GREATER MANCHESTER PENSION FUND
POLICY AND DEVELOPMENT WORKING GROUP

24 June 2021

Commenced: 11:00am **Terminated: 1.00pm**

IN ATTENDANCE

Councillor Warrington (Chair)	
Councillor Cooney	
Councillor M Smith	
John Thompson	**Trade Union Representative (UNITE)**
John Pantall	**Fund Observer**
Ronnie Bowie	**Advisor to the Fund**
Peter Moizer	**Advisor to the Fund**
Mark Powers	**Advisor to the Fund**
Sandra Stewart	**Director of Pensions**
Tom Harrington	**Assistant Director of Pensions (Investments)**
Paddy Dowdall	**Assistant Director of Pensions (Local Investments & Property)**
Euan Miller	**Assistant Director of Pensions (Funding & Business Development)**
Steven Taylor	**Assistant Director of Pensions (Special Projects)**
Neil Cooper	**Head of Pension Investment (Private Markets)**
Kevin Etchells	**Investment Manager (Local Investments)**
Andrew Hall	**Investment Manager (Local Investments)**
Michael Ashworth	**Senior Investments Manager (Public Markets)**
Mushfiqur Rahman	**Investments Manager (Public Markets)**
Abdul Bashir	**Investments Manager (Public Markets)**
Reka Todor	**Investments Officer (Property)**
Alex Jones	**Investments Officer (Local Investments)**
John Dickson	**Hymans Robertson**
Elaine Torry	**Hymans Robertson**

Apologies for absence: **Petula Herbert - MoJ**

1. DECLARATIONS OF INTEREST

There were no declarations of interest.

2. MINUTES

The minutes of the meeting of the Policy and Development Working Group held on the 15 April 2021, were approved as a correct record.

3. INVESTMENT STRATEGY AND TACTICAL POSITIONING 2021/22

Consideration was given to a report and presentation of the Assistant Director of Pensions Investments, to facilitate a discussion of key relevant points between Working Group members and the Advisors in order to inform the finalised version of the report to Panel.

The Investment Managers and Advisors believed that the current investment strategy was broadly capable of delivering the required returns over the long term (albeit there were short/medium term caveats). Economic uncertainties remained, with a medium term outlook, while broadly positive, could potentially encompass a number of unattractive scenarios. In such circumstances, it was not apparent that any significant changes to the Fund's approach would prove beneficial, other than the diversification methods already being employed by the Fund.

The increasing maturity profile of Fund employers as public sector spending reductions continued, were likely to reduce the tolerance of the Fund to its volatility of returns between years. Officers continued to work with Hymans Robertson (Hymans) on this issue. Options were being considered for better aligning Employers' investment strategies to their own funding position, which would help to reduce the funding level volatility of individual employers, and therefore the Fund as a whole.

Attention would continue to be devoted to the investment issues surrounding the particular circumstances of specific employers as issues that had been raised during the 2019 Actuarial Valuation were followed up.

Historically, the Main Fund benchmark had contained an allocation of 10% to Property. Actual exposure to Property had long under-achieved this target exposure and currently amounted to around 7% of Main Fund assets. Separately and where appropriate, 'realistic' benchmarks for Private Market assets and Local Investments would be increased to reflect the progress made in implementing these portfolios during 2020/21. The likelihood of reaching these strategic benchmark weights would of course depend on how markets behaved over that timeframe. The rapidly rising equity markets of recent years had meant an increased £ amount allocation was required to reach the target weights.

One immediate implication of the increasing maturity of the Fund was the change in the balance of cashflows between inflows (from employer and employee contributions) and outflows (for pension payments) whereby the latter now significantly exceeded the former with the net outflow growing year by year. The need to fund the increasing investments in Alternative, Property and Local assets, and to preserve an appropriate allocation to cash, were likely to necessitate additional withdrawals of assets from the Fund's Investment Managers over the coming years. Additional cash required over and above that currently held within the Fund would be sourced from the Main Fund's roster of public markets equities and investment grade bond Investment Managers.

In line with the recommendations from the 2019/20 Investment Strategy Review, Officers funded the 10% Main Fund allocation to the Factor Based Investment and the 2% increase in the global equity mandate managed by Ninety One during the second half of 2019. Funding was sourced from the legacy Capital mandate that was temporarily held with L&G pending the implementation of these replacement arrangements.

Following the 2017/18 Investment Strategy Review, the Fund introduced a Main Fund allocation to Private Debt, funded from a reduction in equities, to diversify the Main Fund, reducing the reliance on Public Equities as the source of growth assets. The Senior Private Debt allocation within the Special Opportunities Portfolio was promoted into a standalone Main Fund allocation. Additional commitments to Private Debt have since been made and the portfolio was now 2.5% of the total value of the Main Fund. Officers had reviewed the Fund's current exposures to Private Debt across the Main Fund to potentially enhance portfolio construction, oversight and monitoring.

It was concluded that the Fund was facing a range of strategic and tactical investment related issues, each having their own 'research agenda' in terms of background work, policy formulation and practical implementation. How the Fund addressed these issues and implemented suitable changes, would be a critical determinant of its standing in 5 or 10 years' time.

Discussion ensued with regard to the above and the Advisors were broadly supportive of the proposals, commenting in particular on the pragmatic approach of a move to a more market cap weighted Public Equity allocation; the consideration of the appropriateness of 10% Property benchmark allocation and the complex nature of measuring ESG performance.

RECOMMENDED
(i) That the current 'rules' for the Public Equity allocation be recouched;
(ii) That a rules based process be developed, which would time and pace, any potential move to a more cap weighted Public Equity allocation;
(iii) That the overall strategic target to Property be maintained at 10%;
(iv) In respect of ESG, that alternative approaches be considered for the benchmarks underlying the index- tracking mandates run by L&G; and
(v) That cash requirements be funded initially from internal In House cash and then a fixed pro-rata slice from UBS, L&G, SciBeta and Ninety One.

4. INTERNALLY MANAGED PORTFOLIOS: INVESTMENT MANDATES

The Assistant Director of Pensions Investments submitted a report explaining that a significant and increasing proportion of Main Fund assets were managed internally, a trend which was expected to continue for the foreseeable future.

Members were informed that, at the September 2020 meeting of the Policy and Development Working Group, Mark Powers, Advisor to the Fund, made a proposal for an initiative to formalise and codify the internally managed portfolios, in a similar way to other recent initiatives. The potential benefits of such an initiative were detailed and Members concurred with Mr Powers that the initiative would provide a safeguard, and would also help the internal team to remind itself and remind other stakeholders of its purpose and how the Fund aimed to add value through internal management.

In response to the proposal, Officers had drafted concise, standardised mandates for each of the 11 internally managed portfolios (attached as an Appendix to the report). These mandates mirrored the documentation and formality the Fund had around its externally managed mandates.

It was recognised that the mandates were an initial step and it was anticipated that iterations of mandates would typically be considered for adoption by the Working Group on an annual basis. Any future changes deemed necessary to the mandates would be identified and appropriate rationale provided for consideration by the Working Group.

RECOMMENDED
(i) That the Investment Mandates for the Internally Managed Portfolios, attached to the report as an Appendix, be adopted by the Panel; and
(ii) That if the Panel approves the creation of any further Internally Managed Portfolios (eg Northern LGPS Pooled Housing), appropriate Investment Mandates be drawn up for approval by the Policy and Development Working Group.

5. PRIVATE EQUITY – REVIEW OF STRATEGY AND IMPLEMENTATION

The Assistant Director of Pensions, Investments, submitted a report and Members received a presentation, which provided a review of activity and of the strategy and implementation approach regarding investment in private equity.

The report and presentation outlined:

- Current approach to investing in Private Equity;
- Implementation during calendar year 2020;
- Current position against current strategy;
- Review of strategy; and
- Review of Implementation.

Discussion ensued with regard to the above and it was:

RECOMMENDED

(i) Consistent with the recommendations of the Main Fund Investment Strategy Review, the medium-term strategic allocation for private equity remains at 5% by value of the total Main Fund assets;

(ii) the target geographical diversification of the private equity portfolio remains:

Geography	Target Range
Europe inc UK	35% to 50%
USA	35% to 50%
Asia & Other	10% to 20%

(iii) the investment stage diversification of the private equity portfolio remains:

Stage	Target Range
Lower Mid-Market & Growth	10%-20%
Mid-Market	45%-55%
Large Buyout	30%-40%

(iv) the pace of Primary Fund commitments to be £120m pa so that, together with co-investment deployment of approximately £38m pa on average, private equity exposure is targeted at or around the 5% target strategic Main Fund allocation;

(v) GMPF's private equity strategy is implemented by appropriately sized commitments to Northern Private Equity Pool such that the anticipated deployment will be consistent with the pacing recommendation at 9.5;

(vi) it is recognised that the portfolio may not fall within the target ranges at 9.3 and 9.4 above from time to time to reflect, *inter alia*, portfolio repositioning.

6. PRIVATE DEBT – REVIEW OF STRATEGY AND IMPLEMENTATION

The Assistant Director of Pensions, Investments, submitted a report and Members received a presentation, which updated the Working Group on investment activity in respect of the Private Debt portfolio during 2020, described the current portfolio and reviewed the strategy for the portfolio and its implementation.

The report and presentation outlined:

- Current approach to investing in Private Debt;
- Implementation during calendar year 2020;
- Actual position against current strategy;
- Review of Strategy; and
- Review of Implementation.

Discussion ensued in respect of the above and it was:

RECOMMENDED

(i) the medium term strategic allocation for private debt remains at 5% by value of the total Main Fund assets.

(ii) the target geographical diversification of the private debt portfolio remain as follows:

Geography	Target Range
Europe	40% to 50%
USA	40% to 50%
Asia & Other	0% to 20%

(iii) the portfolio should continue to be populated by partnership commitments to funds where the vast majority of investments are senior secured loans.

(iv) the scale of commitment to funds to be £375m per annum, to work towards achievement of the strategy allocation over a sensible time frame.
(v) it is recognised that the portfolio may not fall within the target ranges at 8.3 above from time to time to reflect, inter alia, portfolio repositioning.

7. INFRASTRUCTURE FUNDS – REVIEW OF STRATEGY AND IMPLEMENTATION

The Assistant Director of Pensions, Investments, submitted a report and Members received a presentation, updating members of the Working Group on investment activity in respect of the Infrastructure funds portfolio during 2020, described the current portfolio and reviewed the strategy for the portfolio and its implementation.

The report and presentation outlined:

- Current approach to investing in Infrastructure;
- Implementation during calendar year 2020;
- Actual position against current strategy;
- Review of Strategy; and
- Review of Implementation.

Discussion ensued in respect of the above and it was:

RECOMMENDED
(i) Consistent with the recommendations of the Main Fund Investment Strategy Review, the medium term strategic allocation to Infrastructure Funds remains at 5% by value of total Main Fund assets;
(ii) the target geographical diversification of the infrastructure portfolio remains:

Geography	Target Range
Europe	50% to 70%
North America	20% to 30%
Asia & Other	0% to 20%

(iii) the target stage diversification of the infrastructure portfolio remains:

Investment Stage	Relative Risk	Target Range
Core & Long Term Contracted	Low	30% to 40%
Value Added	Medium	40% to 60%
Opportunistic	High	0% to 20%

(iv) the pace of new fund commitments is maintained at £240m per annum to work towards achievement of the strategy over a sensible time frame;
(v) the Private Markets team to continue to implement the Infrastructure strategy via commitments to private partnerships; and
(vi) it is recognised that the portfolio may not fall within the target ranges at 8.3 and 8.4 from time to time to reflect, *inter alia*, portfolio repositioning.

8. SPECIAL OPPORTUNITIES PORTFOLIO – REVIEW OF STRATEGY AND IMPLEMENTATION

Consideration was given to a report and presentation of the Assistant Director of Pensions Investments, updating the Working Group on investment activity in respect of the Special Opportunities Portfolio during 2020, described the current portfolio and reviewed the strategy for the portfolio and its implementation.

The report and presentation outlined:

- Current approach to investing in Special Opportunities;
- Implementation during calendar year 2020 – Credit Opportunities;
- Implementation during calendar year 2020 – Real Assets;
- Implementation during calendar year 2020 – Absolute Return Funds;
- Actual position against current strategy;
- Review of Strategy;
- Review of Implementation – Credit Opportunities;
- Review of Implementation – Real Assets; and
- Review of Implementation – Absolute Return Funds.

Discussion ensued in respect of the above and it was:

RECOMMENDED

(i) The allocation to the Special Opportunities Portfolio remains at up to 5% by value of the total Main Fund assets; and

(ii) The main strategic control to remain the Type Approval mechanism described in the report.

9. UK PROPERTY PORTFOLIO – REVIEW OF STRATEGY, IMPLEMENTATION AND PERFORMANCE MONITORING

The Assistant Director, Local Development and Property, submitted a report and delivered a presentation updating the Working Group on investment activity in respect of the UK Property Portfolio during 2020. It further reviewed future strategy and implementation.

The report and presentation outlined:

- Current approach to investing in UK Property;
- Implementation during calendar year 2020; and
- Current position against current strategy.

Discussion ensued in respect of the above and it was:

RECOMMENDED

(i) That the medium-term strategic allocation for the UK Property portfolio remains at 8% by value of the total Main Fund assets

(ii) That the UK Property portfolio construction remains as per the agreed recommendations at the Management Panel in March 2021 and as below:

Risk Factor	Investment Characteristics	Outperformance over MSCI All Property Index	Target Portfolio Weight	Range
UK Direct (consisting of the two new separate mandates of care and maintenance and bad bank portfolios)	**No leverage, specialist active management, and high-income return component.**	**0% Care and Maintenance 0% Bad Bank**	**3%**	**2-4%**

UK Indirect (balanced and specialist investment strategies via pooled vehicles which are intended to match performance of the broad property index – whilst providing diversification benefits)	**Low to moderate use of leverage, benchmark level active management, and high-income return component.** **Moderate use of leverage, specialist active management, and low to medium-income return component with higher capital return.**	**0% Balanced Funds** **2% Specialist through sector or value add and other alternative asset classes**	**3.5%** **1.5%**	**2-5%** **0-3%**

(ii) That the pacing of commitment to UK property to continue at an average of c. £250m per annum in order to meet a "realistic" target of allocation of 8% of the Main Fund allocation by end of 2024.

(iv) That it is recognised that the portfolio may not fall within its target ranges from time to time to reflect, *inter alia*, portfolio repositioning.

10. OVERSEAS PROPERTY PORTFOLIO – REVIEW OF STRATEGY AND IMPLEMENTATION

The Assistant Director, Local Development and Property, submitted a report and delivered a presentation updating the Working Group on investment activity in respect of the Overseas Property during 2020. It further described the current portfolio and to reviewed the strategy and the implementation.

The report and presentation outlined:

- Current approach to investing in Global Property;
- Implementation during calendar year 2020;
- Current against current strategy;
- Review of Strategy; and
- Review of Implementation.

Discussion ensued in respect of the above and it was:

RECOMMENDED

(i) That the medium-term strategic allocation for the Overseas portfolio remains at 2% by value of the total Main Fund assets

(ii) That the Overseas Property target risk remains:

Risk Factor	**Investment Characteristics**	**Outperformance over UK IPD**	**Target Portfolio Weight**	**Range**
Matching (core and core plus strategies which are intended to match long running UK IPD – whilst providing diversification benefits)	**Low to moderate use of leverage, benchmark level active management, and high-income return component.**	**0% (Europe and US)** **2% (Rest of World)**	**50%**	**40 – 60%**

Enhancing (value add and opportunistic strategies which are intended to enhance long running UK IPD through active management)	**Moderate to high use of leverage, above benchmark level of active management and high capital value return component.**	**4% (Europe and US) Enhancing strategies in the Rest of the World will not be considered.**	**50%**	**40– 60%**

(iii) That the Overseas Property target geographic diversification remains:

Geography	***Target Portfolio Weighting***	***Range***
US	***45%***	***30 – 60%***
Europe	***45%***	***30 – 60%***
Rest of the World	***10%***	***0 – 20%***

(iv) That the pacing of commitment to funds to increase to £150 - £200m per annum in order to meet a "realistic" target allocation of 2% of the Main Fund allocation by end of 2024.
(v) That it is recognised that the portfolio may not fall within its target ranges from time to time to reflect, *inter alia*, portfolio repositioning.

11. PROPERTY VENTURE FUND – REVIEW OF STRATEGY AND IMPLEMENTATION

A report was submitted and a presentation delivered by the Assistant Director, Local Investments and Property, which updated the Working Group on investment activity in respect of the Property Venture Fund (GMPVF) portfolio during 2020. The report described the current portfolio and reviewed the strategy for the portfolio and its implementation.

The report and presentation outlined:

- Current approach to investing in the Property Venture Fund;
- Implementation during calendar year 2020;
- Current position against current strategy;
- Review of Strategy; and
- Review of Implementation.

Discussion ensued in respect of the above and it was:

RECOMMENDED
(i) the medium term strategic allocation for the GMPVF portfolio remains at 3% by value of the total Main Fund assets
(ii) the target geographical diversification of the GMPVF portfolio remains:

Geography	**Target Range**
Greater Manchester	**60%-100%**
Northern LGPS Area (ex GM)	**0%-40%**

(iii) the investment stage diversification of the GMPVF portfolio remains:

Stage	**Target Range**
Income Generating Property	**20%-45%**
Development Equity	**5%-25%**
Development Mezzanine Debt	**15%-35%**
Development Senior Debt	**15%-35%**

(iv) the sector diversification of the GMPVF Income Generating Properties remains:

Stage	Target Range
Industrial	25%-45%
Offices	25%-45%
Other (Retail, Leisure, Housing, Alts.)	20%-40%

(v) the permitted range of exposure to speculative risk, based on a percentage of the total amount committed by GMPVF, remains:

	Range % of Committed
Pre - Let	20-100
Speculative	0-80

(vi) Commitments to projects continue to be scaled and timed such that, combined with investments in income producing property and likely realisations of existing developments, the allocation is deployed over the medium term.

(vii) It is recognised that at any given time the portfolio may vary significantly from the target ranges shown at 3.4 – 3.9.

12. IMPACT AND INVEST FOR GROWTH PORTFOLIO – REVIEW OF STRATEGY AND IMPLEMENTATION

The Assistant Director, Local Development and Property, submitted a report and delivered a presentation reviewing the activity and the strategy and implementation approach regarding investment in the Impact and Invest for Growth portfolio.

The report and presentation outlined:

- Current approach to investing in the Impact and Invest for Growth Portfolio;
- Implementation during calendar year 2020;
- Current position against current strategy;
- Review of Strategy; and
- Review of Implementation.

Discussion ensued in respect of the above and it was:

RECOMMENDED

(i) The medium term strategic allocation for the Impact portfolio remains at 2% by value of the total Main Fund assets

(ii) The Impact Theme target diversification for the Impact portfolio remains:

Impact Themes	Target % Range
Loans to SME's	30% - 40%
Social Infrastructure	20% - 30%
Property Dev in underserved markets	15% - 25%
Renewable Energy Infrastructure	10% - 20%
Social Impact Bonds	5% - 10%
Equity Invest in Underserved Markets	20% - 30%
Total	100%

(iii) The pacing of commitment to funds to continue at £80m pa, to meet the “realistic” target of allocation of 1.5% of Main Fund allocation by end of 2024.

(iv) It is recognised that the portfolio may not fall within the target ranges at 8.3 from time to

time to reflect, *inter alia*, portfolio repositioning.

(v) The Investment Mandate for this portfolio (reported as a separate item) is adopted to ensure appropriate monitoring arrangements.

13. UPDATE ON LEVERAGE AND PRIVATE DEBT

A report was submitted by the Assistant Director of Pensions, Investments, informing Working Group members that discussions with the Advisors during May 2018, in connection with the Property Portfolio, raised the profile of leverage and private debt exposures, as areas of focus. The report provided an update on each.

RECOMMENDED
That the content of the report be noted.

14. MANAGER MONITORING REGIME INCLUDING MONITORING ESCALATION

The Assistant Director of Pensions, Investments, submitted a report detailing the Fund's approach to manager monitoring and summarised the results from the Monitoring Escalation Protocol as at 31 March 2021.

The overall status levels and courses of action taken (or to be taken) in relation to the results from the most recent Monitoring Escalation Protocol were summarised within the report.

It was explained that the Manager Escalation Protocol included performance as the sole metric by which the Securities Managers were initially assessed. There were a number of less quantitative, softer dimensions which could be used to form a view on the manager's prospects of outperforming going forward. These would include the quality of the staff and turnover of key personnel, a coherent and robust approach to linking the underlying philosophy of investing to the actual purchases and sales made, and the underlying investment philosophy itself.

In addition, a traffic light approach (Green, Amber, Red) had been developed to provide a single overall indicator that summarised Officers' current subjective assessment of People, Process and Philosophy for each Manager. The respective traffic light should be viewed as providing additional context to supplement the codified Status Levels of the Monitoring Escalation Protocol

A detailed discussion ensued in respect of individual managers' performance and it was:

RECOMMENDED
That the content of the report be noted.

15. GLOBAL EQUITY 'PURCHASE/SALE' TRIGGER PROCESS – UPDATE OF FAIR VALUE ESTIMATE, TRIGGER POINTS AND SIZE OF SWITCH

The Assistant Director of Pensions, Investments, submitted a report explaining that, in May 2016, the Policy and Development Working Group considered detailed proposals regarding a 'trigger process' for Global Equities. These proposals were adopted by the Panel.

The report provided an overview of the evolution of the Global Equity metric over 2020/21, vis-a-vis the trigger points. In accordance with the adopted formalised process, the report also proposed an updated estimate of Fair Value for global equities, associated updated trigger points and an update in relation to the 'size' of the maximum asset switch to be targeted, all for adoption by the Panel at its July 2021 meeting.

Discussion ensued and Advisors concurred with the recommendation to undertake further due diligence in respect of the estimates of Fair Value for the MSCI Index.

RECOMMENDED

(i) That the Panel adopt the updated pro tem Fair Value estimate and trigger points (Table 5) associated with "Option 3" from Appendix 2 together with the updated 'size' of the maximum asset switch to be targeted, as contained within the report; and

(ii) That a further Report be tabled at the forthcoming meeting of Panel or the subsequent P&D Meeting, on completion of the due diligence referred to within the Report.

16. MANCHESTER AIRPORT GROUPS PARTICIPATION IN GMPF

The Assistant Director, Funding and Business Development, submitted a report providing an update on developments regarding Manchester Airport Group's participation in GMPF.

This report provided an overview of the options being explored with Manchester City Council, who guarantee most of Manchester Airport's liabilities in GMPF and the decisions which may be required from GMPF should any of the options appear acceptable.

RECOMMENDED

That the content of the report be noted.

17. ACADEMY CONSOLIDATION

A report was submitted by the Assistant Director, Funding and Business Development, which gave details of a Multi Academy Trust ('MAT'), which participates in GMPF and several other LGPS funds and was seeking to consolidate its LGPS interests in another LGPS fund.

The report provided Members with an update on the MAT's proposal and considered GMPF's response to the limited consultation on the proposal, which had recently been issued by MHCLG.

A draft response to the consultation was circulated to Members separately, and it was:

RECOMMENDED

(i) That the recent developments regarding the proposed consolidation be noted; and

(ii) Comments on the draft response, as circulated, be provided to the Director of Pensions before 30 June 2021.

CHAIR