GREATER MANCHESTER PENSION FUND ADVISORY PANEL

11 December 2020

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

Present: **Councillor Warrington (Chair)**

Councillors: Andrews (Manchester), Barnes (Salford), Cunliffe (Wigan), Grimshaw (Bury), Jabbar (Oldham), Mitchell (Trafford), O'Neill (Rochdale), and Taylor (Stockport)

Employee Representatives:

Ms Fulham (UNISON), Llewellyn (UNITE), McDonagh (UNISON) and Thompson (UNITE)

Fund Observers:

Councillors Pantall (Stockport) and Ryan

Local Pensions Board Members (in attendance as observers):

Councillor Fairfoull

Mark Rayner

Advisors:

Mr Bowie, Mr Moizer, Mr Powers and Ms Brown

Apologies for absence: **Councillor Parkinson (Bolton), Mr Drury (UNITE) and Mr Flatley (GMB)**

41. CHAIR'S OPENING REMARKS

The Chair welcomed everyone to the meeting and began by announcing the resignation of Councillor Jim Fitzpatrick from the Fund, after a decade of service owing to the fact he is unable to dedicate the time that he believes it requires because he needs to spend more time on his business - during these difficult and challenging times. The Chair commented that we would miss his contribution but she respected his decision, because all the Management Panel and Advisory members knew how important it is to make the necessary time to attend the meetings and ensure spend the time ensuring sufficient knowledge to undertake the role. She noted that it is a privilege to be a trustee and ensure that we protect the benefits of hard working members so they can enjoy retirement in dignity. The Chair commentated that I am sure we would all agree Cllr Fitzpatrick had done just this, and served our members well, being an effective steward of the Fund. She formally thanked Councillor Fitzpatrick for his significant contribution and dedication and commitment to the Fund over the last 10 years.

The Chair further commented on a challenging year for everyone and the approval of the new vaccine for use in the UK signalled what was hoped to be the start of the end for the pandemic that had affected so many people.

The Chair was very pleased to announce that the Fund was declared the joint winners of the LAPFF Scheme Administration award for the second year running at the virtual awards ceremony, which had taken place on 2 December 2020. She congratulated everyone involved for this phenomenal achievement.

Reference was made to the Fund's commitment and approach to being efficient and effective whilst achieving value for money and explained that this would be reflected to the CEM Benchmarking item on the agenda, where representatives of CEM would be reporting on the Fund's performance and costs in both administration and investments and how it compared in both areas, on a global level.

The Chair reported that over recent months, there had been a strong rise in stock markets driven by announcements in relation to COVID vaccines. The US election result and evidence of a strong economic recovery in China had also helped. The value of the Fund today stood at over £26 billion, which was a record high and, despite the recent turbulent times, it was noteworthy that the Fund had increased in value by £10 billion over the last 4 years. In addition to positive returns in an absolute sense, there were also encouraging signs from the Fund Managers of positive relative performance.

Further reference was made to the United Nations COP26 climate conference that the UK was hosting in Glasgow in 2021, and calls for the government to create conditions for carbon neutral investment. The Prime Minister released his 10 point plan and there were encouraging announcements from other governments such as China, Japan and South Korea.

The Chair was also pleased to advise, following on from the last meeting of the Panel, that through the leadership of Northern LGPS, the Fund had become a 'Make My Money Matter' pledge partner as part of the commitment to sustainable investment and assist members understanding of the importance of knowing where their pensions were invested. 'Make My Money Matter' shared the view that pension assets could be invested to create a sustainable, better future without compromising on returns. This included meeting the Paris Agreement to achieve net zero carbon emissions by 2050 and exploring the feasibility of a 2030 target in line with the Intergovernmental Panel on Climate Change 1.5-degree pathway. By raising awareness and engaging members with their pensions, 'Make My Money Matter' sought to align the investment of trillions of pounds in assets with building a better world.

The partnership with 'Make My Money Matter' was part of a much wider environmental, social and governance (ESG) investment strategy, incorporating numerous initiatives, which comprised its approach to climate change. Active shareholder engagement was critical to the Fund's commitment to achieving net zero carbon emissions by 2050. This year alone, the Fund had engaged with companies around the globe to urge them to make real commitments to tackling climate change and encourage greater transparency and reporting.

The Fund were committed to ensuring a Just Transition to a zero-carbon economy. Representing beneficiaries in the north of the England, there was a need to ensure that companies properly considered the interests of employees and communities as part of the transition. Initiatives that created both a greener and financially viable future were supported.

As co-founder of GLIL Infrastructure alongside the London Pensions Funds Authority, the Fund had created a unique asset owner-led infrastructure vehicle that ensured that costs were kept low. GLIL was aligned with responsible investment objectives and was an investor in green energy projects that benefited the UK economy. GLIL owned a majority position in the Clyde Wind farm – one of the largest onshore facilities in Europe – and in December bought a 49% stake in Cubico Sustainable Investments, which would develop renewable energy sources in the UK.

The Chair advised that the Fund were an active supporter of the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures as led by Mark Carney former Governor of the Bank of England. Understanding the impact of investment decisions on climate change was critical in meeting the twin objectives of creating a greener future while delivering value to members.

Richard Curtis, co-founder, of 'Make My Money Matter' said: "*It's exciting to see the Northern LGPS, one of Britain's largest public pension funds working to tackle the climate emergency, commit to partnering with Make My Money Matter to push this vital agenda forward. Combined with Nest, Aviva, BT and South Yorkshire, that's £152bn saving to create a future we all want to retire into*."

The Chair further advised that the Local Authority Pension Fund Forum, which had Cllr Cooney and the Assistant Director of Pension Fund Investments, Tom Harrington, on its executive - announced that it would be supporting a “Say on Climate” initiative.

In advance of the five-year anniversary of the Paris Climate Agreement this Saturday, the Forum announced its support for the ‘Say on Climate’ initiative, which encouraged all listed companies to submit a Climate Transition Action Plan to a shareholder vote at their AGMs. The Forum considered that companies’ failure to manage climate risk presented a significant threat to shareholder value. Members had been filing resolutions on environmental and climate issues since 1997. However, shareholders’ ability to use their voting rights to specifically address climate change remained very limited at the present time.

The Fund believed that filing resolutions at a limited number of companies of high carbon impact was no longer enough. All listed companies needed to present a clear strategy for reducing their entire carbon footprint (across scopes one, two & three) on which investors could vote on annually at the AGM.

It was believed this presented an opportunity for shareholders to effectively hold companies to account on climate and to affect real change. It was further believed that asset owners and managers should incorporate ‘Say on Climate’ into their investment and voting policies, and where investee companies did not voluntarily put an action plan to shareholders for approval, consider filing or co-filing ‘say on climate’ resolutions. Therefore, the Fund would be endorsing the Forum advocating for a mandatory ‘say on climate’, which would mean that regulation would ensure this opportunity would be on every listed companies’ AGM ballot.

42. DECLARATIONS OF INTEREST

There were no new declarations of interest submitted by Members.

43. MINUTES

The Minutes of the proceedings of the meeting of the Pension Fund Advisory Panel held on 18 September 2020 were signed as a correct record.

The Minutes of the proceedings of the meeting of the Pension Fund Management Panel held on 18 September 2020 were noted.

44. 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
8, 9, 10, 11, 12, 13, 14, 15, 16, 21, 22, 23, 24, 25, 26, 27, 28, 29, 30, 31	**3&10, 3&10, 3&10, 3&10, 3&10, 3&10, 3&10, 3&10, 3&10, 3&10, 3&10, 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 stakeholders and/or tax payers.**

45. LOCAL PENSIONS BOARD

The Chair of the Local Board Councillor Fairfoull advised that the Board had a very engaging meeting in October, with discussion taking place on the latest administration updates such as progress on investigating and implementing a new call centre functionality and GMPF taking part in the Pension Dashboards Programme data working group as the LGPS fund representative.

Members reflected on business continuity in the context of Covid-19 noting that most processes continued to occur without issue. For example, processing times for all payments were within internal targets and pension savings statements had been issued to those who exceeded the annual allowance.

The public sector exit payments cap and the new employer flexibilities were vigorously discussed also and these would be discussed further as part of the meeting agenda today.

As at each meeting, the monitoring of the late payment of contributions or late submissions of data from employers, was reviewed. Given the current economic difficulties it was encouraging that so far, there had been little evidence of more employers paying late.

RECOMMENDED
That the Minutes of the proceedings of the Local Pensions Board held on 1 October 2020 be noted.

46. INVESTMENT MONITORING AND ESG WORKING GROUP

The Minutes of the proceedings of the meeting of the Investment Monitoring and ESG Working Group held on 2 October 2020 were considered.

The Chair of the Working Group, Councillor Cooney, explained that the Fund's responsible investment advisor, PIRC, had attended the meeting and presented their 2020 Consultation 'Pay for a New World', which had been sent to the 350 largest listed companies in the UK. PIRC outlined their five principles for a new approach to executive pay, as in their view, the current approach was not fit for purpose.

Officers gave an update on the Fund's latest feedback on its approach to responsible investment, as a member of the UN backed Principles for Responsible Investment. A highlight was the Fund's A+ top score for its overarching strategy and governance.

Avison Young attended the meeting and gave an informative overview of the Property Venture Fund portfolio. The focus for the coming year would be on affordable and suburban housing, and sustainability and zero carbon.

Finally, Officers provided a summary of updated independent research, which the Fund had commissioned. The research investigated the Manchester City Centre residential property market.

RECOMMENDED
That the minutes be received as a correct record.

47. ADMINISTRATION AND EMPLOYER FUNDING VIABILITY WORKING GROUP

The Minutes of the proceedings of the meeting of the Administration and Employer Funding Viability Working Group held on 2 October 2020 were considered

The Chair of the Working Group, Councillor Smith, advised that the Working Group were updated on the progress of sending Annual Benefit Statements and Pension Savings Statements out to members. All benefits statements were issued by the statutory deadline except for a small number where there were outstanding queries with employers. The same was true of Pension Saving Statements.

The latest statistics on My Pension were also discussed. Over 131,200 members had now registered for the online service and this was set to increase as more services became available via My Pension. The Communications team were preparing a range of campaigns that would be run regularly to continue promoting My Pension and its benefits and help ensure that as many members as possible transitioned to accessing pension information online.

GMPF's administration expenditure was reviewed, which was within the forecast budget for 2020/2021. There were some savings produced by staff predominantly working from home such as reduced travel expenditure.

As usual, the administration strategic service update and updates relating to member services, employer services, developments & technologies and communication and engagement, were also reviewed.

RECOMMENDED
(i) That the Minutes be received as a correct record; and
(ii) In respect of the Administration Strategic Service Update, that GMPF take part in the next phase of the Pensions Dashboard Project.

48. POLICY AND DEVELOPMENT WORKING GROUP

The Minutes of the proceedings of the meeting of the Policy and Development Working Group held on 26 November 2020 were considered.

The Chair of the Working Group, Councillor Warrington, advised that representatives of MSCI attended the meeting and presented a very informative update on the Fund's property performance. Members and Advisors discussed the impact of COVID 19 on the property portfolio and deliberated how the sector might evolve in a post COVID world.

Officers presented a report setting out a project plan for the use of the Northern LGPS framework for property management and deployment into property. The timetable included extensive consultation with Advisors, and Panel would be asked to decide on final options in March and these would be implemented immediately after.

Ninety One Asset Management attended the meeting and presented on their performance since inception, and in particular over the last 12 months. This gave Members and Advisors an opportunity to probe the manager's underlying process and philosophy. An update on the manager was included later in the agenda within the Performance Dashboard.

RECOMMENDED
That the Minutes be received as a correct record.

49. RESPONSIBLE INVESTMENT UPDATE Q3 2020

The Assistant Director of Pensions Investments, submitted a report providing Members with an update on the Fund's responsible investment activity during Q3 2020.

It was explained that the Fund was a signatory to the Principles for Responsible Investment (PRI). As a signatory to the PRI, the Fund was required to publicly report its responsible investment activity through the PRI's 'Reporting Framework'.

Upon becoming a PRI signatory, the Fund committed to the following six principles:

1. We will incorporate ESG issues into investment analysis and decision making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles

A summary of the Fund's Responsible Investment activity for Q3 2020 against the six PRI principles was detailed in the report.

Details of GMPF's Responsible Investment partners and collaborations were appended to the report.

RECOMMENDED
That the content of the report be noted.

50. CEM BENCHMARKING

Consideration was given to a report of the Assistant Director of Pensions Investments and the Assistant Director of Pensions Administration, providing Members with an update on investment management cost benchmarking for the Fund over 2019/20. In addition, CEM had, provided a report analysing and benchmarking the Fund's administration costs and member services, an update on which was provided in the report. John Simmonds of CEM Benchmarking also delivered a presentation.

In respect of GMPF CEM Investment Cost Analysis 2019/20, it was reported that GMPF had generated underlying savings of 0.08% (£17 million) in 2019/20.

CEM had also benchmarked GMPF's costs against a peer group of 17 relatively similar sized global funds (including LGPS funds and non-LGPS funds) and GMPF was 0.11% (£23 million) lower cost than the benchmark.

With regard to GMPF CEM Administration costs and service score analysis 2019/20, it was reported that GMPF was a high service, low cost provider relative to its peers, with GMPF's total cost per member being £16.92, which was £9.72 below the peer average of £26.64.

Advisors commented on the lack of transparency of some other LGPS funds and how this impacted the work of CEM in accurately evidencing the work undertaken on costs.

The Chair thanked Mr Simmons for a very informative and interesting presentation.

RECOMMENDED
That the content of the report and presentation be noted.

51. INVESTMENT MANAGEMENT ARRANGEMENTS

The Assistant Director of Pensions Investments submitted a report, which considered the Fund's Investment Management arrangements and the appointments of the Fund's external active Securities Managers. A presentation was also delivered by Elaine Torry of Hymans Robertson.

It was explained that the Investment Management arrangements of the Fund reflected a wide range of significant decisions concerning how the Fund chose to position itself in terms of the management of its assets. These significant decisions included, inter alia, a consideration of the choice of benchmark and the detail of any bespoke benchmark, and whether, for example, to adopt active versus passive management or specialist versus multi-asset management.

This report and presentation detailed progress against those areas deemed high priority, namely;

- Value investing' and GMPF's beliefs around Factor Investing more widely;
- The use of 'stepping stone' assets in relation to the allocations to Alternatives;
- UBS UK Equity Active Risk limit; and
- GMPF's holding in the UBS Global Emerging Markets (GEM) Fund.

Officers planned to undertake further work against those other areas identified as 'areas of focus' in the initial Review of Investment Management Arrangements report considered at the 19 September 2020 meeting of the Panel, and report back to future Panel meetings.

The Advisors commented on Value Investing and how the Value factor had performed and the need to maintain a long term approach for this investment style.

The Chair thanked Ms Torry for a very informative presentation.

RECOMMENDED
That the content of the report and presentation be noted.

52. PERFORMANCE DASHBOARD

Consideration was given to a report of the Assistant Director of Pensions Investments, providing high level, investment performance information, including the value of the Pension Fund Investment Portfolio, the performance of the Main Fund, and the over/under performance of the external Fund Managers against benchmark.

The key information from the Quarter 3 (2020) Performance Dashboard was summarised. Q3 2020 was characterised by a sense of optimism on the development of a COVID-19 vaccine and more importantly, by the gradual re-opening of economies after months of being in some form of lockdown. The aggressive stimulus and policy response across central banks and the fact that economic data had bottomed out quicker than feared, helped drive risk sentiment for much of the quarter.

Equity and bond markets rose in Q3 amid a post-lockdown rebound in economic activity, a better than expected earnings season, optimism over vaccine trials and declining COVID-19 infections in the US and Europe. However, political uncertainty, on both sides of the Atlantic, and a resurgence of COVID-19 infections saw volatility rise, credit spreads widen and markets slip back in September. The US Federal Reserve's announcement of a more flexible policy regime, which suggested interest rates were likely to remain low for some time, resulted in a weaker dollar, as well as helping equity markets.

The Bank of England continued to send mixed messages on the potential use of negative interest rates, but an operational review was ongoing and market pricing, at least, suggested negative interest rates may be introduced in 2021. In addition, oil prices slid back towards the US$40 per barrel level, suggesting inflation would remain benign.

Nonetheless, global equity markets produced strong positive total returns over the quarter. A notable outlier was the UK equity market which underperformed relative to overseas equity markets. With regards the sectoral pattern of performance: apart from oil & gas and financials, cyclical stocks generally outperformed more defensive stocks. Technology once again outperformed, extending its large year-to-date lead at the top of the performance rankings while oil & gas significantly underperformed, cementing its place at the bottom.

Most fixed income (bonds) asset classes also posted positive returns in local currency terms. Given the overall risk-on sentiment, sovereign bond yields rose, and credit spreads moved well below end-June levels. Corporate bonds fared better than government bonds with high yield outperforming investment grade, followed by developed market government bonds and emerging market debt. Defaults continued to rise but had so far mostly been contained in the troubled US energy and retail sectors.

Meanwhile, expectations for peak default rates eased over the quarter as supportive market conditions had allowed companies to raise new finance, bolstering their ability to navigate the downturn.

Over the quarter total Main Fund assets increased by £44 million to £23.3 billion. Allocations to alternative assets, whilst increasing, remained below their long-term targets. Funding continues apace with allocations expected to increase further over the coming years. Following the review of Investment Strategy, further changes to the ‘realistic’ strategic allocations to alternatives were made in Q3 2020. Within the Main Fund, there was an overweight position in cash (of around 1.2% versus target respectively). The property allocation continued to be underweight (by around 3.0%) versus its benchmark. This was offset by an overweight position in equities.

On a cumulative basis, over the period since September 1987, the Main Fund had outperformed the average LGPS, equating to over £2.8 billion of additional assets.

The Main Fund underperformed its benchmark over Q3 2020. Relative performance over 1, 3 and 5 years was now negative. The Main Fund was broadly in line with its benchmark over 10 years and performance since inception remained strong.

Active risk of the Main Fund was broadly consistent at around 1% over 1, 3, 5 and 10 years. Risk in absolute terms (for both portfolio and benchmark) increased substantially over Q1 2020 and remained above that observed historically. This was largely a reflection of the significant volatility seen in markets due to the coronavirus pandemic. Whilst risk was expected to remain elevated, it had reduced over Q3 2020 and was expected to moderate over the coming months as the effects of the pandemic subsided.

As at the end of Quarter 3; two of the Fund’s active securities managers had underperformed their respective benchmarks whilst one manager outperformed its benchmark. Over a three year period, all three of the managers had underperformed their respective benchmarks, although in the case of one manager, the underperformance had been marginal. The long-term performance of one manager remained strong, however, performance over the past 2 years had been poor, resulting in negative relative performance over 1, 3 and 5 year periods. The performance history of the Factor Based Investing portfolio was extremely short (less than 1 year), so at this very early stage no conclusions could be drawn with regard to performance.

RECOMMENDED
That the content of the report be noted.

53. COVID 19 RISK MANAGEMENT AND BUSINESS PLANNING

Consideration was given to a report of the Director of Pensions providing an update on current business continuity risks and plans in light of the coronavirus pandemic.

Members were informed that business continuity arrangements remained essentially unchanged from those outlined at previous meetings of the Panel. There were several key areas of risk that continued to be closely monitored. There were also areas where plans were being put in place to ensure work continued to be carried out effectively.

The health and wellbeing of colleagues continued to be a high priority, particularly as to how to maintain good physical and mental health and thus performance. A number of events and sessions had been put in place for staff, which have been welcomed. Work was also underway to expand GMPF's use of Microsoft Teams to further support homeworking and strengthen business continuity arrangements.

The Senior Management Team had continued to monitor communications issued by pension industry partners and linked organisations, and to attend webinars and similar online events in order to keep up to date with the latest news and thinking.

Each Assistant Director then addressed the Panel and gave an update with regard to the current situation in their area of the service as follows:

Administration – the Assistant Director of Pensions Administration reported that the day to day running of the section and the completion of tasks remained essentially unchanged. Most activities were being carried out as normal and completed within the usual timescales**.**

Unfortunately, the statistics showed that the number of deaths occurring between April - October 2020 was around 20% higher than those recorded in the previous year. March and April 2020 saw a large increase compared to previous years, however, since May 2020 the figures had returned to more expected levels. It should be noted though that the figures currently recorded for September and October 2020 were likely to increase as cases for deaths occurring in these months continued to be processed. A likely increase in deaths from September was indicated in the case numbers, where a substantial rise in cases to be processed could be seen.

As predicted, there had also been an increase in the number of enquiries and requests from deferred members looking to access their benefits. Also, the number of contributing members had reduced between April and November 2020 by just over 1,700, resulting in an increase in the number of benefits on hold cases needing to be processed.

Processing times for all payments remained within internal targets, however the unpredictable variations in workloads at present together with the impact of projects such as the requirement to issue annual benefits and pension saving statements and the time spent on improving procedures to make more correspondence available to members online had impacted slightly on other internal targets, although overall performance levels remained very high.

Work on other key projects had also continued. There had been further enhancements to the functionality within My Pension, 289 pension savings statements were issued to those who exceeded the annual allowance by the deadline of 6 October 2020 and work on several IT projects, including work to procure greater telephony and contact centre functionality, had all been progressing well.

The main areas of risk that continued to be closely and regularly monitored were around resource, staff wellbeing, system availability and cyber security. In particular, the likelihood of changes to workloads and their volatility had increased due to the number of leavers received and further anticipated in the coming months.

As the current situation continued and then changed, one of the main challenges for the section would be to ensure the changes were managed effectively and had minimal impact on service delivery.

Employer Funding – The Assistant Director of Pensions, Funding and Business Development, reported that, whilst many GMPF employers were likely being severely impacted by the ongoing economic restrictions, as yet there were no confirmed employer insolvencies. However, it remained likely that some GMPF employers would face insolvency over the next few months as Government support measures were unwound.

The impact of the ongoing economic restrictions would vary considerably between different sectors. Sectors expected to be severely impacted, or where considerable uncertainty remained included sport/leisure providers, employers in the travel sector and higher education.

There had been no noticeable change to the timeliness of contribution payments from employers and this continued to be regularly monitored and reported to the Local Pension Board.

Wherever possible, employer funding plans were tailored to the funding risk of the employer. Therefore, employers that were not tax-raising bodies or that did not have a guarantee from a tax-raising body tended to have a higher funding level and/or lower risk investment strategy. This reduced the risk of GMPF incurring material losses on unexpected employer cessation events.

Local authorities had been notified of the risks of acting as guarantor to GMPF admission bodies.

Another unwelcome constraint for public-sector employers was the implementation of the exit payments cap prior to the LGPS regulations being amended to facilitate this. It would be extremely difficult for public-sector employers to implement wide-scale workforce restructuring until the conflict between the two sets of regulations had been resolved.

Investments – The Assistant Director of Pensions Investments provided provisional valuation and performance data for periods to 31 October 2020 and actual performance data for the quarter to 30 September 2020.

From a risk management perspective, a significant update provided since the position set out at the April 2020 meeting of the Management Panel related to cashflow. The Main Fund had a 3.2% strategic allocation to cash. The split was displayed in a table in the report along with the actual allocations as at 31 March 2020 and 31 October 2020.

The availability of actual cashflow data had allowed for experience to 31 October 2020 to be analysed. Although covering only a short period, officers had compared actual cashflow versus that estimated. The forecast of net cashflow requirements at an aggregate level had been broadly correct, albeit experience had shown that the forecast net cash requirements were within 20%-30% (lower) of the prudent estimate.

There was an inherent difficulty in estimating private market cashflows and given current market conditions, there was likely to be a greater variance from month-to-month than had historically been the case. In addition, estimates of net cashflow would be very sensitive to the assumptions made and the use of alternative assumptions could lead to materially different estimates.

As a result of the experience to date, and the ongoing heightened uncertainty, no action was proposed in terms of raising additional cash or investing surplus cash at this stage. This position would be kept under review at forthcoming meetings of the Panel.

Local Investments, Property and Direct Infrastructure/Accountancy and Legal – The Assistant Director of Pensions, Local Investments and Property, explained that for direct property, rental collections continued to be severely impacted by both the underlying economic effects of the crisis and government advice effectively suspending recovery action on rents. This was focused predominantly on the retail sector despite some resumption of activity. The restrictions on recovery action applied until 31 December 2020 and consequently rent collection continued to be adversely affected. It was too early to evaluate future prospects in the light of news of vaccines and some lifting of restrictions but it was fair to assume that there would be more downward pressure on valuations, ahead of any bounce back, as evidenced by recent liquidation announcements in the retail sector.

For development properties, construction remained back at normal speed. The key issues remained working through effects on overall profitability. In the residential market, sales and rentals in suburban areas were very strong. Demand for rental property in city centres remained high but sales were weak.

There was no specific change for the impact of Covid 19 on GLIL or Impact portfolio and Policy & Development Working Group received reports on these portfolios at its meeting on 3 September 2020.

The delivery of Accountancy and Legal services remained consistent with Administration and was going well with very little service disruption as the measures put in to ensure resilience had proved effective. The focus was on anticipating issues ahead and ensuring that this continued, whilst maintaining longer term development of staff and processes. The position with the External Audit of the Accounts was reported on elsewhere on the agenda.

The report concluded by giving details of the risk log for this specific business continuity event and the high level risk register, both of which were appended to the report.

RECOMMENDED
That the content of the report, including the risk register and the controls in place to mitigate each risk, be noted.

54. EMPLOYEE EXIT PAYMENT CAP UPDATE

A report of the Assistant Director of Pensions, Funding and Business Development, was submitted summarising the latest developments regarding the £95,000 cap on exit payments for public sector employees leaving employment and the proposed changes to the LGPS Regulations to facilitate this.

It was explained that on 10 April 2019 HM Treasury opened a consultation on restricting exit payments in the public sector, including local government. The consultation subsequently closed on 3 July 2019. HM Treasury responded to the consultation's findings on 21 July 2020. A link to the response was provided in the report.

On 4 November 2020 HM Treasury's public sector exit payments cap took effect through a statutory instrument. A link to the new regulations was provided and the key points were summarised in the report.

Separately to HM Treasury's general public sector exit payments cap, the Ministry of Housing, Communities and Local Government ('MHCLG') published a Local Government specific consultation, which included proposals on how to introduce the exit cap measures in the LGPS. This consultation was released on 7 September 2020 and was subsequently closed to responses on 9 November 2020. A link to the consultation was provided and the key points were summarised in the report.

Following discussion at the September Management Panel meeting, GMPF submitted a consultation response to MHCLG which was appended to the report with the key points summarised as follows:

- The proposed changes to the LGPS Regulations proportionately impacted lower earning members more than higher earning members. This seemed completely at odds with the stated policy objectives.

- The proposals would significantly increase the administration burden for administering authorities and would make workforce restructuring much more difficult for in-scope employers.
- The proposals would present members with complex choices to make regarding the form of their redundancy package. Many members would be unable to select the correct option for their needs without potentially expensive financial advice.

The draft LGPS amendment regulations remained out for consultation until 18 December and it was not expected that any amendments to the regulations would be made until sometime next year. As a result, there was currently a significant conflict between the LGPS Regulations and the exit payments regulations.

Members were informed that English administering authorities and in-scope employers were, therefore, currently in a difficult position whereby HM Treasury's exit payments cap limited all public sector exit payments to £95,000 whilst the LGPS Regulation 30(7) enforced a contradictory requirement to pay an unreduced pension to a member being made redundant over age 55 regardless of the cost to the employer.

Therefore if GMPF were to continue to pay unreduced pensions in accordance with Regulation 30(7) some employers may be in breach of the exit payments cap. Conversely, GMPF was in breach of Regulation 30(7) if it didn't pay an unreduced pension to a member being made redundant aged over 55.

Luke Hall MP, the Minister for Regional Growth and Local Government suggested in an open letter on 28 October 2020 that members (over 55) being made redundant with an exit package that would, under the current LGPS regulations, be valued in excess of £95,000 be offered a deferred pension or an actuarially reduced early retirement pension.

The LGPS Scheme Advisory Board (SAB) obtained legal advice and produced information for administering authorities and LGPS employers. The SAB's view was that all potential courses of action for administering authorities presented a risk of legal challenge, however the least risk approach where there is a risk of breaching the £95,000 cap was not to make payment of an unreduced pension, but to offer members a deferred pension as per LGPS regulation 6(1) or an immediate reduced pension as per LGPS regulation 30(5).

Strain costs factors and other issues for LGPS Funds and employers were detailed and discussed.

Next steps were proposed as follows:
- GMPF officers continued liaising with employers to ensure the regulatory position was fully understood prior to any redundancy offers being made; and
- The Director of Pensions to respond to the technical consultation on the LGPS amendment regulations (closes 18 December).

Discussion ensued with regard to the updated information provided and Members and employee representatives raised concerns in respect of the conflicting nature of the current regulations.

RECOMMENDED
That the content of the report be noted,

55. NEW REGULATIONS ON EMPLOYER FLEXIBILITIES

The Assistant Director of Pensions, Funding and Business Development, submitted a report updating the Members on the Ministry of Housing, Communities and Local Government's partial response to the review of interim valuations and flexibility on exit payments consultation and the new regulations which came into effect on 23 September 2020.

It was explained that, previously, when an employer's last active member left employment, the employer became an exiting employer under the LGPS Regulations. This led to an exit debt being incurred by the employer or, in certain circumstances, an exit credit being paid to the employer.

Under the new regulations, administering authorities had the flexibility to defer the employer exiting the Scheme when its last active member leaves employment. The new 'deferred employer' status allowed an employer to continue contributing until their existing liabilities were fully funded without accruing any further future service liabilities. The terms and conditions for the deferral arrangements were expected to be set out in a deferred debt agreement.

In practical terms, the new approach would see these employers participate in triennial actuarial valuations and have their assets/liabilities assessed as was the case with normal active employers. It would be up to administering authorities to stipulate the time horizon upon which a deferred employer could meet their obligations. Employers would be expected to comply with normal employer obligations (such as exercise of discretions) and would not be released from their obligations until all liabilities were fully funded or the employer had faced a relevant event (like a new active member joining or the employer becoming insolvent or merged with another entity).

Members were advised that the introduction of deferred employer status would be welcomed by many admission bodies that feared triggering a potentially unaffordable exit debt. There were some employers, predominantly charities, who could not afford an exit debt but equally struggled to meet their ongoing funding obligations.

In terms of spreading exit payments, the amendment regulations had introduced a specific power to allow administering authorities to spread employer exit payments instead of requiring payment via a single lump sum. Arguably, this was something which had previously been achieved in the LGPS through side agreements, but the regulation changes had now given this a firm legal footing. The spreading of exit payments would be helpful for employers who had temporary cashflow problems, but who could afford to pay an exit debt over a period of time.

With regard to next steps, GMPF was awaiting MHCLG's final guidance for administering authorities on the usage of the new employer flexibilities. The guidance was expected imminently.

Once the guidance had been provided, it was likely that GMPF would need to detail a policy on its intended use of the increased employer flexibilities, which would form part of the Funding Strategy Statement (FSS). Any material change to the FSS would require a consultation with employers.

It was explained that a draft policy for GMPF should be available for discussion at the March/April 2021 meetings of the Management Panel, Administration and Employer Funding Viability working group and Local Pensions Board, with the employer consultation potentially starting immediately after those meetings.

The implementation of the policy would constitute an amendment to the FSS and therefore require Management Panel approval. This could potentially be obtained at the summer 2021 meeting. Employers who were considering applying to use the flexibilities could gather information and develop their business case in the intervening period.

RECOMMENDED
That the content of the report and the next steps, as detailed above and in the report, be noted.

56. MULTI-ACADEMY TRUST CONSOLIDATION

Consideration was given to a report of the Assistant Director of Pensions, Funding and Business Development explaining that a Multi Academy Trust ('MAT') which participated in GMPF and several other LGPS funds was seeking to consolidate its LGPS interests in another LGPS fund, in which it did not currently participate. The report provided the Panel with the details of the MAT's proposal and summarised the potential implications of MAT consolidation more generally within the LGPS.

Relevant factors for the Panel to consider were detailed, including:
- Benefits of consolidation to the Multi-Academy Trust;
- Precedents of consolidation within LGPS;
- Potential for future changes to multi-academy trusts and further consolidation;
- Increased administrative complexity for LGPS funds; and
- Indirect impact on other employers

It was noted that GMPF's previous consolidation exercises involved tens of thousands of members and several hundred million pounds of assets and had clearly demonstrable benefits for other GMPF employers due to the economies of scale being generated and improvement in covenant strength. In addition, due to the nature of the employers involved, those exercises were not 'open ended' with the potential for further consolidation exercises to be required in future.

RECOMMENDED
That the Panel does not, as a general rule, support consolidation requests within the academy schools sector, at the current time.

57. LGPS UPDATE

Consideration was given to a report of the Director of Pensions providing the Panel with an update on the latest developments regarding the Local Government Pension Scheme, as follows:
- Public sector exit payments cap
- September 2020 rate of CPI
- Reform to RPI
- Work carried out by the LGA relating to Covid-19
- New employer exit flexibilities
- McCloud Update
- GAD 2020 data collection update
- MAPS Pension Dashboard update
- The Pensions Regulator

RECOMMENDED
That the content of the report be noted, including the potential impact and implications for the LGPS and GMPF.

58. GMPF STATEMENT OF ACCOUNTS AND ANNUAL REPORT 2019-2020 – AUDIT FINDINGS REPORT

The Assistant Director of Pensions, Local Investments and Property, submitted a report updating Members on the progress of the governance arrangements for the audit of GMPF Accounts 2019/20.

It was explained that the auditors had concluded their work and issued a draft Audit Completion Report, (a copy of which was appended to the report), which had been considered by Tameside Audit Panel. The draft Audit Completion report was complementary about the quality of accounts produced, made no recommendations for internal controls and reported no adjustment to accounts. During the audit process there were some improvements and amendments to disclosures made at the suggestion of the auditors.

The report gave an opinion that the financial statements:

- gave a true and fair view of the financial transactions of Greater Manchester Pension Fund during the year ended 31 March 2020, and the amount and disposition of the Pension Fund's assets and liabilities as at 31 March 2020; and
- had been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20.

There was however an "Emphasis of Matter" in the draft audit report as follows:

Emphasis of Matter – Effect of the Covid-19 pandemic on the valuation of property investment assets

> "*We draw attention to notes 2 and 2a of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Fund's property investment assets. As disclosed in note 2 of the financial statements outlining the major areas of estimation uncertainty, the Pension Fund have disclosed their consideration of the impact of their independent property valuers inclusion of a 'material valuation uncertainty' declaration within their reports. This uncertainty arose as a result of the Covid-19 pandemic creating a shortage of relevant market evidence upon which to base their judgements. Our opinion is not modified in respect of this matter*".

It was worth noting that a form of this note would be in the audit reports of all LGPS Funds with substantial holdings in property and that this material valuation uncertainty' declaration from valuers was not attached to post September valuations. There remained as ever, uncertainty over the valuation of all "Level 3" Investments until they were sold.

Letters of Assurance from the management of the Fund and those charged with governance had been provided to the auditors and a letter of representation would be sent to the auditors by the section 151 officer to complete the process.

Members were informed that, unfortunately, the Auditors, Mazars, had yet to sign off the accounts owing to capacity issues, as required by the 30 November 2020. Accordingly a notice had been published on the Council's website.

However, Regulation 57 of the LGPS Regulations 2013 required administering authorities to publish their pension fund annual report, in relation to the Scheme year ending on the 31 March, on or before the following 1 December. The Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 extended the publication for local authority accounts (England and Wales) to 30 November 2020. That said, at present there were no plans for an automatic extension of the publication date for the annual report and accounts. Therefore the Annual Report had been published on the website noting that the accounts had not been formally signed off on the basis that there was no expectation that any changes would be required.

RECOMMENDED
That the content of the report be noted.

59. FUTURE DEVELOPMENT OPPORTUNITIES

Trustee development opportunities were noted as follows:

Hymans Robertson Webinar – Keeping the LGPS Connected	**12 January 2021** **11.30 – 12.00**
Hymans Robertson Webinar – Keeping the LGPS Connected	**27 January 2021** **2.30 – 3.00**

Hymans Robertson Webinar – Keeping the LGPS Connected	**10 February 2021** **10.00 – 10.30**
Hymans Robertson Webinar – Keeping the LGPS Connected	**25 February 2021** **3.00 – 3.30**
LGC Investment & Pensions Summit, Leeds	**3 – 5 March 2021**
Hymans Robertson Webinar – Keeping the LGPS Connected	**11 March 2021** **11.00 – 11.30**
Hymans Robertson Webinar – Keeping the LGPS Connected	**23 March 2021** **10.30 – 11.00**

60. DATES OF FUTURE MEETINGS

Management/Advisory Panel	**19 Mar 2021** **16 July 2021** **17 Sept 2021** **10 Dec 2021** **18 Mar 2022**
Local Pensions Board	**14 Jan 2021** **8 April 2021** **29 July 2021** **30 Sept 2021** **13 Jan 2022** **7 April 2022**
Policy and Development Working Group	**4 Mar 2021** **24 June 2021** **2 Sept 2021** **25 Nov 2021** **3 Mar 2022**
Investment Monitoring and ESG Working Group	**22 Jan 2021** **16 April 2021** **30 July 2021** **1 Oct 2021** **21 Jan 2022** **8 April 2022**
Administration and Employer Funding Viability Working Group	**22 Jan 2021** **16 April 2021** **30 July 2021** **1 Oct 2021** **1 Jan 2022** **8 April 2022**

CHAIR