

GREATER MANCHESTER PENSION FUND
POLICY AND DEVELOPMENT WORKING GROUP

3 August 2016

Commenced: 2.00pm

Terminated: 3.00pm

Councillor K Quinn (Chair)

Councillor Cooney

Councillor J Lane

Councillor S Quinn

Councillor Pantall

Councillor M Smith

Councillor Taylor

Ronnie Bowie

Actuary to the Fund

Peter Moizer

Advisor the Fund

Sandra Stewart

**Executive Director of Governance,
Resources and Pensions**

Steven Taylor

**Assistant Executive Director of Pensions -
Investments**

Paddy Dowdall

**Assistant Executive Director of Pensions –
Local Investments and Property**

Tom Harrington

Investments Team

Apologies for absence: **Councillor J Fitzpatrick**

7. INVESTMENT MANAGEMENT ARRANGEMENTS

Consideration was given to a report of the Assistant Executive Director of Pensions - Investments, which considered the ongoing investment management arrangements for the Fund.

By way of background information, it was reported that, on 11 March 2016, the meeting of the Management Panel considered a report, which examined the investment management arrangements of the Fund and the appointments of the active multi-asset Securities Managers. The report set out details of WM research in relation to UK local authority pension funds and the key drivers of success.

The Panel resolved to continue with the broad thrust of the current structure of investment management arrangements. However, whilst supportive of the people, investment philosophy and processes of the Managers, there were some reservations about performance, which continued to underperform against the benchmark. In addition, the uncertainty in relation to the ongoing development of pooling arrangements suggested that the negotiation of further three year fee arrangements with the Managers was not the optimal way forward. The Panel thus took an in principle decision to extend the current three year fee arrangements with the active multi-asset Securities Managers, by an additional year, to a four year arrangement to allow time for events to unfold.

In light of continued reservations, this meeting of the Working Group was convened to consider a range of possible options in relation to potential action to address the performance issues of one Fund Manager in particular.

Short, medium and long term performance data for the Fund Manager concerned was submitted in an appendix to the report and discussed and deliberated by members of the Working Group.

Potential options for a way forward and associated cost implications for the Fund were detailed and discussed.

The Advisers were also asked to comment.

Mr Bowie acknowledged the specific Fund Manager's poor performance, particularly in emerging markets, over the past 5 years and also raised concerns regarding the amount of cash held by the Manager and the drag this had on performance. However, balanced against the Manager's strengths in personnel, process and philosophy, and the transition costs and officer time/resources associated with any termination of the contract, he favoured the retention of the Manager.

Mr Moizer concurred with Mr Bowie's comments. In particular, he emphasised the Fund Manager's quality research process but questioned what might be the catalyst for the market to begin to share the Fund Manager's valuation views.

The above concerns were also echoed by members of the Working Group.

The Executive Director of Governance, Resources and Pensions made reference to the importance of strong governance and planned enhancements to management information, going forward.

Detailed discussion ensued with regard to the information provided and the options available going forward, and it was:

RECOMMENDED

- (i) That the Fund Manager in question, be retained in line with the arrangements and time frame agreed at the meeting of the Management Panel on 11 March 2016;**
- (ii) That their investment mandate be reduced by 10% of assets under management, to partially fund the newly appointed Credit Manager; and**
- (iii) That a report be submitted to the meeting of the Management Panel on 23 September 2016 setting out preliminary suggested governance arrangements in respect of Fund Manager reporting to, and attendance at, Panel and Working Group meetings, going forward.**