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GREATER MANCHESTER PENSION FUND - MANAGEMENT/ADVISORY PANEL

Day: Friday
Date: 10 March 2017
Time: 10.00 am
Place: Guardsman Tony Downes House, Manchester Road, Droylsden, M43 6SF

Item No.	AGENDA	Page No
	GENERAL BUSINESS	
1.	**CHAIR'S OPENING REMARKS**	
2.	**APOLOGIES FOR ABSENCE**	
3.	**DECLARATIONS OF INTEREST**	
	To receive any declarations of interest from Members of the Panel.	
4.	**MINUTES**	
a)	**MINUTES OF THE PENSION FUND ADVISORY PANEL**	1 - 12
	To approve as a correct record the Minutes of the meeting of the Pension Fund Advisory Panel held on 18 November 2016.	
b)	**MINUTES OF THE PENSION FUND MANAGEMENT PANEL**	13 - 18
	To approve as a correct record the Minutes of the meeting of the Pension Fund Management Panel held on 18 November 2016.	
5.	**LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985**	
a)	**URGENT ITEMS**	
	To consider any items which the Chair is of the opinion shall be considered as a matter of urgency.	
b)	**EXEMPT ITEMS**	
	The Proper Officer is of the opinion that during the consideration of the items set out below, the meeting is not likely to be open to the press and public and therefore the reports are excluded in accordance with the provisions of the Schedule 12A to the Local Government Act 1972.	

From: Democratic Services Unit – any further information may be obtained from the reporting officer or from Carolyn Eaton, Senior Democratic Services Officer, to whom any apologies for absence should be notified.

Items	Paragraphs	Justification
7, 8, 9, 11, 12, 13, 14, 15, 16.	3&10, 3&10, 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.

ITEMS FOR DISCUSSION/DECISION

Item No.	AGENDA	Page No
11.	**UPDATE ON INVESTMENT MANAGEMENT COST BENCHMARKING AND RECENT COST SAVINGS ACHIEVED**	213 - 218
	Report of the Assistant Executive Director, Pension Fund Investments, attached.	
12.	**SAMPLE NEW PERFORMANCE REPORTS**	219 - 224
	Report of the Assistant Executive Director, Pension Fund Investments, attached.	
13.	**LGPS POOLING UPDATE**	225 - 232
	Report of the Assistant Executive Director of Pensions – Funding and Business Development.	
14.	**QUARTERLY REPORTS OF THE EXECUTIVE DIRECTOR OF PENSIONS**	
a)	**SUMMARY VALUATION OF THE PENSION FUND INVESTMENT PORTFOLIO AS AT 30 SEPTEMBER 2016 AND 31 DECEMBER 2016**	233 - 240
	Report of the Assistant Executive Director of Pensions Investments, attached.	
b)	**EXTERNAL MANAGERS PERFORMANCE**	241 - 246
	Report of the Assistant Executive Director – Pensions Investments attached.	
c)	**FUND PERFORMANCE OVER THE SHORT AND LONG TERM**	247 - 250
	Report of the Assistant Executive Director, Pension Fund Investments, attached.	
15.	**REPORTS OF THE MANAGERS**	251 - 346
	Report of the Assistant Executive Director – Pensions Investments attached. To review the performance of Investec as Fund Manager.	
16.	**ADVISOR COMMENTS AND QUESTIONS**	
17.	**GMPF BUDGET 2017/18 AND FUTURE MEDIUM TERM FINANCIAL PLANNING**	347 - 354
	Report of the Assistant Executive Director, Local Investments and Property, attached.	

ITEMS FOR INFORMATION

18.	**AUDIT PLAN**	355 - 374
	Report of the Assistant Executive Director, Local Investments and Property, attached.	
19.	**ADMINISTRATION UPDATE**	375 - 382
	Report of the Pensions Policy Manager attached.	

From: Democratic Services Unit – any further information may be obtained from the reporting officer or from Carolyn Eaton, Senior Democratic Services Officer, 0161 342 3050 or carolyn.eaton@tameside.gov.uk to whom any apologies for absence should be notified.

20. FUTURE TRAINING DATES

Trustee training opportunities are available as follows. Further information/details can be obtained by contacting Loretta Stowers on 0161 301 7151.

PLSA Local Authority Conference **Cotswold Water Park Hotel, Gloucestershire**	**15–17 May 2017**
LGPS Annual Trustees Conference **Highcliffe Marriott, Bournemouth**	**29–30 June 2017**
PLSA Annual Conference **Manchester Central**	**18–20 October 2017**
LAPFF Annual Conference **Highcliffe Marriott, Bournemouth**	**6-8 December 2017**

21. DATES OF FUTURE MEETINGS

Management/Advisory Panel	21 July 2017 22 September 2017 17 November 2017 23 March 2018
Local Pensions Board	24 July 2017 19 October 2017 14 December 2017 29 March 2018
Pensions Administration Working Group	14 July 2017 13 October 2017 19 January 2018 6 April 2018
Investment Monitoring and ESG Working Group	14 July 2017 13 October 2017 19 January 2018 6 April 2018
Alternative Investments Working Group	20 July 2017 20 October 2017 26 January 2018 13 April 2018
Property Working Group	28 July 2017 27 October 2017 2 February 2018 20 April 2018
Policy and Development Working Group	30 May 2017 5 October 2017 1 February 2018 22 March 2018
Employer Funding Viability Working Group	28 July 2017 27 October 2017 2 February 2018 20 April 2018

GREATER MANCHESTER PENSION FUND ADVISORY PANEL

18 November 2016

Commenced: 10.00am **Terminated: 12.35pm**

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

Councillors: Brett (Rochdale), Grimshaw (Bury), Halliwell (Wigan), Pantall (Stockport) and Stogia (Manchester)

Employee Representatives:

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

Local Pensions Board Members (in attendance as observers):

Councillor Fairfoull and Mr Schofield

Advisors:

Mr Bowie, Mr Moizer, Mr Powers and Ms Brown

Apologies for absence: **Councillors Hamilton (Salford) and Mitchell (Trafford)**

48. CHAIR'S OPENING REMARKS

The Chair welcomed Lynn Brown OBE, a new advisor to the Fund. He explained that Lynn brought with her a lot of experience and would add to the strength of advice the Fund received, particularly in relation to administration and employer perspective.

The Chair further announced that since the September quarter end, the Fund had broken through, and subsequently fluctuated around, £20 billion.

In respect of the LGPS Pooling agenda, the Chair reported that he and the Chairs' of Merseyside and West Yorkshire Pension Funds would be meeting with the Minister, Marcus Jones in December 2016. He added that Pooling was also an item later on the agenda today.

49. DECLARATIONS OF INTEREST

There were no declarations of interest submitted by Members.

50. MINUTES

The Minutes of the proceedings of the meeting of the Pension Fund Advisory Panel held on 23 September 2016 were signed as a correct record.

The Minutes of the proceedings of the meeting of the Pension Fund Management Panel held on 23 September 2016 were signed as a correct record.

The Minutes of the proceedings of the meeting of the Annual General Meeting held on 23 September 2016 were signed as a correct record.

51. 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**
7, 8, 9, 11, 12, 13, 14, 15	**3&10, 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.**

52. POLICY AND DEVELOPMENT WORKING GROUP

The Minutes of the proceedings of the Policy and Development Working Group held on 6 October 2016 were considered.

The Chair, Councillor K Quinn, reported that GLIL, the joint venture with London Pension Fund Authority had made an investment of £45 million to the East Anglia train franchise. This would provide new rolling stock to the line from London to Norwich and the return to the Fund was in the region of 9% with a low level of risk.

The Working Group had also been provided with an update on Matrix homes investments with Manchester and Tameside and approval to consider further with GVA how the model could be made more attractive with upfront investment, without materially changing the risk adjusted returns to GMPF.

The Working Group were further informed that, as the profile of the infrastructure investments increased, more and more opportunities were being received, including joint ventures investing in property in Glasgow and around HS2 stations. It was agreed that the team would continue to work on these and that Executive Director of Pensions would exercise delegated authority for any decisions needed before future meetings, in consultation with the Chair. Any investments would be made out of existing property allocations.

RECOMMENDED
That the Minutes be received as a correct record.

53. LOCAL PENSIONS BOARD

RECOMMENDED
That the Minutes of the proceedings of the Local Pensions Board held on 13 October 2016 be noted.

54. INVESTMENT MONITORING AND ESG WORKING GROUP

The Minutes of the proceedings of the meeting of the Investment Monitoring and ESG Working Group held on 14 October 2016 were considered.

The Chair of the Working Group, Councillor Taylor, explained that the Working Group had received a presentation from Investec, one of the new Fund Managers, who had explained to the Working Group why they had underperformed during the first twelve months of the relationship. They sought to reassure the Working Group that they were confident they would deliver outperformance over the long term and confirmed that they understood the significance of their underperformance for the Fund.

The Working Group had also heard from Capital, who outlined their corporate governance activity and trading costs, over the last twelve months.

PIRC, the Fund's independent corporate governance and shareholder advisory consultancy, had also attended before members and reported on PIRC's role in Corporate Governance reform.

RECOMMENDED
That the Minutes be received as a correct record.

55. PENSIONS ADMINISTRATION WORKING GROUP

The Minutes of the proceedings of the meeting of the Pensions Administration Working Group held on 14 October 2016 were considered.

The Chair of the Working Group, Councillor J Lane, explained that the performance of the Scheme Additional Voluntary Contributions provider, Prudential, continued to be satisfactory.

The Working Group had also noted that whilst there were very few disputes and complaints under the formal statutory process, officers intended to undertake a review to ensure that all learning opportunities arising from complaints were captured and shared more widely with Employers to avoid future cases arising.

The Working Group were further pleased to note that Pensions Administration had made improvements on last years' performance.

The Working Group had supported further analysis of membership levels to ensure that the Fund and employers were doing all they could to encourage eligible members to save for their retirement.

The Working Group had also considered a report regarding the employer audits carried out by TMBC's Internal Audit Section and acknowledged that employer audits were a valuable tool and supported wider review in this area to ensure that, wherever possible, learning opportunities highlighted in employer audits could be extended to all employers within the Fund to reduce costs and ensure members received benefits expediently.

RECOMMENDED

(i) That the Minutes be received as a correct record;

(ii) In respect of Minute 11, Internal Dispute Resolution Procedure and Complaints received by the Pensions Administration Section, that the proposal to review and enhance current systems and processes should be undertaken;

(iii) With regard to Minute 12, Performance Standards, that further work be undertaken to make improvements in this area over the next twelve months; and

(iv) In respect of Minute 13, Local Authority Membership Levels, that further analysis be undertaken with a view to ensure that GMPF is doing all it can to encourage employees to save for retirement.

56. ALTERNATIVE INVESTMENTS WORKING GROUP

The Minutes of the proceedings of the meeting of the Alternative Investments Working Group held on 21 October 2016 were considered.

The Chair of the Working Group, Councillor Cooney, explained that the Group had considered at length proposals to change the implementation of GMPF's Private Equity strategy in Asia by allowing commitments to be made directly to Funds, rather than via Fund of Funds and that this had been supported.

The Working Group heard from the Fund's specialist adviser, Capital Dynamics who presented their half-yearly reviews of GMPF's Private Equity and Infrastructure portfolios to 30 June 2016. Both of these portfolios continued to develop well, with 'since inception' returns of 16.7% per annum and 10.5% per annum respectively.

Officers had presented a report on the activity and performance of GMPF's Special Opportunities Portfolio up to 30 June 2016.

The Working Group had also received a presentation from Palatine Private Equity, who explained their process of turning companies around, which had resulted in good returns for the Fund.

RECOMMENDED

(i) That the Minutes be received as a correct record; and

(ii) In respect of Minute 10, Private Equity Investing in Asia – Proposed Change to Implementation, that approval be given for a change to the implementation of GMPF's Asian Private Equity allocation to include direct fund commitments.

57. EMPLOYER FUNDING VIABILITY WORKING GROUP

The Minutes of the proceedings of the meeting of the Employer Funding Viability Working Group held on 28 October 2016 were considered.

The Chair of the Working Group, Councillor J Fitzpatrick, explained that the meeting had focused predominantly on the actuarial valuation process.

The Working Group had also received a presentation on proposals to set contribution rates and the potential range of outcomes, for example, employers.

It was explained that the actuary needed to set contribution rates in accordance with GMPF's Funding Strategy Statement and this had been discussed at the meeting. This document needed to go out to employers for consultation, hence its inclusion on the agenda today, with a view to further consideration at future Working Group meetings and the Management/Advisory Panel in March 2017.

It was further reported that taking place alongside the valuation process, was an exercise to review employer risk and create a framework to monitor employer risk going forwards. The results of this review would be used to assess the appropriateness of each employer's contribution rate.

RECOMMENDED
(i) That the Minutes be received as a correct record;
(ii) In respect of Minute 14, Employer Risk Monitoring, that a full analysis of the output of the employer risk review be brought to a future meeting of the Employer Funding Viability Working Group;
(iii) With regard to Minute 15, Funding Strategy Statement, that an updated version of the Funding Strategy Statement, following the consultation with employers, be brought to the next meeting of the Employer Funding Viability Working Group; and
(iv) In respect of Minute 16, Consideration of Employer Contribution Rates, that the use of a risk based approach to calculate employer contribution rates by the Actuary be approved.

58. PROPERTY WORKING GROUP

The Minutes of the proceedings of the Property Working Group held on 4 November 2016 were considered.

The Chair of the Working Group, Councillor S Quinn, explained that the main focus of the meeting was to review the GVA contract for the Property Venture Fund. Members had considered a presentation from GVA and a report from the team.

It was reported that Members were impressed by the improved reporting by GVA and the focus on properties that could produce material returns rather than longstanding smaller less viable sites. Officers reported that GVA had met most of the milestones in the business plans agreed two years ago. The Group agreed to continue the contract subject to annual reviews and this was the recommendation to the Panel.

RECOMMENDED
(i) That the Minutes be received as a correct record;
(ii) In respect of, Minute 16, Review of GVA Appointment as Fund Manager, that;
- **(a) That GVA be retained and a rolling one year monitoring programme be commenced based on new business plans to be agreed;**
- **(b) That a review of the portfolio investment principles and parameters be reviewed to ensure sufficiently wide enough to ensure opportunities to increase income are maximised; it being noted that a particular opportunity being considered which the Executive Director, in conjunction with the Chair of the Fund and the Working Group, would be authorised to bid at auction at a price that would provide the Fund with returns in line with the benchmark; and**
- **(c) That the use of other service providers for local property investments be agreed in principle subject to a further report setting out the detail.**

59. THE FUTURE OF RESPONSIBLE INVESTING AND STEWARDSHIP

Alan MacDougall and Janice Hayward of PIRC Ltd, gave a presentation on the future of responsible investing and stewardship and outlined the considerations the Fund needed to reflect upon and take into account moving forward, to strengthen its position.

Mr MacDougall began by summarising current issues as follows:
- Focus on Boards of Directors;
- Executive Pay;
- Reliable Accounts;

- Diversity;
- Company Taxation;
- Carbon Risk Strategies;
- Human Capital reporting; and
- Political Change and CG Reform.

He further gave details of new LGPS guidance, particularly with regard to:
- Funds retaining full fiduciary responsibility, pools must be accountable to funds;
- Managing ESG investment considerations;
- Certain investment strategies deemed as 'inappropriate';
- Wider remit on integrated reporting policies;
- Funds may pursue 'Social Investments'; and
- Managing social impact and social return.

Mr MacDougall also commented on challenges faced going forward, particularly in respect of Pooled investments; heightened monitoring of asset manager ESG competence and capability and their client responsiveness; the process for supporting shareholder resolutions and director nominations, which required organised processes to reflect client wishes.

He further expanded on areas for the Fund's future consideration as follows:
- Identifying Focused Engagement Themes;
- Scoping and Policy Review; and
- Stakeholder Engagement.

Discussion ensued, and Trustees raised a number of issues, including: influencing more transparency in the financial sector; gender split and discrimination on Boards and international reporting standards.

The Chair thanked Mr MacDougall for a very informative presentation and commented on the challenges ahead and the importance of retaining the Fund's excellent reputation in this field.

RECOMMENDED
(i) That the content of the presentation be noted; and
(ii) That a progress report be submitted to future meetings of the Policy and Development Working Group and the Management/Advisory Panel.

60. GMPF'S COMPLIANCE WITH THE UK STEWARDSHIP CODE

Consideration was given to a report of the Assistant Executive Director of Pensions (Investments), explaining that the Fund had been a voluntary signatory of the UK Stewardship Code, which was designed to enhance the quality of engagement between institutional investors and companies since 2011.

It was explained that in 2016, the FRC wrote to all signatories of the Code to introduce a new tiering system. In order to meet the FRC's reporting expectations and obtain 'Tier 1' status, the Fund had reviewed and updated its statement of compliance with the Code (a draft updated Statement was appended to the report).

The Assistant Executive Director reported that since writing the report, the FRC had published the results of its tiering exercise and was pleased to announce that the Fund had been awarded 'Tier 1' status, as had each of the Fund's Asset Managers.

RECOMMENDED
That the draft statement of compliance with the UK Stewardship Code, as appended to the report, be adopted.

61. SCHEME ADVISORY BOARD – INVESTMENT COSTS CODE OF TRANSPARENCY

The Assistant Executive Director of Pensions (Investments) submitted a report, which gave details of the LGPS Scheme Advisory Board's proposals to launch a voluntary 'Code of Transparency' on Investment Costs in Autumn 2016, after consulting Fund Managers, CIPFA and LGPS Funds.

The report provided an update on action taken by the fund in relation to the Scheme Advisory Board's consultation process.

RECOMMENDED
That the content of the report be noted.

62. LGPS POOLING AND INFRASTRUCTURE INVESTMENT

A report of the Assistant Executive Director of Pensions – Local Investments and Property was submitted providing 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.

It was reported that, no formal response had been provided to pools from Government on their July submissions. However, the DCLG Minister, Marcus Jones MP, had arranged meetings with pools to respond to their proposals and to set out his expectations for the rest of the programme. The Northern Pool's meeting was due to take place in the next two weeks.

Pending formal feedback from Government on the Northern Pool's submission, the funds were focussing on developing closer working relationships, particularly with regard to investments in alternative assets.

It was explained that due diligence was progressing on GMPF's pooling partners joining the GLIL infrastructure vehicle. Work was also underway to increase the alignment of private equity strategies across the funds in the Northern Pool. This would help the Funds to make collective investments in private equity funds in future which could help improve cost effectiveness.

It was reported that GMPF continued to participate in the cross pool working group on infrastructure on behalf of the Northern Pool. The Northern Pool and LPP were further ahead with development of capability and capacity to invest in infrastructure and had made it a higher priority than the other pools.

The Northern Pool and LPP were leading in terms of setting definitions for what a national approach to infrastructure investment on behalf of all pools should look like.

GMPF was also putting forward the benefits of a GLIL style approach to direct infrastructure investment to other LGPS funds and was preparing a range of alternative structures to build on GLIL where other Pools could participate with differing levels of governance according to their own internal capability, capacity and preference.

An update was given with regard to progress of the GLIL infrastructure vehicle, with recent achievements including:

- Expansion of overall committed capital
- A £45m investment into railway rolling stock; and
- Development of investment procedures for debt investment.

Mr Bowie, Fund Actuary and Advisor to the Fund commented on the good progress made and sought clarification with regard to the limit for investments and controls in place for assessing risks.

The Assistant Executive Director explained that investments over £100m or 20% of the portfolio were referred to the Chair and scrutinised by the Policy and Development Working Group.

Mr Bowie suggested that the ground rules for investments be revisited and the Chair agreed that a report be submitted to a future meeting of the Policy and Development Working Group to address governance arrangements and investment guidelines.

RECOMMENDED
(i) That the content of the report be noted; and
(ii) That a report be submitted to a future meeting of the Policy and Development Working Group to address governance arrangements and investment guidelines.

63. 31 MARCH 2016 ACTUARIAL VALUATION

The Assistant Executive Director of Pensions – Funding and Business Development submitted a report explaining that the Actuary had given periodic updates to the Fund regarding the 2016 actuarial valuation and the issues arising therefrom. The report provided an update on progress since the last Panel meeting and set out the next steps in the valuation process.

Reference was made to the Funding Strategy Statement (FSS), which provided guidance to the Actuary in undertaking the actuarial valuation. Members were informed that, in order to support the requirement for a FSS, CIPFA produced guidance in 2004, which was periodically updated to reflect changes in the LGPS Regulations and the wider investment landscape. An updated FSS had been prepared reflecting the new CIPFA guidance and changes to the administration of GMPF over the intervening period, a copy of which was appended to the report.

It was explained that it was intended that the FSS be issued to employers for consultation in late November 2016, at the same time as employers would be notified of provisional contribution rates. The final version of the FSS was expected to be formally approved by the GMPF Management Panel at its meeting on 10 March 2017.

Whole-fund results, as presented at the last meeting of the Management Panel (Meeting of 23 September 2016, Minute 36 refers), were set out in the report and it was explained that a typical GMPF employer was likely to see an improvement in their funding level of around 5% from 2013, although this would differ between employers depending on liability profile and member experience.

The report concluded that, whilst very few valuations had reached a conclusion, the expectation was that GMPF would maintain its position as one of the better funded local authority schemes and its employers' average employer contribution rate would again be at the lower end of the range. GMPF's major employers such as the ten GM Local Authorities and the National Probation Service, were likely to see minimal changes to their rates. This was also the case for a large majority of Scheduled Bodies such as Academy Schools and Further Education Colleges.

However, careful consideration was being given to the proposed contribution rate for each employer to ensure it reflected the risk that the employer posed to the Fund, whilst remaining affordable for the employer. There was considerable work required in calculating and notifying employers of their revised contribution rates and answering any related questions from employers.

RECOMMENDED
That the content of the report and the draft Funding Strategy Statement, (as appended to the report), be noted.

64. QUARTERLY REPORTS OF THE EXECUTIVE DIRECTOR OF PENSIONS

(a) Summary Valuation of the Pension Fund Investment Portfolio as at 30 June 2016 and 30 September 2016

A report of the Assistant Executive Director of Pensions (Investments) was submitted, detailing and comparing the market value of the Fund's investment portfolio as at 30 June 2016 and 30 September 2016.

RECOMMENDED
That the report be noted.

(b) External Managers' Performance

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

It was noted that in the quarter to 30 September 2016, Capital had outperformed by 0.1% against their benchmark index of 8.7%. UBS had also outperformed by 1.2% against their benchmark index of 7.8%, and Legal and General had broadly succeeded in tracking their benchmark.

Performance figures for the twelve months to 30 September 2016 were detailed which showed that Capital had underperformed their benchmark by 1.3% and UBS had outperformed their benchmark by 1.6%. Legal and General had broadly succeeded in tracking their benchmark.

RECOMMENDED
That the content of the report be noted.

65. REPORTS OF THE MANAGERS

The Chair announced that, further to the changes agreed at the last meeting of the Management Panel (Meeting of 23 September 2016, Minute 38 refers), in respect of a more in-depth look at Managers' performance, only UBS Asset Management would be presenting before the Panel today. He introduced William Kennedy and Malcolm Gordon, the new relationship team following the departure of Ian Barnes, and Jonathan Davies and Steve Magill from the investments team.

Mr Davies began by commenting on a strong quarter and year for the Portfolio and for markets in general.

In respect of multi-asset fund performance, Mr Davies made reference to the asset allocation strategy, which was broadly similar to the strategy held for some time, with a significant underweighting in North American equities, and an overweight position in Europe (ex UK) equities.

He further commented on the equity market strategy, explaining that the valuation gap between North American and European equities remained large due to the cyclical divergence between European and US earnings, which were currently well above the cyclical norm

With regard to long-term performance, Mr Davies outlined an average annual outperformance for the portfolio of 1.15% and displayed an index of Fund and benchmark returns from 31 Dec 1984 to support this.

Mr Magill then detailed UK Equity performance for the Fund, relative to benchmark and outlined stock attribution for GMPF for the 3 and 12 months to 30 September 2016.

The top 10 overweight and underweight sector position as at 30 September 2016 were also discussed and Mr Magill made reference to interesting opportunities within the banking sector, going forward.

Mr Davies then commented on the possible implications of the recent US election result and the potential impact of key policies for financial markets. Comparisons were also made between US and UK inflation rates and bond yields, following President Elect Trump's victory.

Mr Gordon concluded by providing an update on Investment Costs Code of Transparency and explained that UBS did participate in the consultation and would be signing up to the Code. The Advisors were then asked to comment.

Mr Moizer sought UBS's views on President Elect Trump's economic policies in particular in respect of a possible withdrawal from the Trans Pacific Partnership.

Mr Davies explained that it was anticipated that although this could benefit some parts of the US economy, there would be more resistance to imports from China and the Far East and lower levels of growth which would mean higher interest rates in the developed world as there would be less competition to drive prices down.

Mr Bowie made reference to the portfolio's outperformance in UK equities and asked if the same ethos could be applied to improve overseas performance. He also commented on the underweighting in property and sought UBS's views in respect of now being a good time to increase property holdings closer to the benchmark position. Mr Davies explained that he did not have a positive view on this.

RECOMMENDED
That the content of the Fund Manager's presentation and the comments of the Advisors be noted.

66. CONSOLIDATION OF LGPS INTERESTS

Consideration was given to a report of the Assistant Executive Director of Pensions – Funding and Business Development, which explained that one of GMPF's largest private-sector employers was considering consolidating its two other LGPS arrangements into a single fund, with GMPF being the preferred host fund.

The report gave background information on the employer's English LGPS arrangements, some rationale behind why the employer was seeking to consolidate those arrangements and highlighted the potential benefits and risks of this consolidation to GMPF.

Members were asked to consider whether GMPF should undertake further due diligence on the potential consolidation of the employer's interests. A paper from Hymans Robertson, Actuary to the Fund, was appended to the report, outlining the key funding and investment factors that would influence the decision.

It was further reported that, for the proposed consolidation to proceed, both the approval of the GMPF Management Panel and the Secretary of State would be required.

RECOMMENDED
That further due diligence be undertaken on the consolidation of the employer's LGPS interests into GMPF, and approval be given for additional meetings of the Policy and Development Working Group to be arranged as required, to progress this matter.

67. LGPS UPDATE

The Assistant Executive Director of Pensions – Funding and Business Development, submitted a report providing a summary of items of note in respect of both the LGPS and the wider pensions environment since the last meeting of the Panel, as follows:

- Independent Review of State Pension Age;
- Secondary Annuity Market Plans Scrapped;
- Clarity on Public Sector Exit Payment Reforms;
- Lifetime ISA – Draft Legislation;
- Greater Manchester Pension Fund recognised as leading the way on Infrastructure.

RECOMMENDED
That the content of the report be noted.

68. FUTURE TRAINING DATES

Trustee Training opportunities were noted as follows:

SPS Conference – Annual Northern Pension Funds Investment Conference Manchester Victoria and Albert Hotel	22 November 2016
LGPS Fundamentals Training Leeds Marriott Hotel Day 3	 6 December 2016
Capital International Training Day Hilton Doubletree, Manchester	1 December 2016
LAPFF Annual Conference Marriott Hotel Bournemouth	7 – 9 December 2016
PLSA Investment Conference EICC Edinburgh	8-10 March 2017
PLSA Local Authority Conference Cotswold Water Park Hotel, Gloucestershire	15-17 May 2017

69. 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	10 March 2017
Local Pensions Board	15 December 2016 30 March 2017
Pensions Administration Working Group	27 January 2017 7 April 2017
Investment Monitoring & ESG Working Group	27 January 2017 7 April 2017
Alternative Investments Working Group	3 February 2017

	13 April 2017
Property Working Group	17 February 2017 13 April 2017
Policy and Development Working Group	2 February 2017 23 March 2017
Employer Funding Viability Working Group	10 February 2017 21 April 2017

CHAIR

GREATER MANCHESTER PENSION FUND MANAGEMENT PANEL

18 November 2016

Commenced:	**10.00am**	**Terminated:12.35pm**
Present:	**Councillor K Quinn (Chair)**	
	Councillors: Councillors: Brett (Rochdale), Cooney, J Fitzpatrick, Grimshaw (Bury), Halliwell (Wigan), J Lane, Middleton, Pantall (Stockport), S Quinn, Ricci, M Smith, Stogia (Manchester),Taylor, Ward and Ms Herbert (MoJ)	
Apologies for Absence:	**Councillors: Hamilton (Salford), Mitchell (Trafford), Patrick and Reid**	

48. CHAIR'S OPENING REMARKS

The Chair welcomed Lynn Brown OBE, a new advisor to the Fund. He explained that Lynn brought with her a lot of experience and would add to the strength of advice the Fund received, particularly in relation to administration and employer perspective.

The Chair further announced that since the September quarter end, the Fund had broken through, and subsequently fluctuated around, £20 billion.

In respect of the LGPS Pooling agenda, the Chair reported that he and the Chairs' of Merseyside and North Yorkshire Pension Funds would be meeting with the Minister, Marcus Jones on 13 December 2016. He added that Pooling was also an item later on the agenda today.

49. DECLARATIONS OF INTEREST

There were no declarations of interest submitted by Members.

50. MINUTES

The Minutes of the proceedings of the meeting of the Pension Fund Advisory Panel held on 23 September 2016 were signed as a correct record.

The Minutes of the proceedings of the meeting of the Pension Fund Management Panel held on 23 September 2016 were signed as a correct record.

The Minutes of the proceedings of the meeting of the Annual General Meeting held on 23 September 2016 were signed as a correct record.

51. 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
7, 8, 9, 11, 12, 13, 14, 15	3&10, 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.

52. POLICY AND DEVELOPMENT WORKING GROUP

The Minutes of the proceedings of the Policy and Development Working Group held on 6 October 2016 were considered.

RESOLVED
That the recommendations of the Pension Fund Advisory Panel on this matter be adopted.

53. LOCAL PENSIONS BOARD

RESOLVED
That the Minutes of the proceedings of the Local Pensions Board held on 13 October 2016 be noted.

54. INVESTMENT MONITORING AND ESG WORKING GROUP

The Minutes of the proceedings of the meeting of the Investment Monitoring and ESG Working Group held on 14 October 2016 were considered.

RESOLVED
That the recommendations of the Pension Fund Advisory Panel on this matter be adopted

55. PENSIONS ADMINISTRATION WORKING GROUP

The Minutes of the proceedings of the meeting of the Pensions Administration Working Group held on 14 October 2016 were considered.

RESOLVED
That the recommendations of the Pension Fund Advisory Panel on this matter be adopted

56. ALTERNATIVE INVESTMENTS WORKING GROUP

The Minutes of the proceedings of the meeting of the Alternative Investments Working Group held on 21 October 2016 were considered.

RESOLVED
That the recommendations of the Pension Fund Advisory Panel on this matter be adopted.

57. EMPLOYER FUNDING VIABILITY WORKING GROUP

The Minutes of the proceedings of the meeting of the Employer Funding Viability Working Group held on 28 October 2016 were considered.

RESOLVED
That the recommendations of the Pension Fund Advisory Panel on this matter be adopted.

58. PROPERTY WORKING GROUP

The Minutes of the proceedings of the Property Working Group held on 4 November 2016 were considered.

RESOLVED
That the recommendations of the Pension Fund Advisory Panel on this matter be adopted.

59. THE FUTURE OF RESPONSIBLE INVESTING AND STEWARDSHIP

A presentation was delivered by Alan MacDougall of PIRC Ltd.

RESOLVED
That the recommendations of the Pension Fund Advisory Panel on this matter be adopted.

60. GMPF'S COMPLIANCE WITH THE UK STEWARDSHIP CODE

A report of the Assistant Executive Director of Pension Fund Investments was submitted.

RESOLVED
That the recommendations of the Pension Fund Advisory Panel on this matter be adopted.

61. SCHEME ADVISORY BOARD – INVESTMENT COSTS CODE OF TRANSPARENCY

A report of the Assistant Executive Director of Pension Fund Investments was submitted.

RESOLVED
That the recommendations of the Pension Fund Advisory Panel on this matter be adopted.

62. LGPS POOLING AND INFRASTRUCTURE INVESTMENT

A report of the Assistant Executive Director of Pensions – Local Investments and Property was submitted.

RESOLVED
That the recommendations of the Pension Fund Advisory Panel on this matter be adopted.

63. 31 MARCH 2016 ACTUARIAL VALUATION

A report of the Assistant Executive Director of Pensions – Funding and Business Development was submitted.

RESOLVED
That the recommendations of the Pension Fund Advisory Panel on this matter be adopted.

64. QUARTERLY REPORTS OF THE EXECUTIVE DIRECTOR OF PENSIONS

(a) Summary Valuation of the Pension Fund Investment Portfolio as at 30 June 2016 and 30 September 2016

A report of the Assistant Executive Director of Pension Fund Investments was submitted.

RESOLVED
That the recommendations of the Pension Fund Advisory Panel on this matter be adopted.

(b) External Managers' Performance

A report of the Assistant Executive Director of Pension Fund Investments was submitted.

RESOLVED
That the recommendations of the Pension Fund Advisory Panel on this matter be adopted.

65. REPORTS OF THE MANAGERS

The Chair announced that, further to the changes agreed at the last meeting of the Management Panel (Meeting of 23 September 2016, Minute 38 refers), in respect of a more in-depth look at Managers' performance, only UBS Asset Management would be presenting before the Panel today.

RESOLVED
That the recommendations of the Pension Fund Advisory Panel on this matter be adopted.

66. CONSOLIDATION OF LGPS INTERESTS

A report of the Assistant Executive Director of Pensions – Funding and Business Development was submitted.

67. LGPS UPDATE

A report of the Assistant Executive Director of Pensions – Funding and Business Development was submitted.

RESOLVED
That the recommendations of the Pension Fund Advisory Panel on this matter be adopted.

68. FUTURE TRAINING DATES

SPS Conference – Annual Northern Pension Funds Investment Conference Manchester Victoria and Albert Hotel	22 November 2016
LGPS Fundamentals Training Leeds Marriott Hotel Day 3	6 December 2016
Capital International Training Day Hilton Doubletree, Manchester	1 December 2016
LAPFF Annual Conference Marriott Hotel Bournemouth	7 – 9 December 2016
PLSA Investment Conference EICC Edinburgh	8 - 10 March 2017
PLSA Local Authority Conference Cotswold Water Park Hotel, Gloucestershire	15 – 17 May 2017

69. 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	10 March 2017
Local Pensions Board	15 December 2016 30 March 2017
Pensions Administration Working Group	27 January 2017 7 April 2017
Investment Monitoring & ESG Working Group	27 January 2017 7 April 2017
Alternative Investments Working Group	3 February 2017 13 April 2017
Property Working Group	17 February 2017 13 April 2017
Policy and Development Working Group	2 February 2017 23 March 2017
Employer Funding Viability Working Group	10 February 2017 21 April 2017

CHAIR

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GREATER MANCHESTER PENSION FUND

LOCAL PENSIONS BOARD

15 December 2016

Commenced: 3.00pm		**Terminated: 4.30pm**
Present:	**Councillor Fairfoull (Chair)**	**Employer Representative**
	Councillor Cooper	**Employer Representative**
	Richard Paver	**Employer Representative**
	Jayne Hammond	**Employer Representative**
	Paul Taylor	**Employer Representative**
	Dave Schofield	**Employee Representative**
	Catherine Lloyd	**Employee Representative**
Apologies for absence:	**Pat Catterall, Chris Goodwin and Mark Rayner**	

21. CHAIR'S OPENING REMARKS

The Chair welcomed everyone to the meeting and made reference to the scrutiny role of the Local Board. The Chair reported that he had recently attended a training event which suggested that the boards focus their attention on their fund's decision making process. For example, recommendations made by the Working Groups could be an area for consideration going forward.

22. DECLARATIONS OF INTEREST

There were no declarations of interest submitted by Members in relation to items on the agenda.

23. MINUTES

The Minutes of the meeting of the Local Pensions Board held on 13 October 2016, having been circulated, were signed by the Chair as a correct record.

24. 31 MARCH 2016 ACTUARIAL VALUATION

The Assistant Executive Director of Pensions, Funding and Business Development, submitted a report providing an update on the 2016 actuarial valuation and the issues that would arise therefrom, as reported to the last meeting of the Management Panel (Meeting of 18 November 2016, Minute 63 refers).

Reference was made to the Funding Strategy Statement (FSS), which provided guidance to the Actuary in undertaking the actuarial valuation. Members were informed that, in order to support the requirement for a FSS, CIPFA produced guidance in 2004, which was periodically updated to reflect changes in the LGPS Regulations and the wider investment landscape. An updated FSS had been prepared reflecting the new 2016 CIPFA guidance and changes to the administration of GMPF over the intervening period, a copy of the FSS was appended to the report.

It was explained that it was intended that the FSS be issued to employers for consultation in late November 2016, at the same time as employers would be notified of provisional contribution rates.

The final version of the FSS was expected to be formally approved by the GMPF Management Panel at its meeting on 10 March 2017.

Whole-fund results, as presented at the meeting of the Management Panel held on 23 September 2016, (Minute 36 refers), were set out in the report and it was explained that a typical GMPF employer was likely to see an improvement in their funding level of around 5% from 2013, although this would differ between employers depending on liability profile and member experience.

The report concluded that, whilst very few valuations had reached a conclusion, the expectation was that GMPF would maintain its position as one of the better funded local authority schemes and its employers' average employer contribution rate would again be at the lower end of the range. GMPF's major employers such as the ten GM Local Authorities and the National Probation Service, were likely to see minimal changes to their rates. This was also the case for a large majority of Scheduled Bodies such as Academy Schools and Further Education Colleges.

However, careful consideration was being given to the proposed contribution rate for each employer to ensure it reflected the risk that the employer posed to the Fund, whilst remaining affordable for the employer. There was considerable work required in calculating and notifying employers of their revised contribution rates and answering any related questions from employers.

RESOLVED
That the content of the report and the draft Funding Strategy Statement, (as appended to the report), be noted.

25. PUBLIC SECTOR EXIT PAYMENT REFORMS

Consideration was given to a report of the Assistant Executive Director of Pensions, Funding and Business Development, which provided a summary of developments regarding the proposed restrictions on public sector exit payments and the LGPS implications.

It was reported, that at the start of the year, the Government issued a consultation on possible reforms to early exit payments across the public sector. It had recently responded to the consultation to confirm the Government's commitment to restrict public sector exit costs, establish guidelines for a common framework and set a timeline for reform up to the end of June 2017.

A link to the responses to the consultation was provided in the report.

It was explained that, consistent with the Government's view that it remained appropriate for the detail for exit arrangements to be negotiated at workforce level, departments responsible for the workforces would take forward the detailed design and analysis of proposals for exit payment reform, within the overall framework and principles for reform.

The Government expected departments to put forward proposals for reform within three months of the publication of the government response (September 2016). Departments should then consult on proposals as appropriate and should follow the normal process of discussions and negotiations with Trade Unions and other workforce representatives in order to seek agreement to their reform proposals. The government expected this discussion process to be concluded, agreement reached and the necessary changes made to compensation schemes and other arrangements within nine months.

RESOLVED
That the content of the report be noted.

26. THE PENSIONS REGULATOR'S PUBLIC SERVICE GOVERNANCE SURVEY 2016

A report of the Assistant Executive Director of Pensions, Funding and Business Development, was submitted, which made reference to the Public Service Governance survey 2016, recently issued by the Pensions Regulator.

Board members were informed that a draft response to the survey had been completed by GMPF officers, a copy of which was attached to the report.

Member's input was sought in respect of Question 6, Section B, which asked the survey respondent to rate the Pensions Board's ability on a scale of 1 to 10 to undertake the following:

(a) Identify to the scheme manager where there are poor standards and/or non-compliance with legal requirements;
(b) Set out recommendations to the scheme manager on addressing poor standards and/or non-compliance with legal requirements
(c) Advise the scheme manager on scheme regulations, the governance and administration requirements set out in legislation, and the standards expected by the Pensions Regulator;
(d) Take or secure actions to address poor standards and/or non-compliance with legal requirements.

Discussion ensued with regard to the above and it was agreed that (a) be recorded at 7/10 and points (b), (c) and (d) be recorded at 8/10.

A wider discussion also ensued in respect of the questionnaire and areas/issues for the Board to scrutinise going forward. Feedback from/communication with Employers, was identified as a possible useful exercise. The Executive Director explained that engagement with Employers had been identified as an area for improvement and that work was ongoing with the Administration Team with regard to this.

RESOLVED
That the responses to the survey questions (as set out in the report) be recorded as detailed above.

27. RISK MANAGEMENT AND AUDIT SERVICES SUMMARY REPORT FOR THE 34 WEEKS TO 25 NOVEMBER 2016

A report was submitted by the Head of Risk Management and Audit Services summarising the work of the Internal Audit Service for the 34 weeks to 25 November 2016.

Details were given of final and draft reports issued during the period. Details were also given of audits in progress as follows:

- National Fraud Initiative Data Matching Exercise for 2016/17;
- Unitisation;
- Visits to Contributing Bodies;
- Application Review of the Altair System;
- Visit to the Property Fund Manager;
- Risk Management Review; and
- Employer Agreements.

Five Post Audit Reviews were also in progress as follows:

- Transfer of Assets from UBS to Investec;
- Transfers to Defined Contribution Schemes;
- New Property Management Contract;
- Admitted Bodies; and

- The Valuation and Transfers of Assets from Probation Trusts to GMPF.

In respect of the Internal Audit Plan 2016/17, details of the days spent against the plan to date, were appended to the report. It was reported that recent meetings had taken place with Assistant Executive Directors in November 2016, to review the Internal Audit Plan, and as a result, some changes had been made to the Plan, which were also demonstrated in the Appendix to the report.

RESOLVED
That the content of the report be noted.

28. LOCAL GOVERNMENT PENSION FUNDS 2016/17 – ACCOUNTING UPDATE BY CIPFA

Consideration was given to a report of the Assistant Executive Director of Pensions, Local Investments and Property, which advised that CIPFA were responsible for providing guidance to administering authorities on compliance with Accounting Requirements, including providing sample accounts and organising regular workshops. Board Members were informed that Officers of the Fund regularly attended these events to keep up to date with best practice.

The Assistant Executive Director made reference to a presentation, attached to the report, which provided an update to Local Board Members on developments for 2016/17 Accounts.

The presentation highlighted the main changes to Pension Fund accounts around Management costs, Fair Value and key personnel disclosures and current developments, including the benefits of a faster closedown of accounts and the implications of IFRS 9 Financial Instruments.

RESOLVED
That the content of the presentation be noted.

CHAIR

GREATER MANCHESTER PENSION FUND - INVESTMENT MONITORING AND ESG WORKING GROUP

Friday, 27 January 2017

Commenced: 10.30 am **Terminated:** 11.50 am

Present:	Councillors Taylor (Chair), Middleton, Ricci, Brett, Grimshaw, Pantall, Stogia and Mr Allsop	
In Attendance:	Sandra Stewart	Executive Director of Pensions
	Steven Taylor	Assistant Executive Director of Pensions (Investments)
	Tom Harrington	Senior Investments Manager
	Raymond Holdsworth	Investments Manager
	Michael Ashworth	Investments Officer
	Lorraine Peart	Investments Officer

19. DECLARATIONS OF INTEREST

There were no declarations of interest.

20. MINUTES

The minutes of the meeting of the Investment Monitoring and ESG Working Group held on 14 October 2016 were approved as a correct record.

21. LEGAL & GENERAL CORPORATE GOVERNANCE REVIEW

The Working Group welcomed James Sparshott and Sacha Sadan from Legal & General who attended the meeting to present their corporate governance activity over the last 12 months.

It was reported that Legal & General were impacting company behaviour to generate sustainable and long-term returns. They were changing how the market valued long-term sustainable business strategies and improving efficiency and performance of the market as a whole to reduce the risk of investment. They explained that they were achieving this by using their scale to influence and change behaviour, by building trust and relationships and escalating concerns where necessary.

With regards to ESG, they were creating value by considering all risks and opportunities, conflicts were managed and mitigated and votes were used – between June and December 2016, 828 companies were voted at, over half of which covered ESG topics, with no abstentions in the UK and Europe. Long term ESG topics were outlined and included Board accountability, diversity and transparency. A discussion ensued around Board composition and gender representation. The Working Group were informed that an updated remuneration policy had been created with ongoing dialogue with the 350 FTSE companies. In the UK Legal & General had voted against 118 remuneration resolutions.
Legal & General were committed to encourage and accelerate the transition to a low carbon economy for the long-term benefit of all companies and had identified 90 of the largest companies that were pivotal to shift the market. They had been ranked using a proprietary methodology and the worst performers would be voted against.

Three case studies relating to SAB Miller, Sports Direct and Wells Fargo & Co were outlined and discussed with the Group.

RECOMMENDED:
That the presentation be noted.

22. CDP (FORMERLY CARBON DISCLOSURE PROJECT)

The Assistant Executive Director of Pensions (Investments) submitted a report outlining an invitation from the CDP, which was formerly the Carbon Disclosure Project, to become a signatory to four CDP information requests - the CDP, the CDP Water Disclosure, the CDP Carbon Action and the CDP Forest Footprint Disclosure.

It was reported that the CDP was an independent not-for-profit organisation, which held the largest database in the world of primary information on company policies and practices relating to climate change. The CDP sent out information requests to organisations on an annual basis. In order to encourage them to voluntarily respond, financial institutions were invited to become signatories to the information requests. Last year the Fund accepted an invitation to become a signatory.

RECOMMENDED:
That the working group accept the invitation to become a signatory subject to an annual administration fee of £745 plus VAT to the four Carbon Disclosure Project information requests outlined in the report.

23. 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.

It was reported that Capital International did not participate in underwriting activity and the Fund did not participate in any sub-underwriting via UBS in the quarter ended September 2016. Stocklending income during the quarter was £104,568 and Commission 'recaptured' was £31,148.

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.

24. ROUTINE PIRC UPDATE

The Working Group welcomed Alan MacDougall and Janice Hayward of PIRC Ltd, who attended the meeting to present PIRC's report "PIRC UK Annual Corporate Governance Review". The report provided an analysis of corporate governance principles and practice as applied in the FTSE 350 during 2015/16. It was highlighted that PIRC had its own policies and guidelines based on experience and clients' needs.

It was reported that the review focused on PIRC's own voting recommendations and annual general meeting outcomes in addition to in depth examination of topics as follows:-

- Board Structure
- Remuneration
- Audit and Accounts

- Capital Structure
- Shareholder Proposals

Director elections were a central element of annual general meetings with re-election for FTSE 350 companies being a requirement of the UK Corporate Governance Code. The review looked into board composition, focusing on independence, gender diversity and tenure. Data showed that progress had been made in overall board gender diversity but there were still discrepancies in different industries and board positions.

PIRC considered that an audit firm should be rotated on a five-year basis and non-audit fees should not represent more than 25% of total audit fees. The review showed that the four biggest audit companies were responsible for auditing 98% of the FTSE 350 companies and highlighted the difference and similarities in terms of average tenure and level of non-audit fees between each auditor.

With regards to remuneration, data showed that the level of opposition on companies' remuneration reports did not rise significantly in 2015/16 and the average pay ratio of CEOs to average employee pay was 52:1. PIRC were largely opposed to repurchasing shares or issuing shares for cash during the period.

RECOMMENDED:
That the report be noted.

25. CLASS ACTION UPDATE

The Assistant Executive Director of Pensions (Investments) submitted a report, which provided Members with an update on litigation in which Greater Manchester Pension Fund (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. Discussion ensued about specific cases and associated evidential requirements.

RECOMMENDED:
That the report be noted.

26. URGENT ITEMS

There were no urgent items.

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GREATER MANCHESTER PENSION FUND - PENSIONS ADMINISTRATION WORKING GROUP

Friday, 27 January 2017

Commenced: 9.00 am **Terminated:** 10.00 am

Present:	Councillors J Lane (Chair), Middleton, Patrick, S Quinn, Brett, Grimshaw and Stogia	
In Attendance:	Sandra Stewart	Executive Director of Pensions
	Emma Mayall	Pensions Policy Manager
	Victoria Plackett	Pensions Operations Manager

2. DECLARATIONS OF INTEREST

There were no declarations of interest.

3. MINUTES

The minutes of the meeting of the Pensions Administration Working Group held on 14 October 2016 were approved as a correct record.

4. 2016 YEAR-END PENSION CONTRIBUTION RETURN PROCESS

The Pensions Operations Manager submitted a report detailing the year-end contribution return process. The returns contained individual member pay and contribution information for all members who had paid contributions during the 1 April to 31 March period, which was uploaded to individual members records held on the pension administration system. The process was reviewed annually and feedback and data collected, which was used to make improvements.

The Group were informed that the deadline for submission of the year-end return was 7 May each year, which allowed for sufficient time to produce and send annual benefit statements by the statutory deadline of 31 August. The processing of year-end returns resulted in a significant peak of work for the teams involved with over 500 employers submitting returns.

Following feedback received from the 2015 year-end process, a significant amount of changes were made to the 2016 postings pack to improve the experience for the employer and improve the quality of the submissions. Training sessions were held, which were attended by 56 employers and officers visited some employers to discuss the process.

It was reported that 63% of employers submitted their 2016 year-end return by the deadline and over the course of the process 119 employers had their return rejected, including four of the ten local authorities. A significant amount of resource was utilised reviewing returns that had not met the expected standard and contacting employers who had failed to submit a return. Accepted returns had also generated a number of errors when they were uploaded to the system that needed investigation, which resulted in a query being raised with the employer.
In total 5,700 queries were raised, over 2,100 of which related to missing new starter notifications. By the end of December 2016 2,077 queries remained outstanding for 280 employers and 93 employers had to submit new starter notifications. A data clearance team was created to deal with the backlog and the process of contacting employers was ongoing.

The Group were notified that in preparation for the 2017 year-end postings exercise employers had been given the opportunity to participate in a data matching exercise in order to identify potential mismatches prior to the return submission date, a bulletin, which was appended to the report, had been produced and circulated to all employers with further editions to be distributed throughout the year. An online survey had been launched to gather employer's opinions, a training programme for employers was being created and a formal escalation procedure was proposed.

The Executive Director of Pensions commented that there was a need to move from an annual process to an electronic monthly postings system and that the Fund were looking at the most efficient and effective way to do this.

RECOMMENDED:
(i) That the report be noted; and
(ii) That a further report regarding the outcome of the 2017 process be brought to a future meeting.

5. AQUILA HEYWOOD 'ALTAIR' PENSION SYSTEM

The Pensions Policy Manager submitted a report, which detailed information about the main pension software system, 'Altair' supplied by Aquila Heywood. The system was a database that stored information about each Fund member and had a suite of benefit calculations that could be performed with additional software functionality that could be purchased.

An outline of the operations of the system was provided. It was highlighted that having an efficient and effective pension system was vital to the successful operation of the administration section. The Fund was a member of the Consortium of Local Authority Superannuation Schemes who acted as an advisory body to Aquila Heywood and assisted in decision making for relevant matters. They also tested system developments prior to distribution to all clients.

The Fund had a positive relationship and held regular meetings with the system provider. They had suggested providing the Fund with a half-yearly report summarising key business activity and details of the work they had undertaken, which would be presented to the Working Group.

The Executive Director of Pensions commented that Pensions Policy Manager and herself were due to meet with the new Chief Executive of Aquila Heywood with a view to learning about future developments and sharing any concerns with a view to ensuring that system as effective as it could be.

RECOMMENDED:
(i) That the report be noted; and
(ii) That a summary report from Aquila Heywood be brought to future meetings.

6. CIPFA BENCHMARKING

The Pensions Policy Manager submitted a report detailing the Fund's participation in the CIPFA pension administration benchmarking club, which the Fund had taken part in for a number of years and paid an annual fee. Data about membership, workloads, staff movements and performance measures formed part of the benchmarking analysis in addition to information on costs.

Key points of comparison between the Fund and other LGPS funds for 2015/16 were highlighted. The cost per member for the Fund was below average at £15.26 per year, placing GMPF at the mid to lower end of the spectrum, although this was an increase on the previous year's figure of £14.40. The indirect costs were higher than average, mainly due to higher accommodation costs, however, direct costs were lower than average and income generation was high. A time analysis of the

Fund's total costs since 2011 was appended to the report, which showed that Fund costs had remained stable.

It was reported that the number of funds participating in the CIPFA benchmarking club continued to decrease with 37 LGPS funds participating in the exercise in 2015/16. Assessing the Fund's position relative to other funds was becoming increasingly difficult as fewer funds took part. There were a number of benefits to benchmarking and it was important to continue with the exercise, however other options could be explored.

The Executive Director of Pensions commented that the Fund was looking wider than the LGPS schemes to ensure that the Fund is efficient and effective as it can be and learning from other providers.

RECOMMENDED:

(i) That the report be noted; and

(ii) That further information be obtained from metropolitan fund colleagues about their continued participation in the CIPFA benchmarking club and a further report be brought to a future meeting.

7. COMMUNICATION ACTIVITIES

The Pensions Policy Manager submitted a report detailing the communication activities undertaken by the Fund over the last quarter. Statistics, information and feedback covering key activities over the period were appended to the report.

It was reported that several teams were responsible for the key communication activities, which were:-

- Communications – website editing, presenting roadshows, designing and producing annual benefit statements, booklets and newsletters
- Helpline – general telephone calls and emails
- Systems – maintenance of the website software and online forms
- Compliance – ensuring letters and other written communication were technically correct

It was proposed to bring a standard quarterly report incorporating all areas of communication with a summary of key work undertaken to future meetings of the Working Group, which would help shape the Fund's communication strategy.

Although the methods of communication were reviewed and improved on an ongoing basis, the way members were communicating with the Fund had changed significantly with an increase in email correspondence and via the website. Developments in technology had provided new and interesting opportunities to explore and a wide-scale review of member communication had been identified as a potential business plan action for 2017/18.

The Executive Director of Pensions commented that it was important that we reviewed the website to ensure it was as useful as possible to all stakeholders as well as members and employers particularly relating to governance and investment approach and performance.

RECOMMENDED:

(i) That the report be noted; and

(ii) That a regular report be brought to future meetings of the Working Group.

8. EMPLOYER ISSUE ESCALATION PROCEDURE

The Pensions Operations Manager submitted a report detailing a proposed employer issue escalation procedure. The Fund's approach to identifying, monitoring and improving employer's performance had been identified as an area for review and enhancement, the first stage of which was to establish a procedure for identifying where individual employers were failing to meet the required standards.

The Working Group were notified that the Fund currently had over 500 active employers with varying degrees of LGPS knowledge and expertise. Since changes to the regulations in 2014 there had been a significant decline in the quality and timeliness of information submitted to the Fund by the employers. There were a variety of reasons cited such as a reduction in budgets, increase in staff turnover and increased workloads.

The submission of inaccurate and/or late information created additional work for the Fund and often meant that providing accurate information to its members was delayed. The Fund relied upon the quality of the data in order to provide a high level of service to its members. In addition, it could impact on the Fund's duty to meet statutory deadlines and regulatory requirements such as the issuing of annual benefit statements to members, pensions savings statements and retirement benefits.

Key areas such as general queries, year-end data submission and responses, had been identified as needing a formal escalation process. The proposed escalation procedure for each of the key areas was appended to the report and detailed a timeline for actions and the relevant responsible Fund officer. In addition, a performance monitoring log would be utilised to allow Fund officers to review all aspects of employer performance and determine the best course of action to deal effectively with the issues. The potential courses of action were outlined and included meeting senior officers, mandatory training, additional costs and reporting to the Pensions Regulator.

RECOMMENDED:
(i) That the report be noted; and
(ii) That the Working Group support the adoption of an escalation procedure.

9. LGPS REGULATORY AND LEGISLATIVE UPDATE

The Pensions Policy Manager submitted a report, which summarised the recent items related to regulation and legislation linked to the LGPS.

The Working Group were informed that four pension consultation exercises were currently being conducted by the Government, which were:-

- Pension scams
- Indexation and equalisation of guaranteed minimum pensions in public service pension schemes
- Guaranteed minimum pensions equalisation
- New financial guidance body

The Government had also recently initiated an independent review of state pension age and a consultation on exit payments was undertaken at the start of 2016.

In addition, they had announced that following the spring 2017 budget a single major fiscal event would be held in the autumn each year, salary sacrifice reforms would come into effect from April 2017 onwards and the bill to require all schools in England to convert to academy status by 2022 had been abandoned.

RECOMMENDED:
That the report be noted.

10. ADMINISTRATION BUSINESS AND PROJECT PLANS

The Pensions Policy Manager submitted a report, which provided a summary of the progress made on the 2016/17 business planning objectives, the other strategic and service improvement projects currently underway, items that had been identified for possible inclusion within next year's business plan and regular items of work.

An update was provided on the ten key business planning items, which had been set for the administration section in March 2016, as follows:-

- The deadline for completion of the triennial actuarial valuation project was March 2017
- All year-end processes had been received and processed
- The backlog reduction project was ongoing
- Staff training would be completed by the end of the year
- BCP development would be progressed and continue into next year
- Guaranteed minimum pension reconciliation would continue into next year.

The objectives relating to i-connect, trivial communication for new pensioners, member self-service and digital by design would be progressed during the quarter. Areas of focus for the final quarter of the year were completing the valuation, clearing the backlogs and the guaranteed minimum pension reconciliation project.

Other strategic and service improvement projects included data cleansing, internal governance management, payroll sign-off and GAD transactional data. A brief update was also provided for GMPF and employer performance statistics, Altair testing and employer admissions.

It was reported that work had commenced on potential items for the 2017/18 business plan and determining the budget for next year. Possible items for inclusion were guaranteed minimum pension reconciliation, year-end processes, employer support, business continuity plan, data cleansing and member communication.

RECOMMENDED:
That the report be noted.

11. URGENT ITEMS

There were no urgent items.

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GREATER MANCHESTER PENSION FUND - ALTERNATIVE INVESTMENTS WORKING GROUP

Friday, 3 February 2017

Commenced: 9.30 am **Terminated:** 10.55 am

Present:	Councillors Cooney (Chair), Ricci, Ward, Halliwell and Hamilton	
In Attendance:	Sandra Stewart	Executive Director of Pensions
	Steven Taylor	Assistant Executive Director of Pensions (Investments)
	Neil Cooper	Senior Investments Manager
	Nigel Frisby	Investments Manager
	Nick Livingstone	Investments Manager

16. DECLARATIONS OF INTEREST

There were no declarations of interest.

17. MINUTES

The Minutes of the meeting of the Alternative Investments Working Group held on 21 October 2016 were approved as a correct record.

18. PRESENTATION BY IK INVESTMENT PARTNERS

Thomas Klitbo and Alice Langley of IK Investment Partners (IK) attended the meeting to provide details of IK's investment activities and of private equity in general.

Mr Klitbo began by informing the Working Group that IK was founded in 1989 and, led by its nine Partners, was focussed on 'middle market' investments within Northern Continental Europe. A limited proportion of funds raised by IK could also be invested outside of its core markets, for example Central and Eastern Europe, where IK had been active since 2008.

The regional investment teams were predominately made up of professionals who were nationals of the countries in which their team operated. The advantages of this, in addition to IK's international reputation, were local knowledge and access to local networks. The IK team had experience of investing in a broad range of industries including industrial goods, consumer goods, business services and the care sector. IK had a well-developed approach to responsible investment and a strong commitment to environmental, social and corporate governance.

It was reported that the core of IK's strategy was to make 'control' investments in companies with enterprise values of between €100 million and €500 million that were well-positioned in their local markets. IK's objective was to transform portfolio companies into regional or pan-European market leaders through geographic expansion as well as strategic and operational improvement.

IK had raised four 'middle market' funds since 2004 with commitments totalling €5.8 billion and made investments in over 40 companies. The most recent fund closed in 2016 with commitments of over €1.85 billion. In addition to IK's 'middle market strategy the firm had a 'small cap' investment fund, managed by a dedicated team.

The Working Group heard that GMPF had committed a total of £20 million to the two funds raised by IK in 2013 and 2016 and, as at 30 September 2016, almost £14 million had been drawdown and around £1 million distributed. The value of GMPF's interests in the two funds totalled in excess of £16 million.

An overview of the IK VII and IK VIII Funds was provided and two case studies relating to TeleComputing and Salad Signature were outlined and discussed with the Working Group.

RECOMMENDED:
That the presentation be noted.

19. PRESENTATION BY DIF INFRASTRUCTURE

Allard Ruijs of DIF Infrastructure attended the meeting to present DIF's investment activities and on infrastructure in general.

Mr Ruijs began by informing the Working Group that DIF Infrastructure was established in 2005 by its two Founding Partners and was an independent fund management company with headquarters in Amsterdam. The firm had over 65 investment professionals based in six offices across Europe in addition to offices in Toronto and Sydney. The DIF team had extensive experience across a range of infrastructure sectors and had established a good track record by drawing on both a regional and international presence where widespread networks supported asset management teams.

Since 2005, five funds totalling over €3.3 billion had been raised to invest in a variety of projects including Public Private Partnerships, renewable energy and other core infrastructure opportunities across Europe, North America and Australia. DIF raised its first fund in 2006 and had subsequently closed its other funds in 2008, 2010 and 2013. DIF IV closed in 2015. Since inception, DIF funds overall had distributed a 9.6% net cash yield on investors' average drawn commitments, with DIF's Public Private Partnership fund returning over 1.9x investor's drawn commitments.

It was reported that DIF had also raised €360 million for co-investment alongside its funds and, in 2014, it took over the management of a portfolio of operational wind and solar PV projects in Europe. DIF's diversified portfolios were focused on low-risk investment opportunities with stable cash flows.

The Working Group heard that GMPF had committed a total of £30 million to the DIF IV fund. As at 31 December 2016 over £14 million had been drawn down and the value of GMPF's interest in the fund was approximately £13 million. Further drawdowns were expected during the first quarter of 2017 as new transactions were closed.

Mr Ruijs outlined DIF's track record and gave an overview of the DIF IV Fund. Case studies relating to off-shore and onshore wind projects and Barts (UK) Hospital were discussed with the Working Group.

RECOMMENDED:
That the presentation be noted.

20. URGENT ITEMS

There were no urgent items.

GREATER MANCHESTER PENSION FUND - EMPLOYER FUNDING VIABILITY WORKING GROUP

Friday, 10 February 2017

Commenced: 9.30 am **Terminated:** 10.40 am

Present:	Councillors J Fitzpatrick (Chair), Cooney, Patrick, Mitchell, Mr Allsop and Mr Llewellyn	
In Attendance:	Sandra Stewart	Executive Director of Pensions
	Paddy Dowdall	Assistant Executive Director of Pensions (Local Investment and Property)
	Euan Miller	Assistant Executive Director of Pensions (Funding and Business Development)
	Tom Harrington	Senior Investments Manager

20. DECLARATIONS OF INTEREST

There were no declarations of interest.

21. MINUTES

The Minutes of the Employer Funding Viability Working Group meeting held on 28 October 2016 were approved as a correct record.

22. 31 MARCH 2016 ACTUARIAL VALUATION

The Assistant Executive Director of Pensions (Funding and Business Development) submitted a report updating the Group on the progress of the 31 March 2016 actuarial valuation process, which was required to be completed by 31 March 2017.

It was explained that the Funding Strategy Statement provided guidance to the Actuary in undertaking the actuarial valuation. Following consideration at the Working Group meeting in October the Funding Strategy Statement had been issued to employers for consultation, at the same time as the notification of provisional contribution rates, and had been presented at the November GMPF Management Panel.

The Working Group were informed that some minor amendments had been made, which aimed to provide additional clarity on the Actuary's valuation methodology but not substantive comments had been received from employers. An updated Funding Strategy Statement was appended to the report and a final version would be submitted to the GMPF Management Panel in March 2017 for formal approval.

The whole fund results were presented to the Group; the deficit in GMPF had increased from £1.3 billion in 2013 to £1.4 billion in 2016, however, £0.6 billion of this was in respect of probation liabilities that were transferred in 2014, therefore the deficit for non-probation employers had fallen by approximately £0.5 billion. The funding level had increased from 90.5% in 2013 to 92.5% in 2016.

A comparison against other LGPS Funds was outlined in the report. GMPF was likely to remain one of the better funded LGPS funds and early estimates indicated that as a whole LGPS funding positions were broadly unchanged. GMPF was 105.5% funded at the valuation date using the standardised assumptions developed by the Scheme Advisory Board.

It was reported that GMPF had been exploring the possibility of giving local authority employers the option of paying their contributions in advance for the period 1 April 2017 to 31 March 2020, which would be beneficial via additional investment returns for GMPF and a reduction in contribution rates for the authority making the advance payment. An explanation of the advance payment of contributions was provided; if an authority made a payment one year in advance the reduction would be 2% and a 6% reduction would be applied for payments made three years in advance. These reductions should provide a better return for local authorities than their cash reserves. Another area of flexibility offered was to vary the amount paid towards a budget to meet the cost of non-ill health early retirements, which was discussed with the Group.

The Working Group were notified that the Actuary had adopted a risk-based approach for the calculation of contribution rates, which allowed for thousands of possible future economic scenarios when assessing the likelihood of contributions being sufficient to meet liabilities over a given time horizon. As GMPF had 470 active employers at the valuation date, many with common characteristics, they had been placed in groups and categorised as low risk, low/medium risk, medium risk or high risk.

Local authority contribution rates and results for other large employers were outlined in the report. It was confirmed that some contribution rates were yet to be confirmed as they required the approval of the guarantor to the admission arrangement whilst some rates were subject to confirmation of proposed changes to investment strategy. It was noted that the pool of sixth-form colleges had broken up due to several of them applying for academy status and possible future mergers with employers outside of the pool. A Greater Manchester Combined Authority pool would be created consisting of the employers that will be subsumed by the Greater Manchester Combined Authority following the Mayoral election later this year.

RECOMMENDED:
That the report be noted.

23. MEDIUM TERM FINANCIAL PLANNING

The Assistant Executive Director of Pensions (Local Investments and Property) submitted a report seeking approval for the GMPF 2017/18 expenditure budget, which would be sent to the Management Panel along with a medium term financial plan for 2017-2020 that would be produced following the completion of the actuarial valuation and approval of the budget.

It was reported that the medium term financial plan was dependent upon the assumptions in the funding strategy statement and the out-turn was largely subject to financial markets and their impact on investment performance. The Fund investment return was assumed to be 4.2% per annum over the long term, inflation was based on the consumer price index Bank of England forecast.

The report detailed the changes in the 2017/18 budget compared to the 2016/17 budget, as follows:-

- investment management;
- staffing; and
- property.

With regards to investment management the budget reflected the implementation of new investment strategies designed to optimise net risk adjusted returns on investments and renegotiation of some investment management fees. For staffing the changes reflected the requirements to oversee the new investment strategies and to provide administration services for the Fund now that three different schemes were in operation, the number of employers had increased and a need to formally reconcile guaranteed minimum pensions.

Other changes to the 2017/18 budget were outlined and included an allowance for professional fees in relation to investment pooling. The budget estimate for 2017/18 was £29.5 million, an increase of £1.4 million due to the incorporation of the proposed changes outlined above.

It was stated that the Executive Director of Pensions intended to review all budgets in 2017/18 with a zero based budget approach to ensure achieving value for money and effective use of resources.

RECOMMENDED:
(i) That the 2017/18 expenditure budget be approved;
(ii) That the assumptions for medium term financial planning be approved;
(iii) That the 2017/18 expenditure budget and the medium term financial plan be presented at the Management Panel; and
(iv) That the intention to review all budgets in 2017/18 with a zero based budget approach be noted.

24. GMPF ADMINISTRATION EXPENDITURE MONITORING STATEMENT FOR THE 8 MONTHS TO NOVEMBER 2016

The Assistant Executive Director of Pensions (Local Investments and Property) submitted a report comparing the administration expenses budget against the actual results for the eight months to November 2016.

Actual expenditure was £2.605 million less than the estimate of £17.916 million for the same period. The main reasons for major variations were listed and included staff costs, lower than expected utility and security charges and lower than budgeted manager's fees.

RECOMMENDED:
That the report be noted.

25. GMPF AGED DEBT AS AT 19 DECEMBER 2016

The Assistant Executive Director of Pensions (Local investments and Property) submitted a report summarising the aged debt for the Fund as at 19 December 2016. Aged debt typically consisted of rent arrears from tenants of GMPF property, outstanding contributions and overpayment of pensions to members, which had not yet been repaid.

A summary of debt across the four separate areas of Property Main Fund, Property Venture Fund, Employer Related and Overpayment of Pensions was detailed. The largest component of Employer Related aged debt was unpaid contributions, much of which was in respect of strain costs associated with early retirement or member transfer. It also included fees for the production of actuarial work and administration fees charged to newly admitted bodies to the fund.

The report detailed all aged debt (31 days and over) alongside comparison to the previous quarter; total aged debt was £2.926 million at 19 December 2016 compared to £1.671 million at 19 September 2016. The key trends were highlighted and included, property aged debt had decreased from £0.331 million in September 2016 to £0.271 million at December 2016 and Employer and Overpaid Pension Aged Debt had increased from £1.339 million to £2.655 million. The bulk of Employer debt related to invoices that had been issued in respect of early retirement strain costs.

It was reported that due to the changes in the nature of ill-health retirements, discussions were ongoing with employers with regards to implementing insurance related to ill-health retirements.

This was particularly pertinent for smaller employers where an ill-health retirement could have a big impact.

Members enquired if interest was applied to the debt, it was confirmed that interest was not currently applied but GMPF reserved the right to. The Executive Director of Pensions advised that a review of the invoicing process would be undertaken with a view to implementing an escalation procedure.

For the 12 months to December 2016 4.7% of debt was outstanding, the proportion of the debt considered at risk of non-payment was 0.3%.

Tables which showed the highest value invoices within the Employers, Property Main Fund and the Property Venture Fund category were appended to the report and explained to the Group.

RECOMMENDED:
That the report be noted.

26. URGENT ITEMS

There were no urgent items.

GREATER MANCHESTER PENSION FUND - PROPERTY WORKING GROUP

Friday, 17 February 2017

Commenced: 9.30 am **Terminated:** 11.15 am

Present:	Councillors S Quinn (Chair), J Fitzpatrick, M Smith, Ward, Grimshaw, Halliwell, Hamilton, Mr Drury and Mr Allsop	
In Attendance:	Sandra Stewart	Executive Director of Pensions
	Paddy Dowdall	Assistant Executive Director of Pensions (Local Investment and Property)
	Nigel Driver	Investment Manager (Property)
	Andrew Hall	Investment Manager (Local Investments)
	Misodzi Dent	Investment Officer
	Neil Charnock	Head of Pension Fund Legal

19. DECLARATIONS OF INTEREST

There were no declarations of interest.

20. MINUTES

The Minutes of the meeting of the Property Working Group held on 4 November 2017 were approved as a correct record.

21. MANAGEMENT SUMMARY

The Assistant Executive Director of Pensions (Local Investments and Property) submitted a report, which provided a commentary on issues and matters of interest arising over the last quarter in relation to the Fund's property investments.

With regard to 'Valuation, Performance and Allocation', it was reported that the performance of the portfolios would be discussed in more detail at the next meeting of the Working Group but early indications were that the main portfolio would be in line with the benchmark with a small capital fall for 2016 offset by income received. The allocations to property investments and their current weightings as at 31 December 2016 were outlined to the Group. It was noted that due to the high investment performance of the Fund in past 9 months overall money at work in property had remained at 6% of Fund assets despite investment programmes for property being on schedule.

The Group were informed that the quarter had been dominated by the implications of political uncertainty following the UK referendum on membership of the EU and the US presidential elections, the ramifications of which were unclear. The consensus view for medium term property returns had been reduced and transaction volume remained low.

RECOMMENDED:
That the report be noted.

22. OVERSEAS PROPERTY INVESTMENTS

The Assistant Executive Director of Pensions (Local Investments and Property) submitted a report detailing activity in the growth and management of the Fund's overseas property portfolio.

It was reported that the original investment strategy and investment guidelines for investing in overseas property were agreed by the Working Group on 30 January 2015 and updates were provided in the reports to the meetings on 6 November 2015 and 19 February 2016. Some minor amendments had been made relating to changes in governance, staffing and the approval process for new investments in addition to the introduction of a pacing strategy. The pacing strategy was a key element of investing in indirect pooled vehicles in private markets, which set the amount of capital needed in order to reach the set allocation. There was a requirement to model the pacing strategy due to the complex and variable nature of the cash flows and values arising from this method of investment, which was set out in the investment guidelines, a copy of which was appended to the report.

It was explained that the Fund needed to achieve and maintain an allocation of 2% in overseas property subject to the availability of suitable opportunities. Investment areas under consideration were Asia, alternatives and further exposure in Europe and US. The most common investment vehicle that had been used was a ten year limited partnership with an investment period of four years, which required the Fund to have an on-going commitment programme to achieve and maintain the 2% allocation in overseas property. In order to maintain diversification across vintages as per the investment guidelines, it was necessary to have a four year horizon when planning commitments, which would be reviewed periodically. Therefore, a four year pacing strategy was required.

Details of the overseas property portfolio were outlined to the Working Group. There had been four commitments to overseas property funds during 2016 and three during 2015, in addition to a recent commitment to a mezzanine debt fund. The team regularly reviewed the individual funds and, although it was too early to appraise the performance of the investments due to the nature of deployment, there had been steady measured progress to date.

RECOMMENDED:

(i) That the report be noted; and

(ii) That the Working Group RECOMMEND to the Management Panel to approve the revised Overseas Investment Guidelines (as attached), including the pacing model, and specifically the 4 year pacing strategy subject to annual review of £100 million per annum.

23. GMPVF - AMENDED INVESTMENT GUIDELINES AND 2 YEAR BUSINESS PLANS

The Assistant Executive Director of Pensions (Local Investments and Property) submitted a report, which detailed updated investment guidelines for GVA.

It was reported that investment guidelines provided to GVA had been reviewed and it was proposed to update these guidelines to include the ability for the Greater Manchester Property Venture Fund portfolio to hold income generating assets as well as development investments, such as direct property, indirect joint venture or loan opportunities. This would increase GVA's ability to fully utilise the allocation made by the Fund to the Greater Manchester Property Venture Fund, provide some risk diversification to the portfolio and generate income.

Also appended to the report were two year business plans for each investment held under the portfolio together with budgeted cash flows for both investments and related professional fees. Each plan provided a summary of each investment and further opportunities currently under consideration together with an action plan for the period up to September 2017 and a target position for September 2018.

RECOMMENDED:

(i) That the report be noted;

(ii) That the Working Group RECOMMEND to the Management Panel to approve the Greater Manchester Property Venture Fund Investment Guidelines (as appended to the report); and

(iii) That the two year business plans and budgeted cash flow be agreed.

24. PROPERTY RELATED AGED DEBT AS AT 19 DECEMBER 2016

The Assistant Executive Director of Pensions (Local Investments and Property) submitted a report summarising the aged debt (31 days and over) for the two property portfolios (Main Property Fund and Greater Manchester Property Venture Fund) as at 19 December 2016.

An overview of the debt position was given including a summary of debt across the two areas and totals. The value of Property Aged Debt for the Fund as at 19 December 2016 was £0.271 million compared to £0.332 million at 19 September 2016.

It was noted that procedures for collection of debt were complied with and were working well, Greater Manchester Property Venture Fund debt remained very marginally within amber status but this was not material at present.

The highest value debts for each portfolio were detailed as per the appendices to the report. The policies for debt recovery were unchanged and there were currently no payment plans in place.

A risk profile was provided, which showed that across the two funds, raised debtor invoices totalled £39.5 million with £0.271 million (0.68%) of this outstanding at 19 December 2016. The estimated value of debt unlikely to be recovered was £108,500 (0.27%).

RECOMMENDED:
That the report be noted.

25. GVA QUARTERLY REPORT

The Working Group welcomed Jonathan Stanlake and Gareth Conroy of GVA who attended the meeting to present the GVA quarterly report. The report provided in advance summarised the financial allocation to the committed projects and the indicative allocation required for projects currently undergoing due diligence.

The presentation focussed on the performance of the Greater Manchester Property Venture Fund, the progress to date on business plans of existing properties and identification of new investment opportunities. The investments were outlined to the Working Group and split into ‘committed sites’, ‘advanced due diligence’ and ‘active review’. It was reported that there had been an increase in sites under ‘active review’ compared to the previous quarter as new opportunities were being pursued.

Charts detailing the portfolio overview by sector showed greater diversification over the four sectors (office, suburban residential, city centre residential and other) with an overall increase in committed and pipeline sites. Examples of rejected opportunities and reasons for rejection were also provided. Priorities for the forthcoming year were outlined and included converting existing deals to advanced due diligence status, continuing to balance the portfolio and increasing residential development.

An update on progress achieved during the last quarter was provided in addition to actions to be carried out over the coming quarter across all the Greater Manchester Property Venture Fund development sites. Financial performance information was provided for each site to show the current market valuation compared to the cost value to GMPF, together with the return to the Fund from the acquisition date. A schedule of fee expenditure incurred on development activity during the previous quarters was also detailed.

New and progressing opportunities were presented and included Circle Square, Owen Street Manchester, Princess Street Manchester, First Street Manchester, Chorlton shopping centre, Irwell Riverside, Matrix Homes Tameside and Manchester, Wilmslow Road Didsbury and Island Site.

The Working Group was also provided with a RAG (Red, Amber, Green) analysis showing the progress of development activity undertaken during the last three quarters to October, November and December 2016 and the current prediction on final viability.

RECOMMENDED:
That the report be noted.

26. LASALLE QUARTERLY REPORT

The Working Group welcomed Julian Agnew and Tom Rose, La Salle Investment Management, who attended the meeting to present the GMPF main property portfolio quarterly report for quarter four 2016.

Mr Agnew began by providing an economic and property market overview for 2016 and an outlook for 2017 with a risk analysis. It was reported that following the EU Referendum result there had been a decline in activity, however, during the last quarter of the year there had been a resurgent in transactions with overseas buyers taking advantage of a weaker pound. The market had been affected by political risk in the UK, Europe and US, which was likely to continue during 2017. Other risks included exchange rates and inflation rises.

The total return during 2016 was 3.6% with positive returns within all sectors; the strongest performers were industrial and alternatives. It was anticipated that the alternative sector, along with student accommodation, would be strong performers in 2017. The projected return for 2017 was around 0% and up to a 5% per annum return over the next five years.

He concluded by outlining the most suitable strategy for the coming months. It was important to reduce risk wherever possible, reduce void rates and maximise the income potential of properties. The Fund was well positioned and could take advantage of the opportunities available in the current climate and would benefit from concentrating on large, high quality, dominant assets.

Mr Rose highlighted the following areas:-
- Portfolio Performance
- Portfolio Structure and Composition by Sector
- Activity Update and Annual Strategy Progress
- Purchases and Sales
- Asset Management Summary

With regards to portfolio performance, it was reported that at the end of quarter four the size of the portfolio and rental income received had increased, the vacancy rate remained low at 2.1% and the net initial yield was in-line with the market at 5%.

The structure and composition of the portfolio by sector was outlined to the Working Group. It was highlighted that the weighting for retail and industrial were below the benchmark and alternatives and offices were above the benchmark. The weighting in the alternatives and industrial categories had increased since quarter three. A key objective for the coming year was to reduce the in-directs weighting, maintain the overweight position in the alternatives sector and seek large retail opportunities in addition to a continued focus on investment.

An activity update for the quarter focussing on acquisitions, sales, asset management and in-directs in addition to progress on the annual strategy was provided. Details of one completed sale and one sale under offer were given alongside information relating to lettings and lease renewals, rent reviews and vacancies.

It was reported that five lettings, five lease renewals and four outstanding lease renewals had been completed during the quarter, one tenant had vacated and there had been one new renewal. Six new rent reviews arose during the period and four were settled. Detailed information was provided in relation to the portfolio's indirect holdings and it was highlighted that business plans had been identified for each holding.

RECOMMENDED:
That the report be noted.

27. URGENT ITEMS

There were no urgent items.

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Overseas Property

Statement of Investment Guidelines 17 February 2017

1. Executive Summary

1.1 The purpose of this document is to set out investment guidelines for the overseas property investment portfolio. This document will act as a guide for staff in running the portfolio and as a reference point for management and Members when reviewing the management of this portfolio.

2. Allocation within GMPF and Objectives

2.1 The table below shows the allocations to property including overseas property as approved at the GMPF Management Panel on 3 July 2015.

Investment	Proportion of Main Fund %	Management Arrangements
Direct Portfolio (direct and specialist indirect)	4-8	La Salle
Indirect	0-2	Executive Director, Governance, Resources and Pensions
GMPVF	0-3	GVA
Overseas	0-2	Executive Director, Governance, Resources and Pensions
Other	0-1	Executive Director, Governance, Resources and Pensions

2.2 The Fund has a core belief statement. The key elements of this that are relevant to overseas property investment are listed below.

- Recognition that the fund has a required investment return which is above that defined as the risk free return (i.e. that from government bonds)
- Recognition that the Fund is rewarded through additional returns for the taking of different type of risks including equity, liquidity and credit risks
- Recognition that active management can achieve excess returns and a belief that value will deliver superior returns in the long term
- Recognition that a long term approach is needed

2.3 These are incorporated in the strategy on overseas property investments. We are seeking additional return for the taking of additional risk in investing overseas and all property should generate additional return through taking liquidity and credit risk in a prudent manner. We will employ active management and take a long term perspective when assessing opportunities.

2.4 The portfolio will look to manage risk primarily through diversification. This will be done across:

Vintage, i.e. spreading investments over a number of years, property is extremely cyclical

Country: the portfolio will be spread globally looking for good opportunities at the time of investment
Sector, the portfolio will diversify across size and type of properties e.g. retail, office and industrial

2.5 A key element of investing in indirect pooled vehicle in private markets is the 'pacing strategy' this is dealt with in section 5. The pacing strategy sets the amount of capital needed to be committed to achieve the objective of reaching the allocation set in terms of money at work. This requires modelling due to the complex and variable nature of the cashflows and values arising from this method of investment.

2.6 The most common form of investment vehicle for the overseas portfolio has been a 10 year limited partnership which has an investment period of the first 4 years and then looks to return capital to investors by the end of ten years. This constant rotation of capital means that GMPF needs to have an on-going commitment programmes to achieve and maintain the allocation of 2% of the Fund in overseas property. The target is also complicated by the fact that the assets grow in value overtime as does the overall Fund.

2.7 The team have produced a model to pace the commitment programme using long term assumptions as detailed in the table below.

Whole Fund Performance	5.4% per annum
Overseas property performance	8% per annum
Assumed standard investment vehicle	10 year LP
Pace of deployment of commitments	25% per annum
Holding period	Average 4 years
Distribution period	Between years 5 to 10 (at 20% for4 years then 10% for 2)

2.8 In order to maintain diversification across vintages as per the Investment Guidelines it is necessary to have a 4 year horizon when planning commitments, however this four year horizon needs to be periodically reviewed with reference to how the model is impacted by out turn position on annual basis. Therefore it is recommended that these investment guidelines require a 4 year pacing strategy to be agreed and reviewed on an annual basis by this working group. It will also be subject to any strategic asset allocation changes. should be noted that this is not an exact science and actual deployment will be subject to the availability and timing of suitable investment opportunities.

3. Key Investment themes

3.1 The key investment themes that the portfolio will seek exposure to are:

- Sectors/Markets/Countries with a medium term expectation of higher returns than UK
- Use of specialist active management (both investment and asset management) to enhance returns
- Purchases from financially distressed sellers
- Prudent deployment of leverage

3.2 Current investments being considered are:

- Pan-Asian
- Alternatives, including farmland and healthcare
- More core orientated funds in US and Europe

4. Governance Structure

4.1 The policy on selection of investments for overseas property mirrors that for other investments.

GMPF Management Panel	Sets overall strategy for Investment allocation Receives reports from Working Groups on investment activity
Property Working Group	Receives reports on strategy for overseas property and agrees recommendations on areas/sectors of investments. Receives reports from internal managers and external investment managers on progress of investments. Agrees pacing strategy on a 4 year basis subject to annual review
Executive Director Pensions	Chairs Investment Committee and approves selection of individual investments within approved strategies under delegated authority Reports to Working Groups
Local and Property Investments team	Research investment opportunities Make recommendations for investment Monitor investments and record data Draft reports on investments for initial screening by the Assistant Director of Pensions prior to referral to Investment Committee

5. Operating Guidelines

5.1 The aim of the internally managed portfolio would be to manage risk through diversification across countries, sectors, investment managers and vintage of investments. The portfolio would invest primarily in fund vehicles, and potentially listed securities. There are difficulties in owning direct property overseas.

5.2 There are 5 keys stages in the selection of investments;

1. Identification of opportunities
2. Filtering of opportunities
3. Diligence on small number of proposals
4. Review of diligence work and recommendations
5. Final Appraisal of recommendations and approval by Investment Committee

5.3 Any investment selected for the portfolio would have been through these stages. Procedures for stages 2 to 5 are relatively simple to set up internally, but are critical to the success of the investment programme. These are comparable to procedures within the Investments team for Private Equity and Infrastructure. Stage 1 is a difficult process to get right as there is a fine balance between accessing all relevant market opportunities and being inundated with proposals many of which will not be appropriate.

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GREATER MANCHESTER PENSION FUND

POLICY AND DEVELOPMENT WORKING GROUP

22 February 2017

Commenced:	**11.30am**	**Terminated: 2.00pm**
	Councillor K Quinn (Chair)	
	Councillor J Fitzpatrick	
	Councillor Cooney	
	Councillor S Quinn	
	Councillor Taylor	
	Councillor Pantall	
	Lynn Brown	**Advisor to the Fund**
	Ronnie Bowie	**Actuary and Advisor to the Fund**
	Peter Moizer	**Advisor to the Fund**
	Mark Powers	**Advisor to the Fund**
	Steven Pleasant	**Chief Executive**
	Sandra Stewart	**Executive Director of Pensions**
	Steven Taylor	**Assistant Executive Director of Pensions (Investments)**
	Paddy Dowdall	**Assistant Executive Director of Pensions (Local Investments and Property)**
	Euan Miller	**Assistant Executive Director of Pensions (Funding and Business Development)**
	Tom Harrington	**Senior Investments Manager**
Apologies for absence:	**Councillors M Smith and J Lane**	

13. DECLARATIONS OF INTEREST

There were no declarations of interest.

14. MINUTES

The Minutes of the proceedings of the meeting of the Policy and Development Working Group held on 6 October 2016, having been circulated, were agreed as a correct record.

15. INVESTMENT MANAGEMENT ARRANGEMENTS

Consideration was given to a report of the Assistant Executive Director of Pensions (Investments), which explained by way of background information, that at the meeting of the Greater Manchester Pension Fund Management/Advisory Panel on 11 March 2016, a review of Investment Management arrangements was considered. Given the lack of clarity and detail surrounding pooling arrangements at that time, rather than instigate any changes to arrangements or negotiate further three year fee arrangements with two of the Fund's Investment Managers, it was resolved that a one year extension, to 31 March 2018, be implemented (Minute 77 refers).

In light of ongoing concerns in respect of a particular Fund Manager's performance, a special meeting of the Policy and Development Working Group of 3 August 2016 considered their continuing role for the Fund. Members recommended that the Fund Manager be retained in line with the arrangements and time frame agreed at the meeting of the Management Panel of 11 March 2016. It was further recommended that the Fund Manager's investment mandate be reduced by 10% of assets under management, to partially fund the newly appointed Credit Manager. The Management Panel adopted these recommendations at the meeting of 18 November 2016 (Minute 32 refers).

Representatives from the Fund Manager in question then attended before Members to explain the reasons for their continuing underperformance, and presented their proposed solution to address this underperformance.

They explained that the key area of weakness had been the management of equities, and although recent changes, including to key personnel, had led to some improvement, it was not enough to make investment results consistently better.

In order to address this issue, the Fund Manager was proposing to offer GMPF an alternative strategy for managing equities on a global basis. No changes to the management of fixed income or the asset allocation process were being proposed. The proposed approach would involve completely new portfolio managers from a separate area of the Manager's business.

It was further explained that the current GMPF equity team consisted of both regional and global managers, while the proposed alternative strategy was made up of global managers only and would require a switch from a regional benchmark allocation to a global benchmark.

The Manager concluded by stating that GMPF was an extremely important client and expressed their disappointment that they had not delivered for GMPF since mandate inception and that they had thought carefully about the most appropriate solution to deliver the results expected.

The proposed approach and new team has only been made available by the Manager to clients outside the US since October 2015. The proposed solution had a 23 year record of delivering superior results for institutional and individual investors in the US.

It was acknowledged that adoption of the proposed strategy would incur transaction costs and potential additional due diligence and the Manager was willing to discuss how they could cover the transaction costs involved.

The Advisors were then asked to comment.

Mr Powers expressed concern that this product was only now being offered to GMPF and sought information with regard to the current regional team and how they would be brought together with the global managers.

Mr Bowie concurred with Mr Powers concerns and added his frustrations that failures of the current strategy were not identified earlier and such a solution offered.

Mr Moizer also added his concerns that the Fund Manager's best ideas were not being implemented for GMPF and added that he was struggling to understand the rationale behind this. He also highlighted that a convincing rationale for the disparity in performance of the current approach for GMPF and the proposed approach had not been given and did not seem to align with historical reasons for underperformance.

Ms Brown further added her concerns regarding overly complex approaches to investment management and concurred with previous frustrations expressed by the advisors with regard to identifying and addressing the underperformance at an earlier stage.

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

The Fund Manager accepted that although changes were made to the team in an attempt to address the underperformance, this had not achieved what they had hoped.

Extensive discussion ensued with regard to the content of the presentation, the concerns raised by the Advisors and Members and the options available going forward, and it was:

RECOMMENDED
That the Fund Manager in question be retained in line with the arrangements adopted by the Panel at the meeting of 18 November 2016 (Minute 32 refers), pending the scheduled review of the overall Investment Management arrangements at the July/September 2017 meetings of Panel.

16. BESPOKE INVESTMENT STRATEGIES

The Assistant Executive Director of Pensions (Funding and Business Development) submitted a report, which explained that one of GMPF's key tasks in recent business plans was to develop the capability and capacity to implement employer specific investment strategies.

GMPF had been working with some of the larger employers with mature liability profiles to assess whether an investment strategy different to the Main Fund was appropriate and explored the practical ways of achieving this.

Previous meetings of the Employer Funding Viability Working Group had considered a bespoke investment strategy for Transport for Greater Manchester's (TfGM) sub-fund and made a recommendation for the Management Panel to approve, subject to Hymans Robertson providing confirmation on market conditions remaining suitable, the implementation of pooled funds designed to provide protection against higher than expected inflation.

The report provided an update on the implementation progress of this investment, other elements of the strategy for the TfGM sub-fund, which includes the creation of a credit portfolio and the potential to implement similar strategies for other GMPF employers.

RECOMMENDED
The Executive Director of Pensions be authorised to implement the appointment of a manager for the TfGM credit mandate in consultation with Hymans Robertson.

17. CONSOLIDATION OF LGPS INTERESTS

A report of the Assistant Executive Director of Pensions (Funding and Business Development) was submitted, informing Members that, as reported to the GMPF Management Panel in November 2016, (Minute 66 refers), one of GMPF's largest private-sector employers was considering consolidating its two other LGPS arrangements into a single fund, with GMPF being the preferred host fund.

The report gave background information on the employer's English LGPS arrangements, some rationale behind why the employer was seeking to consolidate those arrangements and highlighted the potential benefits and risks of this consolidation to GMPF. It also provided updated details of the funding position of the employer's admission agreements and summarised progress on GMPF's due diligence exercise.

It was explained that, for the proposed consolidation to proceed, both the approval of the GMPF Management Panel and the Secretary of State would be required. It was understood that the Secretary of State had indicated that he had no objections to the proposal subject to the consent of the receiving and ceding administering authorities.

Discussion ensued with regard to the above and it was:

RECOMMENDED
That, on the basis of the covenant advice provided to date, the proposal, as outlined in the report, be approved, in principle, subject to the Director of Pensions reaching agreement with the employer on funding strategy, contribution rates, the terms of the admission agreements and receipt of a direction from the Secretary of State.

18. MATRIX HOMES

Consideration was given to a report of the Assistant Executive Director of Pensions (Property and Local Investment), which updated Members on progress with Matrix Homes, focusing on work done since the last meeting of the working group considering new developments.

It was reported that the Fund was seeking to commit to build 750 homes, over the next 12 to 18 months. This should involve capital commitments of around £50-£75 million and a projected return of at least 7.5%. There were currently 3 schemes with early visibility to deliver this:

- A joint venture with Tameside;
- A follow on joint venture with Manchester City Council; and
- A development in Merseyside with MPF.

RECOMMENDED
(i) That the content of the report be noted;
(ii) The expedient progression of the three schemes be made by the Property and Local Investment team, to enable sign off by an Urgent Matters Meeting of the Panel in due course.

19. UPDATE ON INVESTMENT MANAGEMENT COST BENCHMARKING AND RECENT COST SAVINGS ACHIEVED

A report of the Assistant Executive Director of Pensions (Investments) was submitted, providing Members with an update on investment management cost savings achieved by the Investments team.

RECOMMENDED
That the content of the report be noted and updated for consideration by Management Panel.

20. UPDATE ON GLOBAL CREDIT MANAGER APPOINTMENT

The Assistant Executive Director of Pensions (Investments) submitted a report, informing Members that the Panel had previously agreed the creation of a new Global Credit portfolio representing 3-5% of Main Fund assets. The aim of the new mandate was to achieve broadly equity like returns, with lower volatility. Following a search for an overarching specialist Global Credit Manager, three managers were appointed to a Framework Agreement.

Members of the Policy and Development Working Group had interviewed each manager and had recommended that Stone Harbor be 'called off' the Global Credit Framework Agreement to manage between 3 and 5% of Main Fund assets by value subject to clarification of a number of points including the actual value of assets to be managed. The recommendations of the Working Group have subsequently been updated to reflect two developments.

Firstly, the Investment Strategy report presented to the Panel meeting on 1 July 2016 included a recommendation that Stone Harbor be funded with a 5% Main Fund allocation (currently £1 billion) with a concomitant 5% decrease in the allocation to Public Equity. This recommendation was adopted by Panel.

Secondly, work on finalisation of the form of the investment (ie as a segregated portfolio or a bespoke pooled vehicle) and the nature of the fee arrangement (ie fixed or performance fee based), is well advanced and the preferred final form of the investment is settled as a bespoke pooled vehicle, subject to nothing untoward arising from the external legal advice currently in train.

RECOMMENDED

(i) That *Stone Harbor Investment Partners LP* ("Stone Harbor") be 'called-off' the Global Credit Framework Agreement to manage 5% of Main Fund assets by value (broadly £1 billion) subject to:

- **(a) the Executive Director of Pensions being satisfied with clarifications to be supplied by Stone Harbor in relation to:**
  - **(1) its policy and approach on gender diversification;**
  - **(2) its approach to succession planning; and**
  - **(3) the pros and cons of a segregated versus a pooled approach and the estimated third party costs involved within a pooled vehicle.**
- **(b) satisfactory conclusion of legal agreements; and**
- **(c) finalisation of the form of the investment (as a bespoke pooled vehicle) and the nature of the fee arrangement (ie fixed or performance fee based).**

(ii) That the nature, timing and detailed implementation of the transition of assets to the appointed investment manager be settled by the Executive Director Pensions, following consultation with the advisors and/or managers where appropriate.

(iii) That progress on the above be noted.

21. INVESTMENT INITIATIVES

Consideration was given to a report of the Assistant Executive Director of Pensions (Property and Local Investments), which provided an update on progress on a number of specific investment initiatives undertaken by the Fund, including; the Impact Portfolio and the Joint Venture with LPFA investing in infrastructure. Members were further asked to note certain specific actions which had been taken under delegated authority following consultation with the Chair.

RECOMMENDED

That the content of the report be noted, including the actions proposed on additional investment initiatives to be taken by officers in consultation with the Chair.

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of the Local Government Act 1972.

Agenda Item 7

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Agenda Item 8

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Report to:	**Pension Fund Management Panel**
Date:	10 March 2017
Reporting Officer:	Sandra Stewart, Executive Director of Pensions Steven Taylor, Assistant Executive Director of Pensions (Investments)
Subject:	**INVESTMENT STRATEGY STATEMENT**
Report Summary:	The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 came into force on 1 November 2016. The Regulations require that the Fund publish an Investment Strategy Statement no later than 1 April 2017. A copy of GMPF's draft Investment Strategy Statement is attached to the Report, for consideration by the Panel.
Recommendation(s):	That the draft Investment Strategy Statement appended to the report be approved and adopted by the Fund and that the Executive Director of Pensions be authorised to arrange and expend the necessary funds for a stakeholder event within the next 6 months to consult and engage on a new Investment Strategy Statement taking into account Pooling guidelines.
Financial Implications: (Authorised by the Section 151 Officer)	Maintaining a low, stable employer contribution rate is dependent upon good absolute and relative performance from the Fund's investments. The Investment Strategy Statement documents how GMPF addresses achieving this objective.
Legal Implications: (Authorised by the Solicitor to the Fund)	The 2016 Regulations require that the Fund publish an Investment Strategy Statement no later than 1 April 2017.
Risk Management:	Routine investment monitoring and consideration of investment issues facilitates timely action to address investment under-performance and changes in the world economic environment.
ACCESS TO INFORM ATION:	**NON CONFIDENTIAL** **This report does not contain information which warrants its consideration in the absence of the Press or members of the public.**
Background Papers:	The background papers to this report may be inspected by contacting: Michael Ashworth, Investments Officer, on 0161 301 7257 (email: michael.ashworth@gmpf.org.uk).

1. BACKGROUND

1.1 In November 2015, the Government issued a consultation paper "Revoking and Replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009". The Fund submitted a response to the consultation, which closed on 19 February 2016.

1.2 The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the "2016 Regulations") came into force on 1 November 2016, revoking and replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (the "2009 Regulations"). A copy of the 2016 Regulations is attached at **Appendix A**.

1.3 The main area of reform introduced by the 2016 Regulations is the deregulation to a 'prudential framework' approach. The 2009 Regulations contained a prescriptive list of limits on the proportion of fund money which was permitted to have been invested in certain investment types. This list has been removed from the 2016 Regulations and replaced by a requirement for Funds to set their own prudent limits, which must be disclosed in an Investment Strategy Statement. The Investment Strategy Statement replaces the Statement of Investment Principles (SIP), which was required by the 2009 Regulations.

1.4 As a safeguard to ensure that this less prescriptive approach is used "appropriately, and in the best long term interests of scheme beneficiaries and taxpayers", the 2016 Regulations enable the Secretary of State to intervene in an administering authority's management of investments.

2. GMPF'S DRAFT INVESTMENT STRATEGY STATEMENT

2.1 The 2016 Regulations require a Fund's Investment Strategy Statement to cover the following:

- A requirement to invest fund money in a wide variety of investments.
- The authority's assessment of the suitability of particular investments and types of investments.
- The authority's approach to risk, including the ways in which risks are to be measured and managed.
- The authority's approach to pooling investments, including the use of collective investment vehicles and shared services.
- The authority's policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments.
- The authority's policy on the exercise of rights (including voting rights) attaching to investments.

2.2 In September 2016, the Department for Communities and Local Government (DCLG) issued "Guidance on Preparing and Maintaining an Investment Strategy Statement", which is attached as **Appendix B**. The 2016 Regulations contain a requirement that a Fund's Investment Strategy Statement be formulated in accordance with this Guidance.

2.3 The majority of the Investment Strategy Statement content mirrors the requirements of the current SIP. A copy of GMPF's draft Investment Strategy Statement is attached at **Appendix C**.

2.4 The main differences between the draft Investment Strategy Statement and the current SIP are threefold. Firstly, the new Appendix to the draft Investment Strategy Statement broadly replicates the prescriptive limits on investments that the Fund adhered to under the 2009 Regulations, with minimal amendments specifically designed to provide 'headroom' for the Fund's approved programmes of alternative investments to be implemented by way of limited partnerships.

2.5 Secondly, a new section has been incorporated into the draft Investment Strategy Statement, which describes the Fund's approach to Pooling (Section 8). This section, largely drawing upon the Northern Pool's submission to Government, is intended to be common to each of the Fund's within the Northern Pool.

2.6 Thirdly, the requirement to report on the Fund's approach to Environmental, Social and Governance factors has been enhanced. For example, Funds are now required to explain their policy on stewardship with reference to the Stewardship Code. The draft Investment Strategy Statement therefore explicitly states that the Fund is a 'Tier 1' signatory to the Stewardship Code (Section 9.2). The draft Investment Strategy Statement also sets out the Fund's approach to Social Investments (Section 9.5), and confirms that the Fund will report on its voting activity as part of its Annual Report (Section 10.2).

2.7 It has been an exceptionally busy time for the Fund recently. In addition, Government provided a relatively short timeframe for Funds to formulate an Investment Strategy Statement. The attached draft Investment Strategy Statement is thus the result of a relatively 'light touch' review, in order for the Fund to meet the statutory deadline for publication of an Investment Strategy Statement by 1 April 2017. The draft Investment Strategy Statement largely mirrors the approach taken by the Fund within the preceding SIP, with only relatively minimal amendments and may thus be considered to be an interim position, pending progress on pooling and developing the Fund's approach in certain areas.

2.8 Panel Members will recall that the Fund's current Statement of Investment Principles (SIP) was adopted by the Management Panel relatively recently, on 11 December 2015. A very thorough review of the SIP was undertaken at that time. A public consultation was also held, with the draft SIP being placed on the Fund's website. A direct alert was also sent to each employer. The consultation ran from Tuesday 11 August 2015 to Friday 4 September 2015.

2.9 The Fund was pleased to receive 406 responses to the consultation, which was an excellent response rate. Of the 406 responses, 400 were the result of an organised petition based on an automated email template produced by Manchester Friends of the Earth (FoE). After consulting with the Solicitopr to the Fund (Now the Director of the Fund), one change to the draft version of the SIP on which the Fund consulted was made, reflecting the wording requested by Manchester FoE. and may thus be considered to be an interim position, pending progress on pooling and developing the Fund's approach in certain areas.

2.10 It is intended that officers will undertake a more detailed review of the Investment Strategy Statement in the next 6 to 9 months, the outcome of which may or may not require a revised Investment Strategy Statement being recommended for adoption by the Panel.

2.11 It is anticipated that a public consultation will be held in conjunction with the detailed review.

2.12 It is intended that the Fund will hold a Stakeholder Engagement event later in the year, at which the Investment Strategy Statement will be consulted upon.

3. RECOMMENDATION

3.1 As set out on the front of the report.

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STATUTORY INSTRUMENTS

2016 No. 946

PUBLIC SERVICE PENSIONS, ENGLAND AND WALES

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016

Made - - - -	*21st September 2016*
Laid before Parliament	*23rd September 2016*
Coming into force - -	*1st November 2016*

The Secretary of State makes these Regulations in exercise of the powers conferred by sections 1(1) and 3(1) to (4) of, and Schedule 3 to, the Public Service Pensions Act 2013(**a**).

In accordance with section 21(1) of that Act, the Secretary of State has consulted such persons and the representatives of such persons as appeared to the Secretary of State to be likely to be affected by these Regulations.

In accordance with section 3(5) of that Act, these Regulations are made with the consent of the Treasury.

Citation, commencement and extent

1.—(1) These Regulations may be cited as the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

(2) These Regulations come into force on 1st November 2016.

(3) These Regulations extend to England and Wales.

Interpretation

2.—(1) In these Regulations—

"the 2000 Act" means the Financial Services and Markets Act 2000(**b**);

"the 2013 Regulations" means the Local Government Pension Scheme Regulations 2013(**c**);

"the Transitional Regulations" means the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014(**d**);

"authority" means an administering authority listed in Part 1 of Schedule 3 to the 2013 Regulations;

"fund money" means money that is or should be in a pension fund maintained by an authority;

(**a**) 2013 c. 25; see section 2 of and Schedule 2 to that Act as to how the power is exercisable by the Secretary of State.
(**b**) 2000 c. 8.
(**c**) S.I. 2013/2356.
(**d**) S.I. 2014/525.

"proper advice" means the advice of a person whom the authority reasonably considers to be qualified by their ability in and practical experience of financial matters;

"the Scheme" means the scheme established by the 2013 Regulations.

(2) Any restrictions imposed by these Regulations apply to authorities which have the power within section 1 of the Localism Act 2011(**a**) (local authority's general power of competence) or section 5A(1) of the Fire and Rescue Services Act 2004(**b**) in the exercise of those powers.

(3) Any authority which does not have the powers mentioned in paragraph (2) has, by virtue of these Regulations the power to do anything authorised or required by these Regulations.

Investment

3.—(1) In these Regulations "investment" includes—

(a) a contract entered into in the course of dealing in financial futures, traded options or derivatives;

(b) a contribution to a limited partnership in an unquoted securities investment;

(c) a contract of insurance if it is a contract of a relevant class, and is entered into with a person within paragraph (2) for whom entering into the contract constitutes the carrying on of a regulated activity within the meaning of section 22 of the 2000 Act(**c**).

(2) The persons within this paragraph are—

(a) a person who has permission under Part 4A of the 2000 Act (permission to carry on regulated activities)(**d**) to effect or carry out contracts of insurance of a relevant class;

(b) an EEA firm of the kind mentioned in paragraph 5(d) of Schedule 3 to the 2000 Act (EEA passport rights), which has permission under paragraph 15 of that Schedule(**e**) to effect or carry out contracts of insurance of a relevant class; and

(c) a person who does not fall within sub-paragraph (a) or (b) whose head office is in an EEA state other than the United Kingdom, and who is permitted by the law of that state to effect or carry out contracts of insurance of a relevant class.

(3) A contract of insurance is of a relevant class for the purposes of paragraphs (1)(c) and (2) if it is—

(a) a contract of insurance on human life or a contract to pay an annuity on human life where the benefits are wholly or partly to be determined by reference to the value of, or income from, property of any description (whether or not specified in the contract) or by reference to fluctuations in, or an index of, the value of property of any description (whether or not so specified); or

(b) a contract to manage the investments of pension funds, whether or not combined with a contract of insurance covering either conservation of capital or payment of minimum interest.

(4) For the purposes of this regulation—

"limited partnership" has the meaning given in the Limited Partnerships Act 1907(**f**);

"recognised stock exchange" has the same meaning as in section 1005 of the Income Tax Act 2007(**g**);

"traded option" means an option quoted on a recognised stock exchange; and

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(**a**) 2011 c. 20.
(**b**) 2004 c. 21; section 5A was inserted by section 9(1) of the Localism Act 2011.
(**c**) Section 22 was amended by section 7(1) of the Financial Services Act 2012 (c. 21).
(**d**) Part 4A of the 2000 Act was inserted by section 11(2) of the Financial Services Act 2012.
(**e**) Paragraph 15 was amended by S.I. 2003/2066, 2007/3253, 2012/1906,2013/1881 and 2015/575.
(**f**) 1907 c. 24.
(**g**) 2007 c. 3; section 1005 was substituted by the Finance Act 2007 (c. 11) and amended by the Taxation (International and Other Provisions) Act 2010 (c. 8).

"unquoted securities investment partnership" means a partnership for investing in securities which are not quoted on a recognised stock exchange when the partnership buys them.

Management of a pension fund

4.—(1) An authority must credit to its pension fund(**a**), in addition to any sum otherwise required to be credited by virtue of the 2013 Regulations or the Transitional Regulations—

(a) the amounts payable by it or payable to it under regulations 15(3)(b), 67 and 68 of the 2013 Regulations (employer's contributions and further payments);

(b) all amounts received under regulation 69(1)(a) of the 2013 Regulations (member contributions);

(c) all income arising from investment of the fund; and

(d) all capital money deriving from such investment.

(2) In the case of an authority which maintains more than one pension fund, as respects sums which relate to specific members, the references in this regulation to the authority's pension fund is to the fund which is the appropriate fund(**b**) for the member in question in accordance with the 2013 Regulations.

(3) Interest under regulation 71 of the 2013 Regulations (interest on late payments by Scheme employers) must be credited to the pension fund to which the overdue payment is due.

(4) An authority must pay any benefits to which any person is entitled by virtue of the 2013 Regulations or the Transitional Regulations from its pension fund.

(5) Any costs, charges and expenses incurred administering a pension fund may be paid from it except for charges prescribed by regulations made under sections 23, 24 or 41 of the Welfare Reform and Pensions Act 1999(**c**) (charges in relation to pension sharing costs).

Restriction on power to borrow

5.—(1) Except as provided in this regulation, an authority must not borrow money where the borrowing is liable to be repaid out of its pension fund.

(2) Subject to paragraph (3), an authority may borrow by way of temporary loan or overdraft which is liable to be repaid out of its pension fund, any sums which it may require for the purpose of—

(a) paying benefits due under the Scheme; or

(b) to meet investment commitments arising from the implementation of a decision by it to change the balance between different types of investment.

(3) An authority may only borrow money under paragraph (2) if, at the time of the borrowing, the authority reasonably believes that the sum borrowed and interest charged in respect of that sum can be repaid out of its pension fund within 90 days of the borrowing.

Separate bank account

6.—(1) An authority must hold in a separate account kept by it with a deposit-taker all fund money.

(2) "Deposit-taker" for the purposes of paragraph (1) means—

(a) a person who has permission under Part 4A of the 2000 Act (permission to carry on regulated activities) to carry on the activities specified by article 5 of the Financial

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(**a**) An administering authority is required to maintain a pension fund by regulation 53(1) of, and paragraph 1 of Schedule 3 to the 2013 Regulations.

(**b**) See regulation 53(2) of and Part 2 of Schedule 3 to the 2013 Regulations for provisions relating to an administering authority becoming the "appropriate administering authority" in relation to a person.

(**c**) 1999 c. 30; see S.I. 2000/1047 and S.I. 2000/1049.

Services and Markets Act 2000 (Regulated Activities) Order 2001 (accepting deposits)(**a**);

(b) an EEA firm of the kind mentioned in paragraph 5(b)(**b**) of Schedule 3 to the 2000 Act (EEA passport rights) which has permission under paragraph 15 of that Schedule(**c**) to accept deposits;

(c) the Bank of England or the central bank of an EEA state other than the United Kingdom; or

(d) the National Savings Bank.

(3) An authority must secure that the deposit-taker may not exercise a right of set-off in relation to the account referred to in paragraph (1) in respect of any other account held by the authority or any party connected to the authority.

Investment strategy statement

7.—(1) An authority must, after taking proper advice, formulate an investment strategy which must be in accordance with guidance issued from time to time by the Secretary of State.

(2) The authority's investment strategy must include—

(a) a requirement to invest fund money in a wide variety of investments;

(b) the authority's assessment of the suitability of particular investments and types of investments;

(c) the authority's approach to risk, including the ways in which risks are to be assessed and managed;

(d) the authority's approach to pooling investments, including the use of collective investment vehicles and shared services;

(e) the authority's policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and

(f) the authority's policy on the exercise of the rights (including voting rights) attaching to investments.

(3) The authority's investment strategy must set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment.

(4) The authority's investment strategy may not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007(**d**).

(5) The authority must consult such persons as it considers appropriate as to the proposed contents of its investment strategy.

(6) The authority must publish a statement of its investment strategy formulated under paragraph (1) and the first such statement must be published no later than 1st April 2017.

(7) The authority must review and if necessary revise its investment strategy from time to time, and at least every 3 years, and publish a statement of any revisions.

(8) The authority must invest, in accordance with its investment strategy, any fund money that is not needed immediately to make payments from the fund.

(**a**) S.I. 2001/544; article 5 was amended by S.I. 2002/682.

(**b**) Sub-paragraph (b) of paragraph (5) was substituted by S.I. 2006/3211 and then further substituted by S.I. 2013/3115.

(**c**) Paragraph 15 has been amended by S.I. 2003/2066, S.I. 2007/3253, 2012/1906, 2013/1881 and 2015/575.

(**d**) 2007 c. 28; section 212 was amended by the Police Reform and Social Responsibility Act 2011 (c. 13) and there are prospective amendments made by the Local Audit and Accountability Act 2014 (c. 2).

Directions by the Secretary of State

8.—(1) This regulation applies in relation to an authority's investment functions under these Regulations and the 2013 Regulations if the Secretary of State is satisfied that the authority is failing to act in accordance with guidance issued under regulation 7(1).

(2) Where this regulation applies in relation to an authority the Secretary of State may make a direction requiring all or any of the following—

(a) that the authority make such changes to its investment strategy under regulation 7 as the Secretary of State considers appropriate, within such period of time as is specified in the direction;

(b) that the authority invest such assets or descriptions of assets as are specified in the direction in such manner as is specified in the direction;

(c) that the investment functions of the authority under these Regulations and under the 2013 Regulations be exercised by the Secretary of State or a person nominated by the Secretary of State for a period specified in the direction or for so long as the Secretary of State considers appropriate;

(d) that the authority comply with any instructions of the Secretary of State or the Secretary of State's nominee in relation to the exercise of its investment functions under these Regulations and the 2013 Regulations and provide such assistance as the Secretary of State or the Secretary of State's nominee may require for the purpose of exercising those functions.

(3) Before making a decision whether to issue a direction under this regulation, and as to the contents of any direction, the Secretary of State must consult the authority concerned.

(4) In reaching a decision whether to issue a direction under this regulation, and as to the contents of any direction, the Secretary of State must have regard to such evidence of the manner in which the authority is discharging or proposes to discharge its investment functions as is reasonably available including—

(a) any report from an actuary appointed under section 13(4) of the Public Service Pensions Act 2013 (employer contributions in funded schemes) or by the authority under regulation 62 of the 2013 Regulations (actuarial valuations of pension funds);

(b) any report from the local pension board appointed by the authority or from the Local Government Pension Scheme Advisory Board(**a**);

(c) any representations made by the authority in response to the consultation under paragraph (3);

(d) any other evidence that the Secretary of State regards as relevant to whether the authority has been complying with these Regulations or acting in accordance with guidance issued under regulation 7(1).

(5) If the Secretary of State is of the opinion that additional information is required to enable a decision to be taken whether to issue a direction under this regulation, or as to what any direction should contain, the Secretary of State may carry out such inquiries as the Secretary of State considers appropriate to obtain that information.

(6) An authority must comply with any request from the Secretary of State intended to facilitate the obtaining of information under paragraph (5).

Investment managers

9.—(1) Instead of managing and investing fund money itself, an authority may appoint one or more investment managers to manage and invest fund money, or any part of such money, on its behalf.

(**a**) The Local Government Pension Scheme Advisory Board is established by regulation 110 of the 2013 Regulations (which was inserted by S.I. 2015/57).

(2) But the authority may only appoint an investment manager if the authority complies with paragraphs (3) and (4).

(3) The authority must reasonably believe that the investment manager's ability in and practical experience of financial matters make that investment manager suitably qualified to make investment decisions for it.

(4) The authority must take proper advice in relation to the appointment and the terms on which the appointment is made.

Investments under section 11(1) of the Trustee Investments Act 1961

10. An authority to which section 11 of the Trustee Investments Act 1961(**a**) applies may invest, without any restriction as to quantity, in any investment made in accordance with a scheme under section 11(1) of that Act (which enables the Treasury to approve schemes for local authorities to invest in collectively).

Consequential amendments

11.—(1) The 2013 Regulations are amended as follows.

(2) For regulation 57(1)(i) (pension fund annual report) substitute—

> "(i) the current version of the investment strategy under regulation 7 (investment strategy statement) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016;".

(3) For regulation 58(4)(b) (funding strategy statement) substitute—

> "(b) the current version of the investment strategy under regulation 7 (investment strategy statement) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.".

(4) For regulation 69(2)(b) (payment by Scheme employers to administering authorities) substitute—

> "(b) paragraph (1)(c) does not apply where the cost of the administration of the fund is paid out of the fund under regulation 4(5) (management of a pension fund) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.".

Revocations and transitional provision

12.—(1) The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009(**b**) and the Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2013(**c**) are revoked.

(2) Regulations 11 (investment policy and investment of pension fund money), 12 (statement of investment principles), 14 (restrictions on investments), 15 (requirements for increased limits) of and Schedule 1 (table of limits on investments) to the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 continue to have effect in relation to an authority until the date when that authority first publishes its investment strategy statement under regulation 7.

(3) For the period starting on 1st November 2016 and ending on whichever is the earlier of the date the authority publishes its investment strategy statement under regulation 7, or 31st March 2017, regulation 7 applies to an authority only to the extent necessary to enable that authority to formulate and publish its investment strategy statement.

(**a**) 1961 c. 62; section 11(1) was amended by the London Government Act 1963 (c. 4) and the Local Government Act 1985 (c. 51).
(**b**) S.I. 2009/3093.
(**c**) S.I. 2013/410.

We consent to the making of these Regulations

David Evennett
Guto Bebb
Two of the Lords Commissioners of Her Majesty's Treasury

Signed by authority of the Secretary of State for Communities and Local Government

Marcus Jones
Parliamentary Under Secretary of State
21st September 2016 Department for Communities and Local Government

EXPLANATORY NOTE

(This note is not part of the Regulations)

These Regulations make provision in relation to the management and investment of pension funds held by administering authorities required to maintain such funds by the Local Government Pension Scheme Regulations 2013.

Regulations 2 and 3 respectively contain definitions and make provision that the restrictions imposed by the regulations bind authorities which have the "power of general competence" in the exercise of that power.

Regulations 4, 5 and 6 respectively set out which payments must be made into and out of the pension fund, restrict powers of borrowing and require fund money to be in a separate account.

Regulations 7 and 8 respectively require authorities to publish an investment strategy in accordance with guidance issued by the Secretary of State and enable the Secretary of State to issue a direction to any authority which fails to comply with its statutory obligations as regards its pension fund or which fails to act in accordance with the guidance.

Regulations 9 and 10 respectively allow for the appointment of investment managers and investment in Treasury approved schemes.

Regulations 11 and 12 respectively make consequential amendments relating to the investment strategy published under regulation 7 and transitional provisions.

No impact assessment has been produced because it has no impact on business, charities or voluntary bodies and minimal impact on the public sector.

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Department for Communities and Local Government

Local Government Pension Scheme

Guidance on Preparing and Maintaining an Investment Strategy Statement

September 2016
Department for Communities and Local Government

This document/publication is also available on our website at www.gov.uk/dclg

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Foreword

This guidance has been prepared to assist administering authorities in the local government pension scheme in England and Wales with the formulation, publication and maintenance of their Investment Strategy Statement.

New investment regulationsto be introduced later this year will include a requirement for administering authorities to publish new Investment Strategy Statements by 1st April 2017 in accordance with the guidance set out below.

Administering authorities will be required to act in accordance with the provisions in this guidance when Regulation 7 of the Local Govenrment Pension Scheme (Management and Investment of Funds) Regulations 2016 comes into force.

Part 1

Introduction and background

This guidance has been prepared to assist administering authorities in the formulation, publication and maintenance of their Investment Strategy Statement required by Regulation 7 of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016. Unless otherwise stated, references to regulations are to the 2016 Regulations.

An administering authority's duty to prepare, maintain and review their Funding Strategy Statement under Regulation 58 of the Local Government Pension Scheme Regulations 2013 ("the 2013 Regulations") is unaffected.

Statutory background

Regulation 7(1) requires an administering authority to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State.

The Investment Strategy Statement required by Regulation 7 must include:-

a) A requirement to invest money in a wide variety of investments;
b) The authority's assessment of the suitability of particular investments and types of investments;
c) The authority's approach to risk, including the ways in which risks are to be measured and managed;
d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
e) The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and

f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.

The Investment Strategy Statement must also set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment. This, in effect, replaces Schedule 1 to the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 ("the 2009 Regulations").

Under Regulation 7(6) and (7), the statements must be published by 1st April 2017 and then kept under review and revised from time to time and at least every three years. Under transitional arrangements, key elements of the 2009 Regulations relating to investment policies will continue in force until such time that the Investment Strategy Statement under Regulation 7 is published.

Directions by the Secretary of State

Regulation 8 enables the Secretary of State to issue a Direction if he is satisfied that an administering authority is failing to act in accordance with this guidance.

One of the main aims of the new investment regulations is to transfer investment decisions and their consideration more fully to administering authorities within a new prudential framework. Administering authorities will therefore be responsible for setting their policy on asset allocation, risk and diversity, amongst other things. In relaxing the regulatory framework for scheme investments, administering authorities will be expected to make their investment decisions within a prudential framework with less central prescription. It is important therefore that the regulations include a safeguard to ensure that this less prescriptive approach is used appropriately and in the best long term interests of scheme beneficiaries and taxpayers.

Where there is evidence to suggest that an authority is acting unreasonably, it may be appropriate for the Secretary of State to consider intervention, but only where this is justified and where the relevant parties have been consulted. Regulation 8 includes a number of safeguards, including full consultation with the relevant authority, to ensure that the proposed power is used appropriately, proportionately and only where justified by the evidence.

The Secretary of State's power of intervention does not interfere with the duty of elected members under general public law principles to make investment decisions in the best long-term interest of scheme beneficiaries and taxpayers.

The power of Direction can be used in all or any of the following ways:-

a) To require an administering authority to make changes to its investment strategy in a given timescale;
b) To require an administering authority to invest assets as specified in the Direction;
c) To transfer the investment functions of an administering authority to the Secretary of State or a person nominated by the Secretary of State; and

d) To require an administering authority to comply with any instructions from either the Secretary of State or the appointed person in circumstances when the investment function has been transferred.

Before issuing any Direction, the Secretary of State must consult the administering authority concerned and before reaching a decision, must have regard to all relevant evidence including reports under section 13(4) of the Public Service Pensions Act 2013; reports from the scheme advisory board or from the relevant local pension board and any representations made in response to the consultation with the relevant administering authority. The Secretary of State also has the power to commission any other evidence or additional information that is considered necessary.

General

Part 2 below sets out the guidance for authorities under each of the component parts of Regulation 7. The specific requirements under each heading are shown at the end of each sub section in a text box and in bold type. It is important to note, however, that these lists are not exclusive and that administering authorities are also required to comply with general public law principles and act within a prudential framework.

Part 2

Regulation 7(2) (a) - Investment of money in a wide variety of investments

A properly diversified portfolio of assets should include a range of asset classes to help reduce overall portfolio risk. If a single investment class is not performing well, performance should be balanced by other investments which are doing better at that time. A diversified portfolio also helps to reduce volatility.

For example, the range of asset classes could include UK and overseas equities of different sectors; bonds with varying maturity; alternative investment assets such as private equity, infrastructure and cash instruments.

However, this guidance does not purport to prescribe the specific asset classes over which fund monies must be diversified. This remains a decision for individual administering authorities to make. Administering authorities are expected to be able to demonstrate that those responsible for making investment decisions have taken and acted on proper advice and that diversification decisions have been taken in the best long term interest of scheme beneficiaries.

An administering authority must also be able to demonstrate that they review their diversification policy from time to time to ensure that their overall target return is not put at risk.

Summary of requirements

In formulating and maintaining their policy on diversification, administering authorities:-

- **Must take proper advice**

- **Must set out clearly the balance between different types of investments**
- **Must identify the risks associated with their overall investment strategy**
- **Must periodically review their policy to mitigate against any such risks**

Regulation 7(2)(b) - The suitability of particular investments and types of investments

The concept of suitability is a critical test for whether or not a particular investment should be made. Although individual investment classes will have varying degrees of suitability in the context of an authority's funding and investment strategies, the overall aim of the fund must be to consider suitability against the need to meet pension obligations as they fall due.

Assessing the suitability of different investment classes involves a number of factors including, for example, performance benchmarks, appetite for risk, policy on non-financial factors and perhaps most importantly, funding strategy.

What constitutes suitability is clearly a matter for individual administering authorities to consider and decide in the light of their own funding and investment strategies, but there is a clear expectation that the assessment should be broadly consistent across all administering authorities. Administering authorities must therefore take and act on proper advice in assessing the suitability of their investment portfolio and give full details of that assessment in their Investment Strategy Statement.

Summary of requirements

In formulating their policy on the suitability of particular investments and types of investments, administering authorities:-

- **Must take proper advice**
- **Should ensure that their policy on asset allocation is compatible with achieving their locally determined solvency target**
- **Must periodically review the suitability of their investment portfolio to ensure that returns, risk and volatility are all appropriately managed and are consistent with their overall investment strategy**

Regulation 7(2)(c) - The approach to risk, including the ways in which risks are to be measured and managed

The appetite of individual administering authorities for taking risk when making investment decisions can only be a matter for local consideration and determination, subject to the aim and purpose of a pension fund to maximise the returns from investment returns within reasonable risk parameters.

Some of the key risks that an administering authority needs to be aware include financial, demographic or regulatory risks. A detailed summary of the identification of all risks and counter-measures to mitigate against them is beyond the scope of this guidance, but administering authorities will continue to have regard to the requirement under Regulation

58 of the 2013 Regulations to have regard to the “Guidance on Preparing and Maintaining a Funding Strategy Statement” published by CIPFA, which includes a section on risk and the ways in which it can be measured and managed.

Summary of requirements

In formulating their policy on their approach to risk, administering authorities:-

- **Must take proper advice**
- **Should clearly state their appetite for risk**
- **Should be aware of the risks that may impact on their overall funding and investment strategies**
- **Should take measures to counter those risks**
- **Should periodically review the assumptions on which their investment strategy is based**
- **Should formulate contingency plans to limit the impact of risks that might materialise**

Regulation 7(2)(d) - The approach to pooling investments, including the use of collective investment vehicles and shared services

All authorities must commit to a suitable pool to achieve benefits of scale. Administering authorities must confirm their chosen investment pool meets the investment reform and criteria published in November 2015, or to the extent that it does not, that Government is content for it to continue.

Any change which results in failure to meet the criteria must be reported by the administering authority, and/or pool, to the Secretary of State and the Scheme Advisory Board.

Administering authorities should set out their approach to pooling and the proportion of assets that will be invested through the pool. This must include the structure and governance arrangements and the mechanisms by which the authority can hold the pool to account.

Where services are shared or jointly procured, the administering authority must set out the rationale underpinning this and the cost benefit of this, as opposed to pooling.

Administering authorities must provide a summary of assets to be held outside of the pool, and how this demonstrates value for money. The progress of asset transfers to the pool must be reported annually against implementation plans and submitted to the Scheme Advisory Board. Where it is possible that an asset could be pooled in the future, authorities must set a date for review and criteria that need to be met before the asset will be pooled.

Summary of requirements

In formulating and maintaining their approach to pooling investment, including the use of collective investment vehicles and shared services, an administering authority must:-

- **Confirm the pooling arrangements meet the criteria set out in the November 2015 investment reform and criteria guidance at https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479925/criteria_and_guidance_for_investment_reform.pdf, or have been otherwise agreed by the Government**
- **Notify the Scheme Advisory Board and the Secretary of State of any changes which result in failure to meet the criteria**
- **Set out the proportion of assets that will be invested through pooling**
- **Set out the structure and governance arrangements of the pool and the mechanisms by which the authority can hold the pool to account**
- **Set out the services that will be shared or jointly procured**
- **Provide a summary of assets that the authority has determined are not suitable for investing through the pool along with its rationale for doing so, and how this demonstrates value for money;**
- **Regularly review any assets, and no less than every 3 years, that the authority has previously determined should be held outside of the pool, ensuring this continues to demonstrate value for money**
- **Submit an annual report on the progress of asset transfers to the Scheme Advisory Board**

Regulation 7(2)(e) - How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments

When making investment decisions, administering authorities must take proper advice and act prudently. In the context of the local government pension scheme, a prudent approach to investment can be described as a duty to discharge statutory responsibilities with care, skill, prudence and diligence. This approach is the standard that those responsible for making investment decisions must operate.

Although administering authorities are not subject to trust law, those responsible for making investment decisions must comply with general legal principles governing the administration of scheme investments. They must also act in accordance with ordinary public law principles, in particular, the ordinary public law of reasonableness. They risk challenge if a decision they make is so unreasonable that no person acting reasonably could have made it.
The law is generally clear that schemes should consider any factors that are financially material to the performance of their investments, including social, environmental and

corporate governance factors, and over the long term, dependent on the time horizon over which their liabilities arise.

However, the Government has made clear that using pension policies to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries are inappropriate, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.

Although schemes should make the pursuit of a financial return their predominant concern, they may also take purely non-financial considerations into account provided that doing so would not involve significant risk of financial detriment to the scheme and where they have good reason to think that scheme members would support their decision.

Investments that deliver social impact as well as a financial return are often described as "social investments". In some cases, the social impact is simply in addition to the financial return; for these investments the positive social impact will always be compatible with the prudent approach. In other cases, some part of the financial return may be forgone in order to generate the social impact. These investments will also be compatible with the prudent approach providing administering authorities have good reason to think scheme members share the concern for social impact, and there is no risk of significant financial detriment to the fund.

Summary of requirements

In formulating and maintaining their policy on social, environmental and corporate governance factors, an administering authority:-

- **Must take proper advice**
- **Should explain the extent to which the views of their local pension board and other interested parties who they consider may have an interest will be taken into account when making an investment decision based on non-financial factors**
- **Must explain the extent to which non-financial factors will be taken into account in the selection, retention and realisation of investments**
- **Should not pursue policies that are contrary to UK foreign policy or UK defence policy**
- **Should explain their approach to social investments**

Regulation 7(2)(f) - The exercise of rights (including voting rights) attaching to investments

The long-term investment interests of administering authorities are enhanced by the highest standards of corporate governance and corporate responsibility amongst the companies in which they invest. Poor governance can negatively impact shareholder value.

Stewardship aims to promote the long term success of companies in such a way that the ultimate providers of capital also prosper. Stewardship activities include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure and corporate governance, including culture and remuneration. Engagement by administering authorities is purposeful and can identify problems through continuing dialogue with companies on these matters as well as on issues that are the immediate subject of votes at general meetings.

Engagement enables administering authorities as long term shareholders to exert a positive influence on companies to promote strong governance, manage risk, increase accountability and drive improvements in the management of environmental, social and corporate governance issues.

Administering authorities are encouraged to consider the best way to engage with companies to promote their long-term success, either directly, in partnership with other investors or through their investment managers, and explain their policy on stewardship with reference to the Stewardship Code. Administering authorities should become Signatories to the Code and state how they implement the seven principles and guidance of the Code, which apply on a "comply or explain" basis.

Concern has been expressed in the past about the scope of Regulation 12(2)(g) of the 2009 Regulations which, in effect, allowed each administering authority to decide whether or not to adopt a policy on the exercise of the rights attaching to investments, including voting rights. To increase awareness and promote engagement, Regulation 7(2)(f) now requires every administering authority to formulate a policy that reflects their stewardship responsibilities.

Summary of requirements

In formulating their policy on the exercise of rights, administering authorities:-

- **Must give reasons in their Investment Strategy Statement for not adopting a policy of exercising rights, including voting rights, attaching to investments**
- **Should, where appropriate, explain their policy on stewardship with reference to the Stewardship Code**
- **Should strongly encourage their fund managers, if any, to vote their company shares in line with their policy under Regulation 7(2)(f)**
- **May wish to appoint an independent proxy voting agent to exercise their proxy voting and monitor the voting activity of the managers, if any, and for reports on voting activity to be submitted annually to the administering authority**
- **Should publish a report of voting activity as part of their pension fund annual report under Regulation 57 of the 2013 Regulations**

APPENDIX C

TAMESIDE MBC

ADMINISTERING AUTHORITY OF THE GREATER MANCHESTER PENSION FUND

INVESTMENT STRATEGY STATEMENT

1) Background

1.1 This Statement has been prepared in accordance with the *Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016* ("the Regulations"). The Regulations require administering authorities to prepare, publish, and when appropriate revise, a written statement recording the investment policy of the pension fund; they also stipulate certain key issues which must be covered in the Statement.

1.2 The terms of appointments of any external investment managers include a provision that the investment manager must take account of, and shall not contravene, this Statement in undertaking its management role. The Fund may terminate the appointment of any external investment manager by not more than one month's notice.

1.3 The Local Government Pension Scheme ("the Scheme") was established by statute to provide death and retirement benefits for all eligible employees. The Scheme is a contributory, defined benefit occupational pension scheme.

1.4 Tameside MBC ("the Council") became the administering authority of the Greater Manchester Pension Fund ("the Pension Fund" or "the Fund") in 1987 after the abolition of the Greater Manchester County Council in 1986. The Fund covers all ten district councils of Greater Manchester, the National Probation Service and numerous other smaller employers.

1.5 The Statement outlines the broad investment principles governing the investment policy of the Pension Fund. In preparing the Statement, the Council has consulted those persons it considered appropriate.

2) Organisation and Management Arrangements of the Fund

2.1 The investment powers of the Council under the Scheme are given in the Regulations. Amongst other matters, the Regulations require the Council to have regard to both the suitability and diversification of its investments and to take proper advice in making decisions regarding the investment matters of the Fund.

2.2 The Council has delegated all its functions as administering authority of the Pension Fund to the Pension Fund Management Panel ("the Management Panel" or "the Panel") which routinely meets on a quarterly basis and whose Terms of Reference are detailed in the Council's "Constitution". Amongst other matters, the Panel decides on the investment policy most suitable to meet the liabilities under the Scheme and has ultimate responsibility for the investment strategy.

2.3 The Management Panel has in turn appointed a Pension Fund Advisory Panel and external professional Advisors, and has dedicated internal Officers of the Fund to advise it on the exercise of its delegated powers. There are also a number of Working Groups which report quarterly to the Panel on specialist matters.

2.4 The Executive Director of Pensions exercises certain delegated powers as specified in the Constitution and provides the link between the Panel, the external professional Advisors and the Fund's investment managers. Each year a Fund "Business Plan" is submitted by the Executive Director of Pensions to the Management Panel for consideration.

2.5 A primary objective of the Council is to maintain a low and stable employer contribution rate. This is to be achieved by attempting to maximise the long-term investment return whilst not exceeding an acceptable degree of risk.

2.6 The assets of the Fund are separated into two distinct parts – a Main Fund and a Designated Fund. This separation has been made in order to reflect a major difference in liability profiles between most of the employers of the Fund and that of a small number of other employers of the Fund.

2.7 Having taken appropriate advice, the Management Panel has decided that a bespoke benchmark, which is biased towards equity is a suitable investment benchmark for the management of the Main Fund. Detail on the Main Fund's bespoke benchmark is included in the Fund's Annual Report and Accounts. This benchmark will be reviewed annually and when appropriate in response to significant changes in the investment environment. The Designated Fund has a bespoke benchmark which is heavily orientated towards UK index linked stock.

2.8 The Management Panel has delegated the management of the majority of the Main Fund's securities portfolio, and the management of the Main Fund's direct property portfolio, to regulated, external, professional investment managers whose activities are defined and constrained by detailed Investment Management Agreements. The remainder of the Main Fund (including private equity, infrastructure, local investments, elements of the Special Opportunities Portfolio and UK cash), together with the Designated Fund, is managed internally by Officers of the Fund. The 'Treasury Management' of all UK cash is undertaken by Officers of Tameside MBC.

2.9 The Main Fund is largely actively managed but has a significant element, which is passively managed on a pooled basis. Three of the appointed external securities managers have been given individual differing active multi-asset (ex property) discretionary benchmarks reflecting their perceived skills and the relative efficiency of markets. The fourth appointed external securities manager has a single broad equity market benchmark reflecting its specialist mandate. These individual benchmarks are detailed in the Investment Management Agreements and have been chosen so as to be consistent with the overall bespoke benchmark determined for the Main Fund.

2.10 Each of the Main Fund's external active securities managers has been set the target of achieving a rolling three year average performance which exceeds the average performance of their individual benchmark by at least 1% per annum. The Fund anticipates that in two years out of three the external active multi-asset securities managers' annual performance will be within 4½% of the annual performance of their individual benchmark. The equivalent range for the specialist securities manager is +/-7%.

2.11 The fees of two of the three external active securities managers consist of two elements: an ad-valorem base fee together with a performance element which is capped at a prudent level of outperformance. The fees of the third external active securities manager consists of a fixed base fee with no performance element. The fees of the Main Fund's external passive securities manager consists of an ad-valorem base fee with no performance element. The fees of the external property manager comprise of a combination of a fixed and ad-valorem base fee with no performance element.

2.12 The Designated Fund is passively managed on a segregated basis.

2.13 The investment returns of the Main Fund, its underlying component portfolios and the Designated Fund are calculated quarterly by an external, third party professional performance measurement company appointed directly by the Council.

2.14 The Management Panel monitors the performance of the appointed external investments managers at each of its quarterly meetings. The performance of the specialist portfolios managed internally by Officers of the Fund is monitored annually by the Panel.

3) The Types of Investments to be Held

3.1 The Regulations require the Council to set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment. These maximum percentage limits are set out in an Appendix to this Statement, and are applicable only at the time the investment is made. The Regulations also require that not more than 5% of the total value of all investments of fund money be invested in entities which are connected with the authority, within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007.

3.2 In addition to the Regulations, the Council has decided to further restrict the types of investment which the appointed external securities managers may hold and to restrict the type and extent of investment activity which they are permitted to undertake. These further detailed restrictions are extensive and are documented in a Schedule to each of the Investment Management Agreements.

3.3 Fund assets currently include a UK and overseas spread of equity, fixed interest bonds (including those issued by Governments, companies and other entities), index linked bonds, private equity, infrastructure and property. The Main Fund's external active multi-asset securities managers are permitted limited use of certain derivatives. The Fund supplements its investment income by participating in a Commission Recapture program.

4) The Balance between different Types of Investments

4.1 The Regulations require the Council to have regard to the diversification of its investments.

4.2 The overall bespoke benchmark of the Main Fund comprises a mix of different assets (broadly 75% real assets and 25% monetary assets) which is sufficient to provide adequate diversification for the Main Fund. The Fund's Annual Report and Accounts contains more detail on the overall Main Fund benchmark.

4.3 The strategic balance of investments takes account of the risk/return characteristics of each asset class and in particular the potential for enhanced long term returns from equity and the higher level of short term volatility associated with that asset class. In this context, risk in relation to any asset class is considered 'in the round' rather than being analysed into the specific components of risk (eg liquidity, foreign exchange, interest rate sensitivity etc). Allowance is also made for the benefits of diversification across the asset class mix within the Main Fund. The overall bespoke benchmark provides a reasonable long-term balance appropriate to the liabilities relevant to the Main Fund and its funding position.

4.4 For the Main Fund, tactical asset allocation is delegated to the appointed external multi-asset securities managers who must operate within asset class and country restrictions which are documented in a Schedule to the Investment Management Agreements.

4.5 The bespoke benchmark of the Designated Fund has also been specifically chosen in the context of the relevant liabilities and funding position.

5) Risk : Measurement and Management

5.1 The Management Panel recognises that risk is inherent in any investment activity. The overall approach is to seek to reduce risk to a minimum where it is possible to do so without compromising returns (eg in operational matters), and to limit risk to prudently acceptable levels otherwise (eg in investment matters).

5.2 Operational risk is minimised by :

- Having custody of the Fund's financial assets provided by a regulated, external, third party, professional custodian appointed directly by the Council with control and liability issues thoroughly addressed in a Global Custody Agreement;
- Having the deeds of direct property investments held securely by the Fund's Legal Section;
- Documenting control and liability issues relating to the relationships with the appointed external investment managers in the Investment Management Agreements;
- Having an external, third party, accounting provider independently maintain complete accounting records relating to the investment activity of the appointed external securities managers and to the entitlements (eg income) arising from the Fund's securities portfolios;

- Officers of the Council's Internal Audit and of the Fund's Investments Group receiving reports on and reviewing the internal operating procedures of the appointed external custodian, securities managers and accounting provider; and
- Subjecting internal investment management activity to close Internal Audit scrutiny.

5.3 Investment risk is constrained by :

- Diversifying across investment managers;
- Diversifying across types of investment;
- Restricting external appointed investment manager activity as documented in a Schedule to or in relevant Clauses of the Investment Management Agreements;
- Selecting appropriate investment benchmarks in order to control the risk that the assets will not be sufficient to meet the liabilities whilst also having a strong likelihood of achieving a good return;
- Taking appropriate internal and external professional advice on the investment activity of both the externally managed securities portfolios and of the internally managed portfolios;
- Quarterly, formal, Management Panel monitoring of asset allocation against the investment benchmarks and asset class restrictions; and
- Quarterly, formal, Management Panel monitoring of investment manager and overall Fund activity and performance.

5.4 Some risks lend themselves to being measured (eg using such concepts as 'Active Risk' and such techniques as 'Asset Liability Modelling') and where this is the case, the Fund employs the relevant approach to measurement. The Fund reviews new approaches to measurement as these continue to be developed.

6) The Expected Return on Investments

6.1 There is a broad expectation that in the longer term the return on equity will be greater than on other assets.

6.2 The overall Main Fund return is expected to be broadly in line with the overall bespoke benchmark. Over the last twenty years this benchmark has averaged a return which is comfortably ahead of both price and earnings inflation over the same period. However over any shorter period, such as one or five years, actual Main Fund returns may vary significantly from the benchmark and indeed benchmark returns may vary significantly from their long-term averages.

6.3 Over the long term appropriate to the liabilities of the Scheme it is expected that the investment returns of both the Main Fund and the Designated Fund will be at least in line with the assumptions underlying the actuarial valuations.

7) The Realisation of Investments

7.1 General investment principles require that issues of liquidity and marketability be considered in making any investment decision. Pension payments are expected to exceed employer and employee contributions by around £200m per year over the coming three years. During this period, investment income, outwith that which is automatically reinvested within pooled vehicles, is anticipated to generate around £300m per year of receipts to the Fund. Thus it is not expected that there will be any material need to realise investments in the near future other than to seek higher returns.

7.2 The vast majority of the Pension Fund's assets are readily marketable. However some investments, such as property, and more so private market assets, are less easy to realise in a timely manner. Such relative illiquidity is not considered to have any significant adverse consequences for the Fund. However, over the coming couple of years, Officers of the Fund will be investigating options for dealing with the deteriorating cash-flow position of the Fund.

7.3 The Council informs the appointed external investment managers of any projected need to withdraw funds in order to enable the investment managers to plan an orderly realisation of assets when this proves necessary.

8) The Fund's Approach to Pooling Investments

8.1 The Council has signed a memorandum of understanding with the administering authorities of the Merseyside Pension Fund and the West Yorkshire Pension Fund to create the Northern Pool ('the Pool') in order to meet the criteria for pooling investments released by Government on 25 November 2015.

8.2 The three funds submitted their pooling proposal to Government in July 2016 and the Department for Communities and Local Government provided its confirmation in January 2017 that it is content for the funds to proceed with the formation of the Pool as set out in the July 2016 proposal. A copy of the proposal is on GMPF's website.

8.3 Based on 31 March 2015 asset values, the total value of assets, across the three participating funds, to be invested in the Pool is £35.416 billion, which is in excess of the £25 billion criteria set by Government. All assets other than day-to-day cash used for scheme administration purposes will be invested via the Pool once transition is complete. Day-to-day cash is assumed to be 1% of total assets for each fund.

8.4 For the immediate future after inception of the Pool, the Fund's public-market assets will continue to be held in segregated mandates owned directly by the administering authority, but managed by the Pool. A single custodian will be appointed by the Pool, which will simplify the future consolidation of mandates.

8.5 All non-listed assets will be managed by the Pool from its formation. Subject to value for money requirements being fulfilled, new investments (i.e. those entered into after the formation of the Pool) in private market assets will be made on a shared ownership basis, via either collective investment vehicles or limited partnerships. Legacy private market assets (i.e. those entered into prior to the formation of the Pool) will be run-off on a segregated basis.

8.6 This approach will be reviewed periodically going forwards to ensure this continues to demonstrate value for money, particularly following any changes to funds' strategic asset allocations, pool management arrangements or taxation policy in the UK or internationally. The reviews will take place no less than every 3 years.

8.7 Once established it is intended that the Pool will provide the following services to the participating authorities on an in-house basis:

- Implement the strategic asset allocations of the participating authorities
- Management of UK and Overseas equities and bonds
- Selection of private equity, infrastructure & property funds
- Direct UK infrastructure investment via a collective investment vehicle
- Legal and accounting support

8.8 It is intended that the Pool will externally procure the following services:

- External fund management for certain mandates
- Common custodian for Pool (plus depositaries & fund administrators where required for any pooled funds that are established for non-listed assets)
- Investment management systems
- Audit services
- Performance analytics
- Responsible Investment advisory services
- Value for money reviews of structure

8.9 A Pool Oversight Board will be established to:

i) provide oversight of the Pool; and

ii) act as a forum for the participating authorities to express the views of their pension committees.

8.10 The Oversight Board's primary roles are to ensure that the Pool is effectively implementing the participating authorities' strategic asset allocations and to oversee reporting to the participating authorities' pension committees.

8.11 The legal structure of the Oversight Board is expected to be a joint committee. There will be clear separation of duties between the Oversight Board and the Pool. The Oversight Board will not be undertaking any regulated activities.

8.12 The Pool's governing documentation will grant the Oversight Body and each administering authority certain powers regarding the operation of the Pool, which can be used to ensure the effective performance of the Pool.

8.13 Reporting processes of the Pool will include regular written reports on the performance of Pool investments to the Oversight Body, which will be discussed at formal meetings. Officers of the Pool will also report to and present directly to the administering authorities' pension committees and local pension boards as appropriate.

8.14 A report on the progress of asset transfers will be made to the Scheme Advisory Board annually.

9) Socially Responsible Investment

9.1 The Fund holds a general policy of not interfering in the day to day investment decisions of its investment managers. However, the Fund may choose to actively invest in or disinvest from companies for social, ethical or environmental reasons, so long as that does not risk material financial detriment to the Fund.

9.2 As a responsible investor, the Fund wishes to promote corporate social responsibility, good practice and improved company performance amongst all companies in which it invests. On environmental issues, the Fund wishes to promote and encourage compliance with its own "UK Environmental Investment Code". The Fund's appointed external securities managers are encouraged to operate a policy of constructive shareholder engagement with companies. The Fund is a 'Tier 1' signatory of the UK Stewardship Code.

9.3 The Fund endeavours to be a socially responsible investor wherever possible but does so within the duties placed upon it under statute and under general trust law principles to manage the Scheme in the best financial interests of the Scheme members and beneficiaries.

9.4 From time to time the Fund will pursue certain specific issues direct with investee companies, either individually or, more usually, collectively with other institutional investors via its membership of the 'Local Authority Pension Fund Forum', its membership of the 'Institutional Investors Group on Climate Change', as a signatory to the 'UN Principles for Responsible Investment' or by means of other ad-hoc groupings.

9.5 The Panel has approved an allocation to Local Investments, which has the twin aims of generating a commercial return and delivering a positive social impact. The Fund's Annual Report and Accounts contains more detail on the specific investments within this allocation.

10) The Exercise of Investment Rights

10.1 The exercise of rights which are not voting rights (eg dividend entitlements, rights issues etc) are delegated by the Council to the investment managers of the Pension Fund as part of their normal investment responsibilities.

10.2 The Fund wishes to exercise the voting rights attaching to its investments to promote and support good corporate governance principles. The Fund will report on its voting activity as part of its Annual Report.

10.3 The Fund requires the appointed external active securities managers to vote on behalf of the Fund at every opportunity in the UK and when reasonably practicable and commercially prudent overseas.

10.4 In casting the Fund's votes in the UK, the appointed external active securities managers are mandated to implement the Fund's bespoke "UK Voting Guidelines". Any overseas votes exercised must be cast in line with the spirit of the Guidelines.

10.5 The appointed external passive securities manager votes in respect of the Fund at every opportunity in the UK and in respect of companies in the vast majority of overseas markets except where practicalities are a significant obstacle.

10.6 In casting votes in respect of the Fund in the UK, the appointed external passive securities manager normally implements its own 'Voting Policy'. However the passive securities manager will vote in respect of the Fund according to the Fund's instructions on a case by case basis should the Fund so require.

11) Stocklending

11.1 The Fund itself has participated in a prudently structured Stocklending program via its Custodian since March 2003. However, the Fund suspended its Stocklending program between September 2008 and May 2011 in the wake of the 2008 financial crisis.

11.2 The Fund does not lend UK and US Equities and does not take Cash as collateral. The maximum volumes of stock “on loan” are set at a lower level than the Regulations permit. All loans must be pre-collateralised and be subject to recall upon demand.

11.3 Certain pooled vehicles within which the Fund invests may undertake an amount of Stocklending on behalf of the pooled vehicle investors. Where this occurs, the extent of the activity is disclosed by the pooled vehicle. The Fund considers this aspect of the pooled vehicle when making investment decisions.

Version 1.0

Adopted by the Pension Fund Management Panel for Tameside MBC as administering authority of the Greater Manchester Pension Fund: March 10, 2017

SJT/PFIG
February, 2017

APPENDIX TO INVESTMENT STRATEGY STATEMENT

TABLE OF LIMITS ON INVESTMENTS

Investment	Limit
1. Any single sub-underwriting contract	1%
2. All contributions to any single partnership	5%
3. All contributions to partnerships	30%
4. The sum of – a) all loans (but see paragraph 1 below); and b) any deposits with – i. any local authority; or ii. any body with power to issue a precept or requisition to a local authority, or to the expenses of which a local authority can be required to contribute which is an exempt person (within the meaning of the Financial Services and Markets Act 2000) in respect of accepting deposits as a result of an order made under section 38(1) of that Act	10%
5. All investments in unlisted securities of companies	10%
6. Any single holding (but see paragraphs 2 and 3 below)	10%
7. All deposits with any single bank, institution or person (other than the National Savings Bank)	10%
8. All sub-underwriting	15%
9. All investments in units or shares of the investments subject to the trusts of unit trust scheme managed by any one body (but see paragraph 3 below)	25%
10. All investments in open-ended investment companies where the collective investment schemes constituted by the companies are managed by one body	25%
11. All investments in unit or other shares of the investments subject to the trusts of unit trust schemes and all investments in open-ended investment companies where the unit trust schemes and the collective investment schemes constituted by those companies are managed by any one body (but see paragraph 3 below)	25%
12. Any single insurance contract	35%
13. All securities transferred (or agreed to be transferred) by the authority under stock lending arrangements	25%

EXCEPTIONS TO LIMITS IN THE TABLE

1. The restriction in item 4 of the table does not apply to a Government loan.

2. The restriction in item 6 of the table does not apply if—

(a) the investment is made by an investment manager; and

(b) the single holding is in units or other shares of the investments subject to the trusts of any one unit trust scheme.

3. The restrictions in items 6, 9 and 11 do not apply to—

(a) National Savings Certificates;

(b) fixed-interest securities issued by Her Majesty's Government in the United Kingdom, the Government of Northern Ireland or the Government of the Isle of Man and registered in the United Kingdom or the Isle of Man or Treasury Bills;

(c) any securities the payment of interest on which is guaranteed by Her Majesty's Government in the United Kingdom or the Government of Northern Ireland; or

(d) a deposit with a relevant institution.

END OF APPENDIX (10/03/17)

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Report To:	**GMPF MANAGEMENT PANEL**
Date:	10 March 2017
Reporting Officer:	Sandra Stewart, Executive Director of Pensions Paddy Dowdall, Assistant Executive Director of Pensions,(Local Investments and Property)
Subject:	**GMPF BUDGET 2017/2018 AND FUTURE MEDIUM TERM FINANCIAL PLANNING**
Report Summary:	This report seeks approval of the Management Panel for the a 2017/18 expenditure budget for GMPF with a medium term financial plan. (An updated version will be included in the Annual report for 2016/17).
Recommendations:	That the Management Panel 1. approves the expenditure budget for 2017/18. 2. approves the Medium Term Financial Plan 3. notes that the Medium Term Financial Plan will be updated for information available including profiling of employer contributions and Fund value at 31 March and included in the Annual Report for 2016/ 4. notes that the Executive Director of Pensions intends to review all budgets in 17/18 and undertake a zero based budget approach.
Financial Implications: **(Authorised by the Section 151 Officer)**	The financial implications are set out in the report. There is a projected increase in expenditure which supports strategic change at the Fund to optimise net risk adjusted returns on investments and to provide efficient administration in order to ultimately minimise the contributions paid by employers.
Legal Implications: **(Authorised by the Solicitor to the Fund)**	There is a duty on the Fund to achieve best value and consequently the Panel need to ensure through such monitoring that value for money is being achieved.
Risk Management:	Failure to properly manage and monitor the Fund's budgets may lead to a reduction in service standards for scheme members or employers, or a loss of confidence in the management of the fund.
ACCESS TO INFORMATION:	**NON-CONFIDENTIAL** **This report does not contain information which warrants its consideration in the absence of the Press or members of the public**.
Background Papers:	The background papers used in the preparation of this report were: 1. The 2016/2017 Financial Ledger 2. Budget Working Papers Any enquiries should be directed to Tracey Boyle, 0161 301 7116 (email: tracey.boyle@tameside.gov.uk)

1. INTRODUCTION

1.1 This report seeks the Management Panel's approval to an expenditure budget for GMPF for 2017/18 alongside a medium term financial plan. The employer funding group have previously considered the budget and approved it to be taken forward to the Management Panel.

1.2 The medium term financial plan is essentially dependent upon the assumptions in the Funding Strategy Statement, and the out-turn is largely subject to financial markets and their impact on investment performance.

1.3 The medium term financial plan 2017-2020 will be finalised for the annual report following, approval of budget and more up to date information on position at 31 March 2017.

2. OVERVIEW AND CONTEXT

2.1 The Fund, following approval on assumptions and process by the Management Panel, produced a medium term financial plan and medium term expenditure plan in its annual report and accounts for 2015/16. These are set out below. It is intended to re-set the medium term financial plan following the completion of the actuarial valuation for 2017-2020.

Medium term Financial Plan (as included in Annual Report 2015/16)

	2016/17	2017/18
	£m	**£m**
Fund Size at Start of Year	**17,325**	**17,937**
Fund Size at end of Year	**17,937**	**18,539**
Pensions Paid	737	778
Contributions received	545	548
Transfers	0	0
Net Cash-flow	**-191**	**-230**
Management Costs	28	29
Investment Income	329	345
Increase in Value of Investments	503	516
Net Return from Investments	**832**	**861**
Net Change in Fund	**612**	**602**

They key observations are that:

- Investment returns are the key determinant of the financial position.
- The fund has a negative cash-flow from pensions paid less contributions and the trend is for this to increase as the Fund matures.
- The management costs are small relative to Fund size and annual cash flows.

2.2 The medium term expenditure plan is set out in the table below, the key features are the planned increases in investment management costs premises and staffing to support the strategic changes at the Fund, approved by the Management Panel and to provide for future development.

Medium term Expenditure Plan as at March 2016

Type of Expenditure	2015/16 outturn	2016/17 Budget	2017/18 Budget as at March 2016
	£000	**£000**	**£000**
Staff Costs	5,253	5,808	5,924
Investment Management & Professional Fees	11,156	19,294	20,220
Accommodation	466	817	833
Other Services	2,076	1,793	1,829
Central Establishment Charges	379	379	379
TOTAL	19,330	28,091	29,186

2.3 The projected out turn for the expenditure for 2016/17 is considered in another item on this agenda. There is a significant underspend largely due to one off investment matters.

2.4 The out-turn for the medium term financial plan is likely to result in a significantly higher than predicted Fund value due to the strong investment performance to date in the financial year although there is a risk of investment performance volatility in the final 3 months.

3. BUDGET CHANGES 2017/18 FROM BUDGET FOR 2016/17

3.1 The table overleaf shows the changes in the 2017/18 budget from the 2016/17 budget. The significant changes are investment management, staffing and property. These are specifically dealt with in the tables below.

3.2 For investment management the budget reflects; firstly the implementation of new investment strategies designed to optimise net risk adjusted returns on investments, detailed below, including allocations to credit and global equities and re-negotiation of passive management fees which results in a significant saving, and there is an allowance for asset value growth in line with long term expectations.

3.3 The Panel has previously agreed to make two incremental changes to the Fund's arrangements with a view to improving the prospects for returns in the future. The first of these changes saw the appointment of Investec in March 2015, with a mandate building up to 5% of Main Fund assets focusing solely on Global Equity, reflecting the increased significance of overseas equity investment for the Fund.

3.4 The second incremental change was for the creation of a new portfolio of broadened debt related investments representing 5% of Main Fund assets. The aim of this new mandate is to achieve broadly equity like returns, with lower volatility.

3.5 Hymans point out a number of downsides to the introduction of the new Global Equity mandate: there will be an increase in the number of manager relationships and consequential monitoring and governance costs, and there is likely to be a net increase in investment management fees. In addition, the scope for value to be added by tactical allocation between assets by the active securities managers will reduce. However, it is believed that the scope for higher manager skill to be deployed, and the increased diversification, will outweigh the 'negatives' even after taking account of the additional direct costs.

	£000
Credit manager for full year	950
Investec Additional funding	400
L&G changes	(1015)
Capital negotiation	100
UBS negotiation	(120)
Property management fees charged to individual properties	(395)
Total	**(80)**

3.6 For staffing the changes reflect the requirements to oversee the new investment strategies deployed by the Fund and to provide administration services for the Fund following a step change in complexity and volume, for example the fact the that there are now effectively 3 different schemes being administered, the increase in the number of employers, and the need to calculate GMP's. There is also an increase of 2% to reflect pay awards and the on costs have increased due to changes in national insurance and employer pension contributions. The impact of these changes is shown in the table below.

	£000
Changes to Senior Management structure	(160)
Review of Administration	220
Review of Investments	60
Review of local investments largely recharged to GLIL)	80
Graduates/apprentices to be deployed across Fund	120
Pay Awards 2016/18 2% plus increments	150
National Insurance increase	22
Pension Contributions increase	120
Total	**612**

3.7 The other changes in the budget for 2017/18 from 2016/17 are detailed in the table overleaf. The most significant item is an increase of £743,000 from £100,000 to £843,000 for professional fees in relation to setting up an FCA regulated vehicle as a result of pooling. This is a provision that may not be fully utilised but reflects the upper range of estimates. Management Panel is yet to consider final pooling proposals. Property costs are increased to reflect an increase in rates and the full charges for facilities management and use of the building. The other significant items are a growth in income from charges to GLIL and property and the other items are relatively minor.

3.8 **Appendix 1** shows the budget estimate for 2017/18 incorporating these proposed changes. The overall expenditure budget moves by £1.4m from £28.1m to £29.5m.

Expenditure	Change £000	Significant Components of Changes £000
Staffing Costs	612	Dealt with in section 3.3
Training and Insurance	(7)	Reduction in requirements
Publications and Subscriptions	32	4 Price increase in existing subscriptions 4 Law Society Regulatory Fees 24 Scheme Advisory Board
Travel and Subsistence	+5	Small change to reflect increased prices and activity
Premises	293	(22) Utilities 109 Facilities Management 153 Increase in rent charge 53 rates
Postage, Printing, Telephone	(40)	(46) Printing - decrease in external printing (28) Telephone - net decrease, mainly due to Admin reduction in required provision +34 Postage - increase based on trends observed in 2016/17
Office Equipment and Software	(27)	18 MFD additional charges (40) reduction in spending on hardware following transition year (5) reduction in legal case management system
Investment Advisory Expenses	16	Appointment of additional adviser
Bank Charges and Nominee Fees	28	(2) Decrease in bank charges based on trend 30 Increase in custody fees predicted due to mandate changes
Managers and Professional Fees	779	743 Pooling Costs (80) Investments total change (see section 3.2) 50 GMP reconciliation 60 e-learning video production 40 provision for addition abortive External fees on local investments (60) reduction in investment consultancy fees for specific exercises compared to last year (9) Ombudsman 5 Increased HSBC Accounting fees 30 Hymans fees for employer matters
Performance Measurement Services	26	(32) cease of WM Services 52 Addition of Portal Evaluation plus portfolio analytics service 6 Additional IPD costs to reflect additional analysis
Communications	30	Inflation and external production of May payslips
CEC	16	4% increase overall following freeze for past years reflecting the Funds increased use of services
Recovery of Management and Legal Fees	(345)	(225) investment management charges to GLIL and (20) Increased accountancy charges to GLIL (100) increased Legal Services charges to property development
Commission Recapture	-	No change predicted
Total	**1,418**	

4. ASSUMPTIONS FOR MEDIUM TERM FINANCIAL PLANNING

4.1 The assumptions for medium term financial planning are taken from the Funding Strategy Statement and are detailed in the table below.

Fund Investment Return	4.2% per annum over the long term
Inflation	CPI Bank of England Forecast (around 2.5% central case in November)
Pay Inflation	1%
Employer Payroll	From actuarial valuation
Pensioner Profile	From actuarial valuation
Budget	2017/18 taken forward

5. MEDIUM TERM FINANCIAL PLAN 2017-2020

5.1 The proposed medium term financial plan for 2017-2020 is shown below.

	2017/18	2018/19	2019/20
	£m	£m	£m
Fund Size at Start of Year	**21,000**	**21,781**	**22,583**
Fund Size at end of Year	**21,781**	**22,583**	**23,423**
Pensions Paid	690	718	727
Contributions received	619	634	648
Transfers	0	0	0
Net Cash-flow	**-71**	**-84**	**-79**
Administration Costs	30	30	30
	0	0	0
Investment Income	329	343	358
Increase in Value of Investments	553	572	591
Net Return from Investments	**882**	**915**	**948**
	0	**0**	**0**
Net Change in Fund	**781**	**801**	**840**

6. RECOMMENDATIONS

6.1 As stated at the front of the report.

APPENDIX 1

GMPF Management Expenditure 2017/18 Budget Proposal

	(1)	(2)	(3)
	Original	Changes	Proposal
	Estimate		Estimate
	2016/17		2017/18
Type of Expenditure			
	£'000	**£'000**	**£'000**
Staff Costs			
Staffing Costs	5,702	612	6,314
Training and Insurance	106	(7)	99
Total	5,808	605	6,413
Direct Costs			
Publications and Subscriptions	70	32	102
Travel and Subsistence	100	5	105
Premises	817	293	1,110
Postage, Printing, Telephone	244	(40)	204
Office Equipment and Software	844	(27)	817
Investment Advisory Expenses	50	16	66
Bank Charges and Custodian Fees	386	28	414
Managers and Professional Fees	19,506	779	20,285
Performance Measurement Services	101	26	127
Communications	255	30	285
	22,373	**1,142**	**23,515**
Central Establishment Charges	379	16	395
Less:			
Recovery of Management and Legal Fees	(351)	(345)	(696)
Admin Fees	(20)	0	(20)
Commission Recapture	(100)	0	(100)
Total	**28,089**	**1,418**	**29,507**

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Report To:	**Pension Fund Management Panel**
Date:	10 March 2017
Reporting Officer:	Sandra Stewart, Executive Director of Pensions Paddy Dowdall Assistant Executive Director of Pensions (Local Investments and Property)
Subject:	**2016/2017 EXTERNAL AUDIT PLAN**
Report Summary	A report of Grant Thornton is attached which sets out the external auditor's approach to the 2015/2016
Recommendations:	That the Management Panel note the contents of the report.
Policy Implications:	To achieve compliance with.
Financial Implications: **(Authorised by the Section 151 Officer)**	The estimated audit fee for 2015/2016 is £62,000.
Legal Implications: **(Authorised by the Solicitor to the Fund)**	It is a requirement that the Fund's accounts are externally audited.
Risk Management:	In undertaking the audit, the auditor will identify the business risks and assess the Fund's own risk management and internal control environment. The auditor will also consider the financial performance and provide reassurance that the accounts provide a "true and fair view".
ACCESS TO INFORMATION:	**NON-CONFIDENTIAL** **This report does not contain information which warrants its consideration in the absence of the Press or members of the public.**
Background Papers:	For further information please contact Paddy Dowdall, Assistant Executive Director (Local Investments and Property) tel 0161 301 7140, email paddy.dowdall@tameside.gov.uk

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The Audit Plan
for Greater Manchester Pension Fund

Year ended 31 March 2017

23rd February 2017

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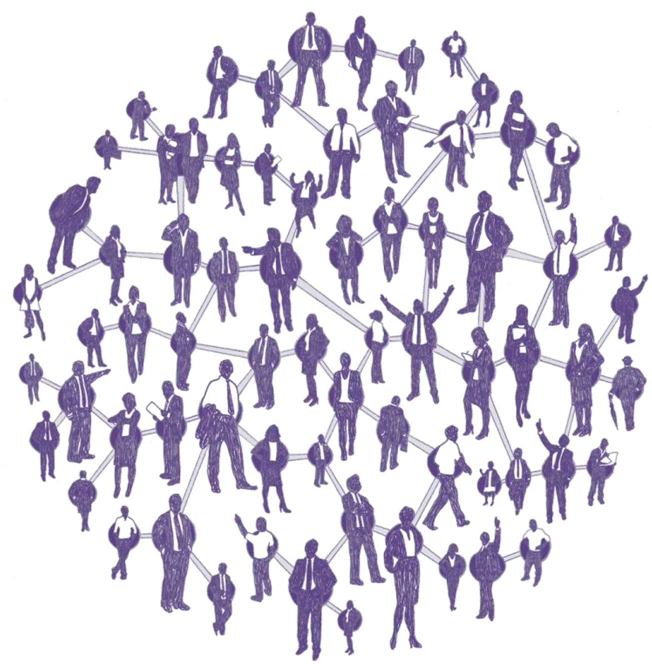

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23 February 2017

Dear Members

Audit Plan for Greater Manchester Pension Fund for the year ending 31 March 2017

This Audit Plan sets out for the benefit of those charged with governance (in the case of Greater Manchester Pension Fund, the Overview (Audit) Panel of Tameside MBC), an overview of the planned scope and timing of the audit, as required by International Standard on Auditing (UK & Ireland) 260. This document is to help you understand the consequences of our work, discuss issues of risk and the concept of materiality with us, and identify any areas where you may request us to undertake additional procedures. It also helps us gain a better understanding of the Fund and your environment. The contents of the Plan have been discussed with management.

We are required to perform our audit in line with Local Audit and Accountability Act 2014 and in accordance with the Code of Practice issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General in April 2015. Our responsibilities under the Code are to give an opinion on the Fund's financial statements.

As auditors we are responsible for performing the audit, in accordance with International Standards on Auditing (UK & Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements which give a true and fair view.

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change. In particular we cannot be held responsible to you for reporting all of the risks which may affect the Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

We look forward to working with you during the course of the audit.

Yours sincerely

Mike Thomas

Engagement Lead

Contents

Understanding your business and key developments

Developments

Investment Regulations

The new investment regulations came into force on 1 November 2016 and require administering authorities to publish new Investment Strategy Statements by 1st April 2017. The statement must be in accordance with guidance issued by the Secretary of State and include a variety of information. This will include the authority's assessment of the suitability of particular investments and types of investments, the authority's approach to risk, including the ways in which risks are to be measured and managed and the authority's approach to pooling investments, including the use of collective investment vehicles and shared services. These regulations also provide the Secretary of State with the power to intervene in the investment function of a fund if he/she is satisfied that the authority is failing to act in accordance with the regulations.

The GMPF Pension Fund has produced its Investments Strategy Statement, which will be approved by the 1st April 2017.

Triennial actuarial valuation of the fund

The results of the triennial review have now been reported. Overall the funding level has reduced by 2,5% from the date of the last valuation, but remains comparatively well funded at 92.5%. The schemes assets and liabilities have increased, on for the first time the valuation include the MoJ transferred Pensions.

Key challenges

Pooling Governance

Arrangements for pooling of investments continue to develop, with DCLG expecting administering authorities to be transferring liquid assets from April 2018. The structure and governance of these arrangements will need to be implemented before this date. These arrangements are likely to have a significant impact on how the investments are managed, who makes decisions and how investment activities are actioned and monitored. Although much of this operational responsibility will move to the investment pool operator, it is key that administering authorities (through Pension Committees and Pension Boards) continue to operate strong governance arrangements, particularly during the transition phase where funds are likely to have a mix of investment management arrangements.

The proposal for pooling GMPF investments with Merseyside Pension Fund and the West Yorkshire Superannuation Fund (for combined assets of over £35bn) was submitted in July 2016 supported by a joint Memorandum of Understanding between the three Funds.

A formal response from the Government to the 'Northern Pool proposal has yet to be received, however plans continue to developed for the Pool's governance structure and operating model.

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Financial reporting changes

CIPFA Code of Practice 2016/17 (the Code)

The main change to the Code for Pension Funds is the extension of the fair value disclosures required under the Code from 2016/17.

The greatest impact is expected to be for those Funds holding directly owned property and/or shares and Level 3 investments. These are reflected in CIPFA's pension fund example accounts alongside further changes including an analysis of Investment Management expenses in line with CIPFA's Local Government Pension Scheme Management Costs guidance, a realignment of investment classifications , and an additional disclosure note covering remuneration of key management personnel which has been included in related party transactions.

Earlier closedown

The Accounts and Audit Regulations 2015 require councils to bring forward the approval and audit of financial statements to 31 July by the 2017/2018 financial year. This will impact not only upon the production of the Fund accounts but also on earlier requests for information from employers within the Fund.

The Finance team confirm the financial statements will be prepared by 31st May. and working papers will be provided to enable the audit visit to commence 12 June 2017.

We aim to provide our opinion by 31 July 2017

Our response

- We will discuss with you your progress in implementing the requirements of the new investment regulations, highlighting any areas of good practice or concern which we have identified.
- We will discuss your progress in implementing revised governance structures, and share our experiences gained nationally.
- We aim to complete all our substantive audit work of your financial statements by 7th July 2017.
- As part of our opinion on your financial statements, we will consider whether your financial statements accurately reflect the changes in the 2016/17 Code

Materiality

In performing our audit, we apply the concept of materiality, following the requirements of International Standard on Auditing (UK & Ireland) (ISA) 320: Materiality in planning and performing an audit. The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. An item does not necessarily have to be large to be considered to have a material effect on the financial statements. An item may be considered to be material by nature, for example, when greater precision is required (e.g. senior manager salaries and allowances).

We determine planning materiality (materiality for the financial statements as a whole determined at the planning stage of the audit) in order to estimate the tolerable level of misstatement in the financial statements, assist in establishing the scope of our audit engagement and audit tests, calculate sample sizes and assist in evaluating the effect of known and likely misstatements in the financial statements.

We have determined planning materiality based upon professional judgement in the context of our knowledge of the Fund. In line with previous years, we have calculated financial statements materiality based on a proportion of net assets for the Fund. For purposes of planning the audit we have determined overall materiality to be £173,246k (being 1% of net assets based on previous audited accounts). Our assessment of materiality is kept under review throughout the audit process and we will advise you if we revise this during the audit.

Under ISA 450, auditors also set an amount below which misstatements would be clearly trivial and would not need to be accumulated or reported to those charged with governance because we would not expect that the accumulation of such amounts would have a material effect on the financial statements. "Trivial" matters are clearly inconsequential, whether taken individually or in aggregate and whether judged by any criteria of size, nature or circumstances. We have defined the amount below which misstatements would be clearly trivial to be £8,662k.

ISA 320 also requires auditors to determine separate, lower, materiality levels where there are 'particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users'. We have identified the following items where separate materiality levels are appropriate:

Balance/transaction/disclosure	Explanation	Materiality level
Related party transactions	Due to public interest in these disclosures and the statutory requirement for them to be made.	£20,000

Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements; Judgments about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered. (ISA (UK and Ireland) 320)

Significant risks identified

An audit is focused on risks. Significant risks are defined by ISAs (UK and Ireland) as risks that, in the judgment of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Significant risk	Description	Audit procedures
The revenue cycle includes fraudulent transactions	Under ISA (UK and Ireland) 240 there is a presumed risk that revenue streams may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at Greater Manchester Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • The split of responsibilities between the Pension Fund, its Fund Managers, Custodian and HSBC provides a clear separation of duties reducing the risks relating to investment income • The culture and ethical frameworks of local authorities, including the Pension Funds Administering Authority (Tameside MBC), mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for Greater Manchester Pension Fund.
Management over-ride of controls	Under ISA (UK and Ireland) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities.	**Work completed to date:** • Review of journal environment **Further work planned:** • Review of accounting estimates, judgments and decisions made by management • Walkthrough of journal entry process and selection of unusual journal entries for testing back to supporting documentation • Testing of Year end Journals • Review of unusual significant transactions

"Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty." (ISA (UK and Ireland) 315) . In making the review of unusual significant transactions "the auditor shall treat identified significant related party transactions outside the entity's normal course of business as giving rise to significant risks." (ISA (UK and Ireland) 550)

Significant risks identified (continued)

Significant risk	Description	Audit procedures
Level 3 Investments – Fair value measurements priced using inputs not based on observable market data not correct. (Valuation is incorrect)	Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end.	**Work completed to date:** • Updated our understanding of the Pension Fund's procedures for investments **Further work planned:** • For indirect property investments, test valuations to valuation reports and/or other supporting documentation. • For a sample of private equity investments, test valuations to Fund Manager valuations and/or by obtaining and reviewing the audited accounts at latest date for individual investments and agreeing these to the fund manager reports at that date. Reconciliation of those values to the values at 31st March with reference to known movements in the intervening period. • Review the qualifications of the fund managers as experts to value the level 3 investments at year end and gain an understanding of how the valuation of these investments has been reached. • To review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments.

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Other risks identified

Reasonably possible risks (RPRs) are, in the auditor's judgment, other risk areas which the auditor has identified as an area where the likelihood of material misstatement cannot be reduced to remote, without the need for gaining an understanding of the associated control environment, along with the performance of an appropriate level of substantive work. The risk of misstatement for an RPR or other risk is lower than that for a significant risk, and they are not considered to be areas that are highly judgmental, or unusual in relation to the day to day activities of the business.

Reasonably possible risks	Description of risk	Audit procedures
Investment Income	Investment activity not valid. Investment income not accurate. (Accuracy)	**Work completed to date:** • Updated our understanding of the Pension Fund's procedures for investments **Further work planned:** • Perform walkthrough test of controls identified • For investments held by fund managers, review reconciliation between custodian (JP Morgan), fund managers, HSBC and the Pension Fund and follow up any significant variance and gain appropriate explanations/evidence for these. • For other investments,(e.g. direct property), agree a sample to supporting documentation.
Investment purchases and sales	Investment activity not valid. Investment valuation not correct.	**Work completed to date:** • Updated our understanding of the Pension Fund's procedures for investments **Further work planned:** • Perform walkthrough test of controls identified • For investments held by fund managers, review reconciliation between JP Morgan, fund managers, HSBC and the Pension Fund and follow up any significant variance and gain appropriate explanations/evidence for these. • For other investments,(e.g. direct property), agree a sample to supporting documentation for rental income

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Other risks identified (continued)

Reasonably possible risks	Description of risk	Audit procedures
Investment values – Level 2 investments	Valuation is incorrect. (Valuation net)	**Work completed to date:** • Updated our understanding of the Pension Fund's procedures for investments **Further work planned:** • Perform walkthrough test of controls identified • We will review the reconciliation of information provided by the fund managers, the custodian, the Accounting partner (HSBC) and the Pension Fund's own records and seek explanations for variances.. • For direct property investments agree values in total to valuer's report and undertake steps to gain reliance on the valuer as an expert.
Contributions	Recorded contributions not correct (Occurrence)	**Work completed to date:** • Updated our understanding of the Pension Fund's arrangements for recording contributions **Further work planned:** • Perform walkthrough tests of controls identified • Test a sample of contributions to source data to gain assurance over their accuracy and occurrence. • Rationalise contributions received with reference to changes in member body payrolls and numbers of contributing pensioners to ensure that any unexpected trends are satisfactorily explained.
Benefits payable	Benefits improperly computed/claims liability understated (Completeness, accuracy and occurrence)	**Work completed to date:** Updated our understanding of the Pension Fund's arrangements for gaining assurance over benefit payments. **Further work planned:** • Perform walkthrough test of controls identified • Controls testing over, completeness, accuracy and occurrence of benefit payments, • Test a sample of individual pensions in payment by reference to member files. • We will rationalise pensions paid with reference to changes in pensioner numbers and increases applied in the year to ensure that any unusual trends are satisfactorily explained.

Other risks identified (continued)

Reasonably possible risks	Description of risk	Audit procedures
Member Data	Member data not correct. (Rights and Obligations)	**Work completed to date:** • Updated our understanding of the Pension Fund's arrangements for maintaining member data. **Further work planned:** • Perform walkthrough test of the controls identified • Review of reconciliation of member numbers • Sample testing of changes to member data made during the year to source documentation

"In respect of some risks, the auditor may judge that it is not possible or practicable to obtain sufficient appropriate audit evidence only from substantive procedures. Such risks may relate to the inaccurate or incomplete recording of routine and significant classes of transactions or account balances, the characteristics of which often permit highly automated processing with little or no manual intervention. In such cases, the entity's controls over such risks are relevant to the audit and the auditor shall obtain an understanding of them." (ISA (UK and Ireland) 315)

Other risks identified (continued)

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK and Ireland) 570). We will review the management's assessment of the going concern assumption and the disclosures in the financial statements.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in the previous sections but will include:

- Management expenses
- Cash deposits
- Level 1 investments
- Actuarial Valuation and Actuarial Present Value of Promised Retirement Benefits
- Financial Instruments

Other audit responsibilities

- We will read the Narrative Statement within Tameside MBC' statement of accounts and check that it is consistent with the statements on which we give an opinion and disclosures are in line with the requirements of the CIPFA Code of Practice.
- We will read the Pension Fund Annual Report and ensure that it is consistent with the Pension Fund Accounts included within Tameside MBC statement of accounts.

Results of interim audit work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

	Work performed	Conclusion
Internal audit	We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention We have also reviewed internal audit's work on the Fund's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.	Overall, we have concluded that the internal audit service provides an independent and satisfactory service to the Fund and that internal audit work contributes to an effective internal control environment. Our review of internal audit work has not identified any weaknesses which impact on our audit approach.
Entity level controls	We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including: • Communication and enforcement of integrity and ethical values • Commitment to competence • Participation by those charged with governance • Management's philosophy and operating style • Organisational structure • Assignment of authority and responsibility • Human resource policies and practices	Our work has identified no material weaknesses which are likely to adversely impact on the Fund's financial statements

The audit cycle

The audit timeline

Key dates:

- Year end: 31 March 2017
- Close out: 7 July 2017
- Management Panel 21 July 2017
- Overview (Audit) Panel 31 July 2017
- Sign off: by 31 July 2017

Audit phases:

- Planning January / February 2017
- Interim w/c 13 March 2017
- Final w/c 12 June 2017
- Completion 31 July 2017
- Debrief September 2017

Planning – Key elements

- Planning meeting with management to inform audit planning and agree audit timetable
- Issue audit working paper requirements to management
- Discussions with those charged with governance and internal audit to inform audit planning
- Discuss draft Audit Plan with management
- Issue the Audit Plan to GMPF Management Panel and Tameside MBC Overview (Audit) Panel

Interim – Key elements

- Document design effectiveness of key accounting systems and processes
- Review of key judgements and estimates
- Early substantive audit testing
- Issue Progress report to management.

Final – Key elements

- Audit teams onsite to complete detailed audit testing
- Weekly update meetings with management

Completion – Key elements

- Issue draft Audit Findings to management
- Meeting with management to discuss Audit Findings
- Issue draft Audit Findings to GMPF Management Panel and Tameside MBC Overview (Audit) Panel
- Audit Findings presentation to GMPF Management Panel and Tameside MBC Overview (Audit) Panel
- Finalise approval and signing of financial statements and audit report

Audit Fees

Fees

	£
Pension fund audit	56,341
IAS 19 fee	5,996
Total audit fees (excluding VAT)	**62,337**

Our fee assumptions include:

- Supporting schedules to all figures in the accounts are supplied by the agreed dates and in accordance with the agreed upon information request list
- The scope of the audit, and the Fund and its activities, have not changed significantly
- The Fund will make available management and accounting staff to help us locate information and to provide explanations
- The accounts presented for audit are materially accurate, supporting working papers and evidence agree to the accounts, and all audit queries are resolved promptly.

Fees for other services

Fees for other services are detailed on the following page, reflect those agreed at the time of issuing our Audit Plan. Any changes will be reported in our Audit Findings Report and Annual Audit Letter.

What is included within our fees

- A reliable and risk-focused audit appropriate for your business
- Invitations to events hosted by Grant Thornton in your sector, as well as the wider finance community
- Ad-hoc telephone calls and queries
- Technical briefings and updates
- Regular contact to discuss strategy and other important areas
- A review of accounting policies for appropriateness and consistency

Independence and non-audit services

Ethical Standards and ISA (UK and Ireland) 260 require us to give you timely disclosure of matters relating to our independence. In this context, we disclose the following to you:

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Auditing Practices Board's Ethical Standards and we confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Auditing Practices Board's Ethical Standards.

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to Greater Manchester Pension Fund*.* The following audit related and non-audit services were identified for the Fund for 2016/17:

Fees for other services to GMPF

Service	Fees £	Planned outputs
Audit related		
None	**Nil**	
Non-audit related		
None	**Nil**	

Grant Thornton UK LLP also provides audit services to:

- Matrix Homes Limited Partnership for audit and accounts fees totalling £11,500*
- Greater Manchester and London Infrastructure Limited Partnership for audit and accounts fees of £9,600*

These are separate engagements outside the remit of Public Sector Audit Appointments Limited.

*** based on previous years audited accounts**

The amounts detailed are fees agreed to-date for audit related and non-audit services (to be) undertaken by Grant Thornton UK LLP (and Grant Thornton International Limited network member Firms) in the current financial year. Full details of all fees charged for audit and non-audit services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

Should any non-audit services be proposed we will ensure these services are consistent with the Administering Authority's policy on the allotment of non-audit work to your auditors .

Communication of audit matters with those charged with governance

International Standard on Auditing (UK and Ireland) (ISA) 260, as well as other ISAs (UK and Ireland) prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table opposite.

This document, The Audit Plan, outlines our audit strategy and plan to deliver the audit, while The Audit Findings will be issued prior to approval of the financial statements and will present key issues and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via a report to the Fund.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK and Ireland), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

This plan has been prepared in the context of the Statement of Responsibilities of Auditors and Audited Bodies issued by Public Sector Audit Appointments Limited (http://www.psaa.co.uk/appointing-auditors/terms-of-appointment/)

We have been appointed as the Fund's independent external auditors by the Audit Commission, the body responsible for appointing external auditors to local public bodies in England at the time of our appointment. As external auditors, we have a broad remit covering finance and governance matters.

Our annual work programme is set in accordance with the Code of Audit Practice ('the Code') issued by the NAO and includes nationally prescribed and locally determined work (https://www.nao.org.uk/code-audit-practice/about-code/). Our work considers the Fund's key risks when reaching our conclusions under the Code.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

It is the responsibility of the Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Fund is fulfilling these responsibilities.

Our communication plan	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	✓	
Overview of the planned scope and timing of the audit. Form, timing and expected general content of communications	✓	
Views about the qualitative aspects of the entity's accounting and financial reporting practices, significant matters and issues arising during the audit and written representations that have been sought		✓
Confirmation of independence and objectivity	✓	✓
A statement that we have complied with relevant ethical requirements regarding independence, relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	✓	✓
Material weaknesses in internal control identified during the audit		✓
Identification or suspicion of fraud involving management and/or others which results in material misstatement of the financial statements		✓
Non compliance with laws and regulations		✓
Expected modifications to the auditor's report, or emphasis of matter		✓
Uncorrected misstatements		✓
Significant matters arising in connection with related parties		✓
Significant matters in relation to going concern	✓	✓

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Report To:	**Pension Fund Management Panel/Advisory Panel**
Date:	10 March 2017
Reporting Officer:	Sandra Stewart, Executive Director of Pensions Emma Mayall – Pensions Policy Manager
Subject :	**PENSIONS ADMINISTRATION REVIEW & UPDATE**
Report Summary:	This report provides a summary of key data and information relating to the administration of the Fund, including: - Statistics on membership, employers and costs - Communication activities - Complaints, and - Risk management The report also highlights a number of areas where new regulations, legislation or guidance is expected and where this is likely to have an impact on Fund administration going forward.
Recommendation(s):	That the Panel note the report.
Financial Implications: **(Authorised by the Section 151 Officer)**	The administration cost per member for 2015/16 was £15.26 per annum, as determined through the annual CIPFA benchmarking exercise completed early in the year. GMPF's costs and those of the average LGPS fund have remained reasonably stable over a number of years.
Legal Implications: **(Authorised by the Solicitor to the Fund)**	There are no direct legal implications to consider.
Risk Management:	There are no key risks to highlight.
ACCESS TO INFORMATION:	**NON-CONFIDENTIAL** **This report does not contain information that warrants its consideration in the absence of the Press or members of the public.**
Background Papers:	For further information please contact Emma Mayall, Greater Manchester Pension Fund, Guardsman Tony Downes House, 5 Manchester Road, Droylsden, email: emma.mayall@gmpf.org.uk

1. BACKGROUND AND INTRODUCTION

1.1 Public sector pension schemes, including the LGPS, have undergone considerable change over recent years.

1.2 Changes to the benefits package, auto-enrolment and the introduction of academies are some of the changes that have had a direct impact on how the Fund administers pension benefits.

1.3 This report provides some key statistics on membership, employers and costs, and highlights the impact that some of those changes have had.

1.4 The role of the Pension Regulator has also become relevant to public sector pension schemes with the introduction of the Regulator's 'Code of Practice 14 – Governance and Administration of Public Service Pension Schemes'. This has led to the Fund making a number of changes so that it can demonstrate its compliance with the Code.

1.5 This report provides details on communication activities, complaints and risk management, all of which are covered by the Code.

1.6 Going forward, new regulations and legislation are likely to lead to further change. These anticipated changes and their likely impact on administration are therefore also highlighted in this report.

2. MEMBERSHIP STATISTICS

2.1 The charts in **Appendix 1** show the number of active, deferred and pensioner members in the Fund over recent years.

2.2 The impact of austerity, resulting in employers reducing their staffing levels, can be seen in the chart showing employee membership levels between 2009 and 2013. The impact of auto-enrolment can be seen, as numbers start to rise again in 2013. The effect of taking on of probation liabilities in 2014 and 2015 can be seen in all charts.

2.3 It is anticipated that the level of employee members' will decrease over time due to many employers having closed access to the LGPS to new employees. However, the downward trend may be partially offset in the short-term by increases in membership due to auto-enrolment.

3. EMPLOYER STATISTICS

3.1 The charts in **Appendix 2** show the number of employers with employee members contributing to the Fund over the last five years, broken down into admission bodies, academies and other scheme employers.

3.2 The impact of scheme employers outsourcing their services to other providers can be seen in the rise of the number of admission bodies over recent years. The effect of government policy relating to schools can be seen in the increase number of academies.

3.3 The Fund currently has 59 employer admission requests in progress at various stages of the process.

4. COST ANALYSIS

4.1 The administration cost per member for 2015/16 was £15.26 per annum, as determined through the annual CIPFA benchmarking exercise completed early in the year. The time analysis chart in **Appendix 3** shows GMPF's total cost since 2011. This illustrates that GMPF's costs and those of the average LGPS fund have remained reasonably stable over a number of years.

5. COMMUNICATION

5.1 The Fund issued over 91,000 annual pension forecast statements to deferred members between May and August and over 106,000 to employee members. Over 270 pensions saving statements were also issued to those needing details of their pension pots for annual allowance purposes.

5.2 Other communication tools, such as the members guide and website, continue to be produced and updated. The GMPF Helpline team deal with around 50,000 calls each year from scheme members, employers and others. Other methods of communication are being developed or explored to ensure information is readily available and accessible in a format that enables people to engage effectively with the Fund.

6. COMPLAINTS

6.1 It is a statutory requirement of the LGPS to have a formal internal dispute resolution procedure, referred to as IDRP. The Scheme regulations determine much of the process. Stage 1 cases relates to disputes with the administering authority only.

6.2 During the period July 2015 to June 2016, 23 stage 1 appeals were received. 17 of these were rejected, 3 were resolved, 2 were upheld and 1 was still ongoing.

6.3 The main causes of concern for scheme members related to:

- death grant disputes
- conflicting advice regarding benefits
- transfer requests, and
- AVC queries

7. RISK MANAGEMENT

7.1 Risk registers are in place for each of the key functions within GMPF and are reviewed regularly. The adequacy of internal controls is reviewed by the Internal Audit Service, who provides a comprehensive risk management and internal audit service to the Fund. The Fund also uses the Internal Audit Service to monitor employer performance.

7.2 Audits that are currently taking place or have been carried out recently relating to administration include those on pension payroll, the Altair pension system and employer admission agreements.

8. ANTICPATED FUTURE CHANGES AND LIKELY IMPACT

8.1 It is expected that LGPS amendment regulations will be made in the coming months, introducing a number of changes.

8.2 The main one of these is around Fair Deal. Fair Deal is a non-statutory policy setting out how pension issues are to be dealt with when employees are compulsorily transferred from the public sector to independent providers delivering public services. This is likely to have an impact on the number of new admission body application requests received.

8.3 Government has also been reviewing post-16 education and training. As a result, a number of colleges are expected to either merge, be dissolved or convert to academy status. This will also have an impact on work relating to Fund employers.

8.4 The work of the Scheme Advisory Board and the Pensions Regulator are both likely to influence Scheme and Fund governance related tasks. Reviews on academies and employer covenants are likely to be progressed.

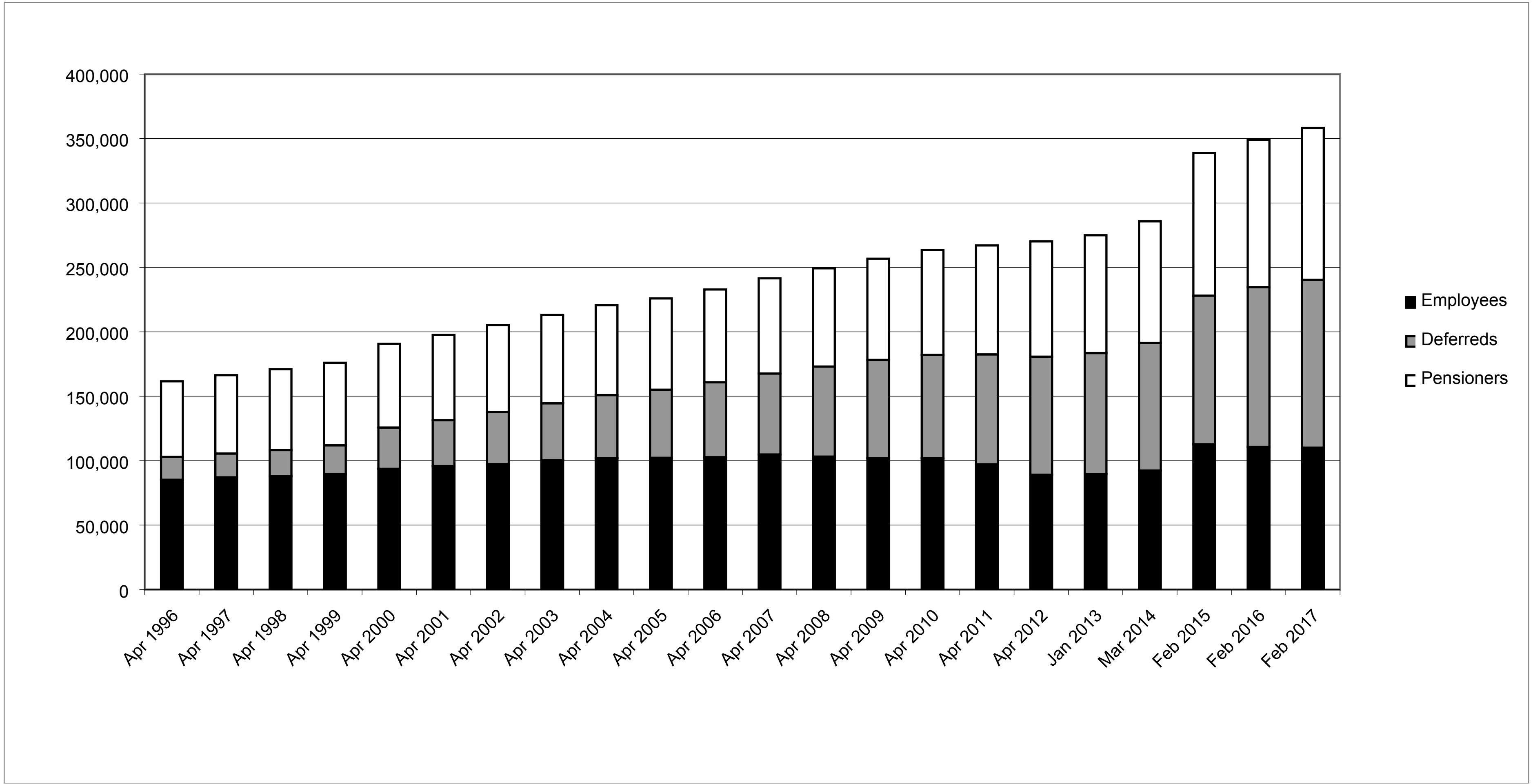
8.5 The results of consultation exercises on Guaranteed Minimum Pensions, public sector exit payments and pension scams are also likely to have an impact on Scheme administration going forward.

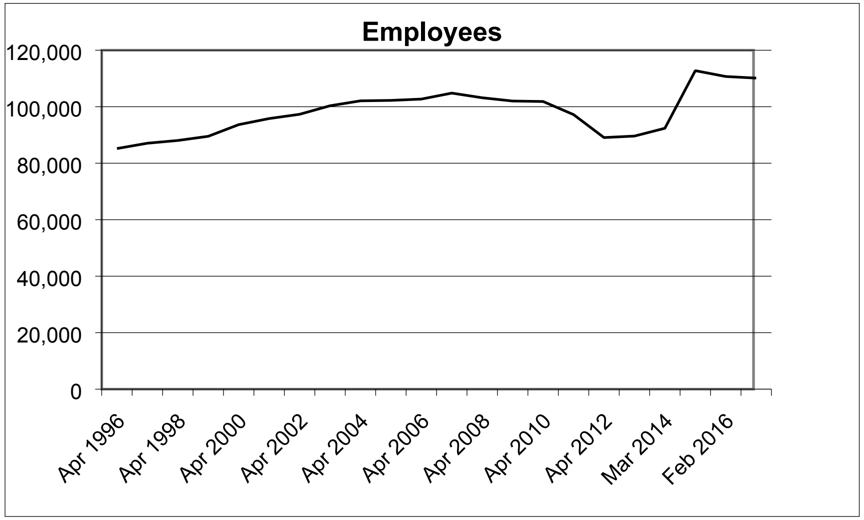
9. RECOMMENDATION

9.1 That the Panel note the report.

APPENDIX 1

Membership Statistics




Employees
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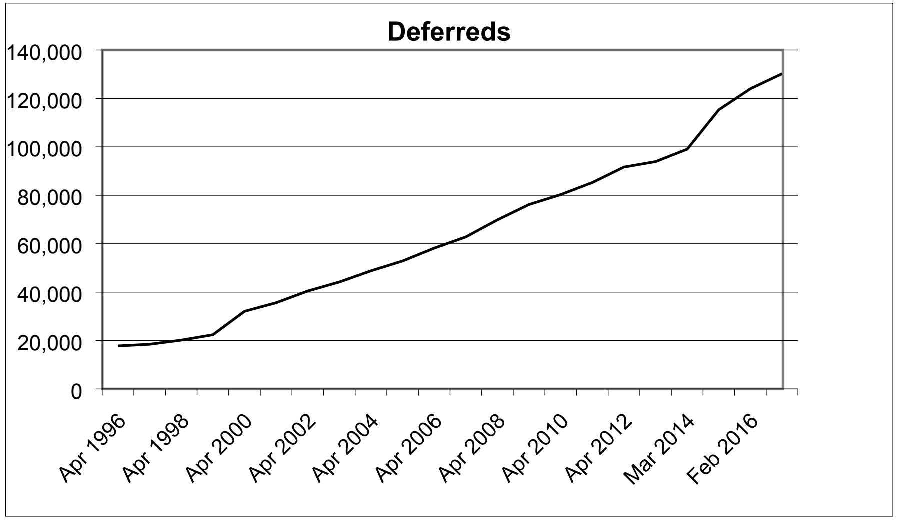
100,000
80,000
60,000
40,000
20,000
0
Apr 1996
Apr 1998
Apr 2000
Apr 2002
Apr 2004
Apr 2006
Apr 2008
Apr 2010
Apr 2012
Mar 2014
Feb 2016


Deferreds
140,000
120,000
100,000
80,000
60,000
40,000
20,000
0
Apr 1996
Apr 1998
Apr 2000
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Apr 2006
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Apr 2010
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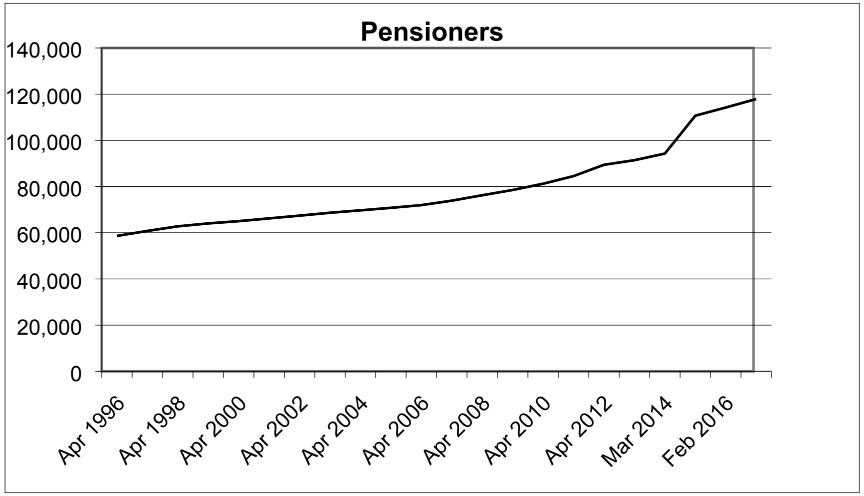
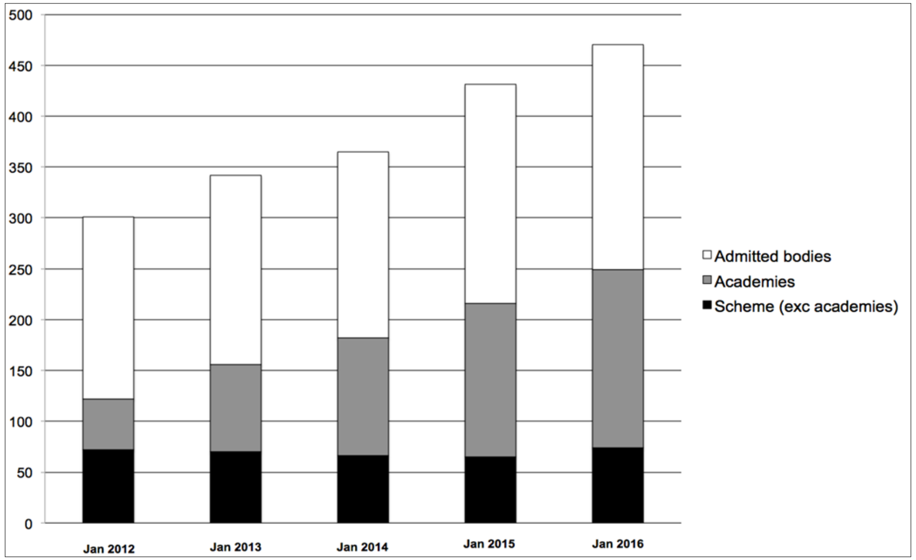
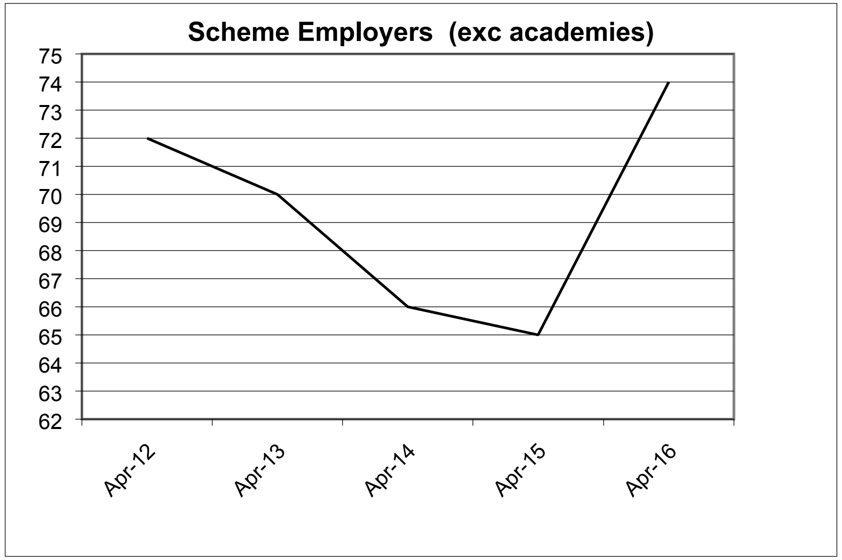
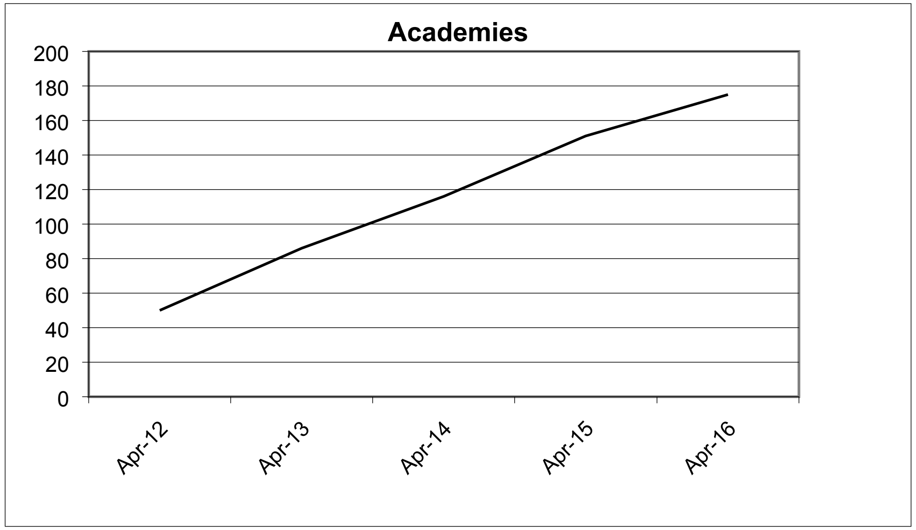

Pensioners
140,000
120,000
100,000
80,000
60,000
40,000
20,000
0
Apr 1996
Apr 1998
Apr 2000
Apr 2002
Apr 2004
Apr 2006
Apr 2008
Apr 2010
Apr 2012
Mar 2014
Feb 2016

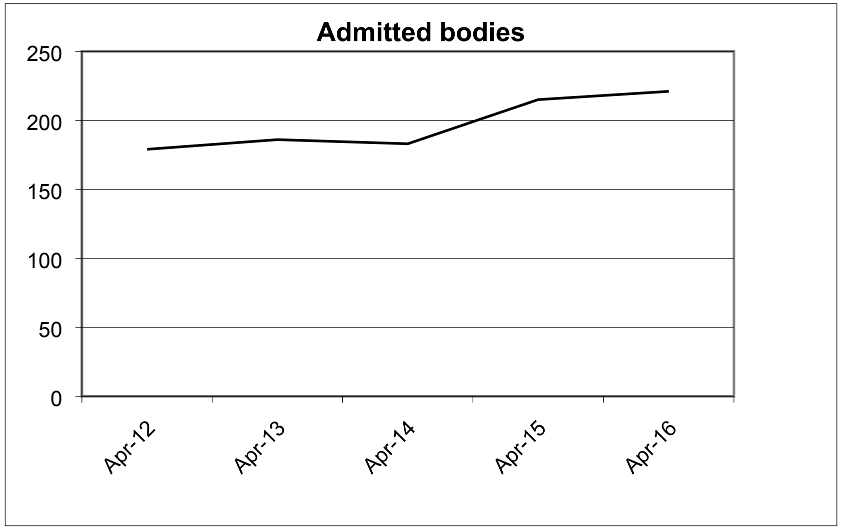
APPENDIX 2

Employer Statistics









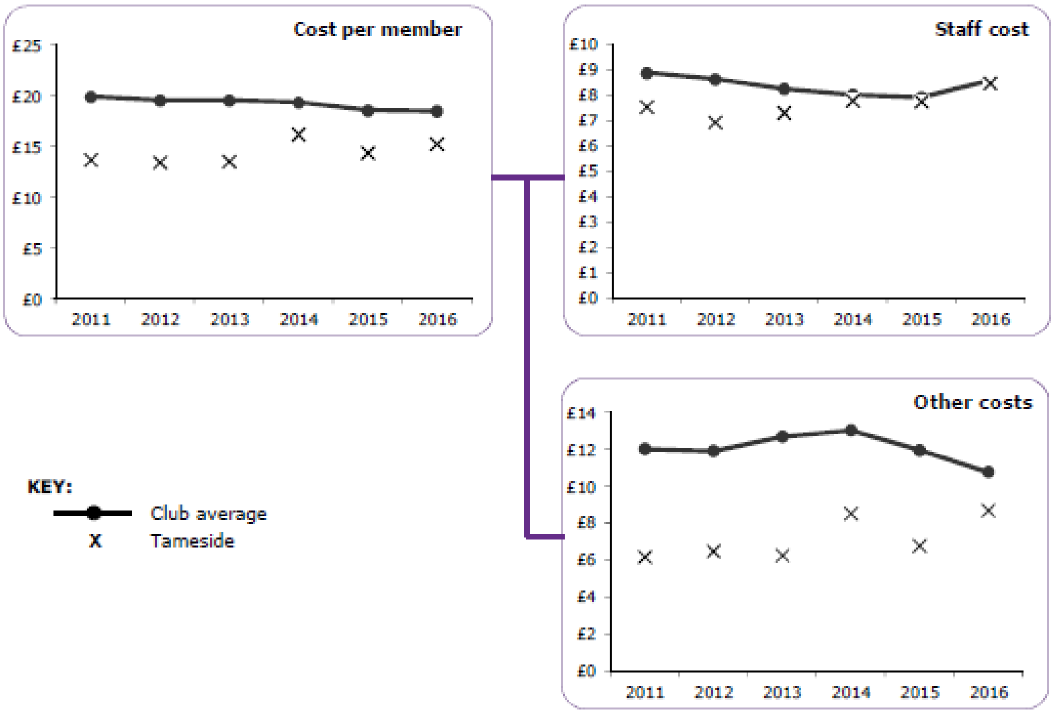
APPENDIX 3

CIPFA benchmarking cost analysis

SECTION 7 - TIMESERIES

The 2016 averages are the actual club averages.

For previous years, the averages shown here are scaled up or down from the 2015 figure based on the average rate of change in each year. This is calculated using data from members who supplied figures in consecutive years, otherwise the simple average in each year would be distorted by changes in the composition of the club from year to year.



Time series analysis	2011	2012	2013	2014	2015	2016
Members	267,380	270,174	277,258	287,118	342,776	351,770
Net cost (£'000)	3,668k	3,631k	3,768k	4,652k	4,936k	5,368k
Cost per member	£13.72	£13.44	£13.59	£16.20	£14.40	£15.26
Average	*£19.93*	*£19.57*	*£19.57*	*£19.36*	*£18.57*	*£18.51*
Staff cost	£7.54	£6.94	£7.32	£7.79	£7.76	£8.48
Average	*£8.89*	*£8.64*	*£8.26*	*£8.03*	*£7.92*	*£8.58*
Other costs	£6.17	£6.49	£6.27	£8.52	£6.78	£8.70
Average	*£12.03*	*£11.91*	*£12.69*	*£13.04*	*£11.96*	*£10.77*