both, and in practice, the Fund was responsible for managing this as it retained a team to do so.

The provisional timetable for approval of the accounts and consideration of audit reports by the Council and Fund for 2016/17 was outlined in the report.

It was further reported that the audit process must be completed before the end of September 2016. The date for the Overview (Audit) Panel was set for 12 September 2016. The date for GMPF Management Panel had been set for 23 September 2016, hence the need for an Urgent Matters Panel before the 12 September 2016. The audit letters for both the Fund and the Council would be received formally by the TMBC Overview (Audit) Panel in September 2016.

The key on-going assumptions used in production of the accounts, covered the following matters:

- Accruals basis;
- Fair value for investments;
- Market prices at bid where possible;
- For non-listed assets, compliance with accounting standards and best practice;
- Liabilities in compliance with International Accounting Standard 19 (IAS 19); and
- Continued phased implementation of CIPFA's guidance on accounting for management costs in the LGPS.

The key financial movements during the financial year to 31 March 2016 were detailed in the report.

RECOMMENDED

(i) That the governance arrangements for the Fund's accounts be approved;

(ii) That the assumptions for estimates to be used in the GMPF Statement of Accounts be approved; and

(iii) That the pre-audit simplified accounts be noted.

20. GMPF ADMINISTRATION EXPENDITURE MONITORING STATEMENT FOR FINANCIAL YEAR 2015/16

The Assistant Executive Director of Pensions – Local Investments and Property, submitted a report comparing the administration expenses budget against the actual results for the 12 months to 31 March 2016.

It was reported that, for the financial year to 31 March 2016, there was an underspend of £4,708,000 against the budget of £24,037,000 for that period. Reasons for major variations over £50,000 for 2015/16 were detailed as follows:

- Investment Managers and Professional fees;
- Premises;
- Communications; and
- Recovery of Management and Legal Fees.

RECOMMENDED

That the content of the report be noted.

21. LGPS UPDATE

A report was submitted by the Assistant Executive Director of Pension Fund Administration providing information about recent developments regarding the Scheme, in this case regarding a DCLG consultation about possible changes to the Scheme Regulations and Academy Schools.

Following information presented at the last meeting of the Management Panel (Meeting of 11 March 2016, Minute 73 refers), members requested an update on reforms to public sector exit payments. The Assistant Executive Director explained that there was no further information available at this time in respect of this matter.

RECOMMENDED
That the content of the report be noted.

22. FUTURE TRAINING DATES

Trustee Training opportunities were noted as follows:

LGA Annual Conference 2016 Bournemouth International Centre	5 – 7 July 2016
NAPF Annual Conference ACC Liverpool	19 – 21 October 2016
LGPS Fundamentals Training Leeds Marriott Hotel	
Day 1	18 October 2016
Day 2	9 November 2016
Day 3	6 December 2016
Capital International Training Day Manchester venue to be advised	1 December 2016
LAPFF Annual Conference Marriott Hotel Bournemouth	7 – 9 December 2016

23. DATES OF FUTURE MEETINGS

The dates of future meetings of the Greater Manchester Pension Fund Management/Advisory Panel, Local Board and Working Groups were noted as follows:

Management/Advisory Panel	23 September 2016 (AGM) 18 November 2016 10 March 2017
Local Pensions Board	1 August 2016 13 October 2016 15 December 2016 30 March 2017
Pensions Administration Working Group	15 July 2016 14 October 2016 27 January 2017 7 April 2017

Investment Monitoring & ESG Working Group	15 July 2016 14 October 2016 27 January 2017 7 April 2017
Alternative Investments Working Group	22 July 2016 21 October 2016 3 February 2017 13 April 2017
Property Working Group	5 August 2016 4 November 2016 17 February 2017 13 April 2017
Policy and Development Working Group	6 October 2016 2 February 2017 23 March 2017
Employer Funding Viability Working Group	29 July 2016 28 October 2016 10 February 2017 21 April 2017

CHAIR