

GREATER MANCHESTER PENSION FUND - INVESTMENT MONITORING AND ESG WORKING GROUP

Friday, 15 July 2016

Commenced: 10.30 am

Terminated: 12.00 pm

Present: Councillors Taylor (Chair), Middleton, Brett, Grimshaw, Mitchell, Pantall and Mr Llewellyn

Apologies for Absence: Councillor Ricci

1. DECLARATIONS OF INTEREST

There were no declarations of interest.

2. MINUTES

The Minutes of the meeting of the Investment Monitoring and ESG Working Group held on 8 April 2016 were approved as a correct record.

3. UBS CORPORATE GOVERNANCE REVIEW

The Working Group welcomed Ian Barnes and Paul Clark of UBS who attended the meeting to present Corporate Governance activity over the past 12 months.

The role of the governance and stewardship team was outlined to the group and in response to a question it was advised that the team structure had changed and was now part of the Chief Operating Officer division. It was explained that this change provided assurance that the governance and stewardship team was independent of the equities team. It was clarified that working practices remained the same. Stewardship activity and the global engagement reach were highlighted.

The role of corporate governance in the investment process was explained to the group. It was emphasised by Mr Clarke that effective corporate governance led to sustainable long term corporate performance and that this was obtained through detailed knowledge of investee companies, focussing on the 'outputs' of governance and via engagement with senior board members. This was of benefit because it provided a better understanding of how well governed a company was, the quality of the management and how the strategy benefitted shareholders.

The most important governance factors for UBS were confirmed as strategy, quality and skillset of the Board and Management, succession planning, operational performance, risk management, reputation and remuneration.

It was highlighted that voting was seen as an intrinsic part of the governance oversight process and it gave investors the forum to ensure that their views were taken into account. It was explained that a high voting turnout at general meetings could help ensure that decisions were representative of all stakeholders and not only those with large holdings or shorter term perspectives.

For the year to 31 March 2016, UBS had voted at 296 company meetings on behalf of GMPF for 3,781 separate resolutions and voted against management on 243 resolutions (6.5% of the total). Examples of key votes were provided and explained to the group.

RECOMMENDED:

That the report be noted.

4. UBS TRADING COSTS

The Assistant Executive Director of Pensions (Investments) submitted a report to facilitate Member's scrutiny of UBS's approach and practice to trading costs. UBS's 'level one' and 'level two' disclosure reports for the period 1 January 2015 to 31 December 2015, were appended to the report.

Ian Barnes, UBS, presented GMPF's transaction costs and provided an analysis of trading for the 12 month period ending 31 December 2015. It was reported that the 'level two' report had been reviewed by GMPF officers and questions arising from the review had been satisfactorily answered by UBS.

RECOMMENDED:

That the report be noted.

5. ROUTINE PIRC UPDATE

The Working Group welcomed Tessa Younger and Lara Blecher of PIRC Ltd, who attended the meeting to present an update on the Local Authority Pension Fund Forum (LAPFF) work programme, entitled "Work Plan Highlights". A copy of the plan was appended to the report.

It was reported that LAPFF had 71 UK public sector pension fund members with combined assets of approximately £175 billion. There was a long-term approach to ensure that returns were financially and environmentally sustainable. It was explained to the group that LAPFF promoted focus on face to face engagement and aimed to encourage companies to adhere to high standards of corporate behaviour to ensure they were well run and delivered sustainable shareholder returns. It was highlighted that real change in corporate behaviour was not always immediate and that a small change could have big effects. Voting remained a vitally important element of LAPFF engagement and there had been high votes against company management on remuneration at companies including BP, Smith and Nephew and Weir.

Members were provided with an update on the current LAPFF initiatives, in particular executive pay and their long term involvement with carbon risk. Strategic resilience resolutions, the quarterly engagement report for the period April to June 2016, tax transparency and labour standards were discussed with the group.

RECOMMENDED:

That the report be noted.

6. UNDERWRITING, STOCKLENDING AND COMMISSION RECAPTURE

The Assistant Executive Director of Pensions (Investments) submitted a report advising Members of the activity and income generated on Underwriting, Stocklending and Commission Recapture during the quarter ending March 2016.

It was reported that Capital International did not participate in underwriting activity and that the Fund had accepted sub-underwriting via UBS in the quarter. Underwriting commission in respect of the quarter was £43,564. Stocklending income during the quarter was £92,666 and commission 'recaptured' was £26,570.

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.

7. CLASS ACTION UPDATE

The Assistant Executive Director of Pensions (Investments) submitted a report, which provided Members with an update on litigation in which GMPF sought to actively recover losses in the value of its shareholdings in various companies as a result of actions taken by those companies.

A summary of active Class Action recommendations, which remained outstanding and recent developments of each action was provided.

RECOMMENDED:

That the report be noted.

8. URGENT ITEMS

There were no urgent items.

CHAIR