GREATER MANCHESTER PENSION FUND - POLICY AND DEVELOPMENT WORKING GROUP

25 November 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)**
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)**
Dan Hobson	**Head of Real Assets**
Michael Ashworth	**Senior Investments Manager (Public Markets)**
Mushfiqur Rahman	**Investments Manager (Public Markets)**
Abdul Bashir	**Investments Manager (Public Markets)**
Alex Jones	**Investment Officer (Local Investments**
Reka Todor	**Investment Officer (Property)**
Lorraine Peart	**Investments Officer (Public Markets)**

Apologies for absence: **Petula Herbert (MoJ)**

58. CHAIR'S OPENING REMARKS

The Chair welcomed everyone to the meeting and was pleased to announce that John Green, Commercial Director and Deputy CEO of Ninety One was able to join the meeting and provide an update in respect of his recent attendance at the COP26 Climate Conference. The Chair added that an invitation had been extended to all Members of the Management/Advisory Panel and Local Pensions Board for this section of the meeting only.

The Chair further announced that the Fund had won the Pension Fund Communication Award in the 14th Annual European Pensions Awards. She extended her congratulations to all involved for the significant achievement.

Additionally, the Fund had been shortlisted for Best Administration and Governance category in the IPE awards to be decided on 3 December 2021.

59. DECLARATIONS OF INTEREST

There were no declarations of interest.

60. MINUTES

The minutes of the meeting of the Policy and Development Working Group held on the 2 September 2021, were approved as a correct record.

61. A JUST TRANSITION TO NET ZERO

John Green, Commercial Director and Deputy CEO, Ninety One, attended before Members and gave details of Ninety One's approach to sustainability and decarbonisation and investing for the energy transition. He further commented on the recent COP26 Climate Conference and the impact of climate change on the investment sector.

Mr Green said that Ninety One believes in sustainability with substance. The world needs an inclusive transition plan that works for all its 7.9billion people not just those who have had all the benefits in a well developed world. As governments and corporations accelerate their net-zero plans, the need to assess investments through the lenses of climate change and climate action has intensified in recent months. South Africa – an emerging market with one of the world's most carbon-intense energy systems – presents a fascinating case study for investors of the risks and opportunities as the world attempts to transition to carbon neutrality.

Mr Green explained that Ninety One's African roots have been a big influence on how Ninety One approaches sustainability. Several major sustainability challenges are amplified in Africa, including poverty, lack of access to education and inadequate infrastructure. He stated that Ninety One are reminded daily that meaningful action is needed now.

In their home market, Ninety One have also seen at first-hand that capital can make a difference when directed towards achieving real-world impact. Ninety One manages various investments aimed at improving infrastructure in sub-Saharan Africa. Projects include one that will provide Rwanda's capital city with 40 million litres of water per day, making a meaningful contribution to the country's drive to provide clean water to its entire population.

These experiences have framed Ninety One's approach to the net-zero challenge. With an overriding focus on achieving real-world change, Ninety One has joined the Net Zero Asset Managers Initiative with three key items on our agenda.

Action 1: Setting targets that drive real-world action
Mr Green stated that we all know the world needs to reduce emissions. However, targeting a reduction in portfolio carbon intensity (CO2 emissions per dollar of sales), a common industry approach, does not necessarily drive the real economy towards net zero. For example, one could reduce the carbon-intensity of a global equity index by 7% simply by doubling the weighting in big-tech stocks (which are, by nature, low Scope 1 & 2 carbon – i.e., direct emissions and emissions from purchased energy). Does that decarbonise the economy, or merely reallocate assets? Absent other measures and analysis, including of how the companies in a portfolio plan to achieve the clean-energy transition, Ninety One think excessive focus on carbon intensity could result in investors 'cleaning' their portfolios but not the atmosphere.

Ninety One's commitment is to seek better ways to measure a portfolio's alignment with the net-zero transition, in order to incentivise real-world decarbonisation. Mr Green explained that Ninety One advocate disclosing how a portfolio is reducing its carbon footprint (effectively providing a 'carbon-performance attribution'), and setting targets that encourage allocations to the countries and companies working the hardest to tackle climate risks through robust transition plans and by providing real-world climate solutions.

Action 2: The emerging market challenge
Ninety One believe the world needs an inclusive transition plan that works for everyone. As the developing world is driving emissions growth, a net-zero strategy that excludes it could well result in no net zero at all. Only 20% of clean-energy investment is going to emerging markets, where the need is the greatest. This needs to change – the race to net zero is a race against time, not between countries. Also, Ninety One think the enormous opportunities to improve lives that the net-zero transition presents should be shared among us all. Mr Green stated that Ninety One's commitment is to work for a just transition that includes everyone, and to advocate for the carbon-intensive emerging economies to be given the time and resources they need to adjust.

Action 3: Using our presence in Africa
South Africa's energy grid is four times as emissions-intensive as the UK grid. That increases the emissions profile of Ninety One's assets under management, since some of the portfolios they manage for our clients focus on South African companies. This presents an opportunity (and a responsibility) for the capital we manage to contribute to decarbonizing South Africa's energy sector and other high-emitting companies in the country. Ninety One's work on this front includes advocacy, direct engagement and innovation in investments, particularly in the credit asset class.

Ninety One commit to developing our expertise in supporting transition plans in high-emitting sectors and businesses in South Africa, and to using this knowledge to assist heavy emitters in other emerging markets to develop workable transition strategies.

Mr Green said that with a net-zero strategy built around these three pledges, Ninety One hope to play our part in advancing the transition to carbon neutrality. Net zero will be a long and difficult journey for us all. But if we set about it in the right way, we can ensure it is fair, inclusive and ultimately successful.

Detailed discussion ensued, in respect of the content of the presentation, including; the effects of carbon emissions, the significance of emerging markets and investment in green hydrogen projects including a number of questions posed by Panel members and in particular:

Question - You represented Ninety One at COP26. What did you make of the climate summit?
Mr Green responded that this was the first COP where the finance sector was present in force. The world will only achieve a successful energy transition if finance is involved at scale, so that was a positive. There was also growing recognition that we need to support the emerging world's net-zero transition, and that it will necessarily be slower. This is important because there is now an honest conversation about how we can build a realistic net-zero pathway for the whole world, including emerging markets. So Mr Green commented he came away from COP26 reasonably optimistic, but there's a huge amount of work to do to keep global warming below 1.5-degrees Celsius.

Question - Are asset managers and owners tackling the net-zero transition in the right way?
Mr Green said that his concern is that the initial drive for net zero focused largely on creating low-carbon portfolios. It's not difficult for investors – in developed countries especially – to divest from 'dirty' industries, most of which are based in emerging markets. But that risks starving the emerging world of the capital it needs to transition and leaving high-carbon assets in the hands of less scrupulous owners with no interest in decarbonisation. So Ninety One is arguing strongly for a focus on financing real-world, sustainable emissions reductions, rather than creating low-carbon portfolios.

Question - Can you explain the difference between a low-carbon portfolio and a portfolio that supports real-world decarbonisation?
A tiny number of stocks account for the bulk of emissions. In South Africa, two companies produce almost half of all emissions, namely Eskom, the electricity utility, and Sasol, the energy and chemical company. If an investor divested from a heavy emitter, they would have a lower-carbon portfolio. But if that emitter is then bought by an unscrupulous investor with no interest in decarbonisation and who is simply aiming to maximise cashflows, the world is no closer to net zero. Responsible ownership will play a key role in the transition to a cleaner greener world.

Question - What are the risks of focusing on reducing emissions at the portfolio level?
It would deny capital to countries with carbon-intensive energy systems, which primarily means emerging markets. That would create a social disaster and likely result in no net zero at all. So it is very important that we don't leave anyone behind and that the net-zero transition is inclusive. As investors, we need to be focused on achieving net zero by 2050, rather than short-term goals that do not support real-world emissions reductions.

Question - How can investors support the net-zero transition?
Mr Green responded that there are essentially two ways, one is to remain invested in companies and engage with them to support their transitions. The other is to invest in companies whose

products and services are enabling or accelerating the transition to net zero. Mr Green said asset owners need to do both, and Ninety One is committed to doing so.

The Chair thanked Mr Green for a very informative and thought provoking presentation.

RECOMMENDED
That the content of the presentation be noted.

62. REPORT OF THE MANAGER - NINETY ONE

Stephen Lee, Jonathan Parker and Charlotte Gibson, Ninety One, then attended before Members and gave a presentation detailing their performance up to 30 September 2021.

Mr Parker began by explaining that the portfolio had underperformed over the third quarter. The 4Factor screening part of the process contributed to performance over the period when compared to the equally-weighted universe, although it was less compelling against the benchmark. The momentum factors ‘Earnings’ and ‘Technicals’ performed best as companies continued to recover from the pandemic, ‘Strategy’ performed strongly at first, however this was reversed in September and the ‘Value’ factor performed strongly.

Mr Parker gave details of underperforming and outperforming sectors for the period and outlined notable individual contributors. The key characteristics of the current portfolio against the index were also discussed.

Wide ranging discussion ensued with regard to the content of the presentation and the Advisors made particular reference to governance in emerging markets.

The issue of climate change was also highlighted and how this would affect stock selection.

The Chair thanked the representatives of Ninety One for their presentation.

RECOMMENDED
That the content of the presentation be noted.

63. REPORT OF THE MANAGER - STONE HARBOR

David Scott and Paul Timlin of Stone Harbor then attended before Members and gave a presentation detailing their performance up to 30 September 2021.

Mr Scott began by discussing the broad market environment and gave details of portfolio returns over the past 12 months.

Performance analysis to 30 September 2021 was given, including credit beta weighted contributions and security selection. Mr Scott explained that the core strategy in the year to 30 September 2021 had been to remain cautious, with a bias towards corporate debt rather than Emerging Markets debt.

Discussion ensued and Advisors sought clarification in respect of inflation expectations, central bank credibility and potential triggers for negative impacts on bond markets.

RECOMMENDED
That the content of the presentation be noted.

64. MANAGER MONITORING REGIME INCLUDING MONITORING ESCALATION

Consideration was given to a report of the Assistant Director of Pensions Investments, which summarised the results from the Monitoring Escalation Protocol as at 30 September 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 provided for each manager in an appendix to the report.

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 included 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.

RECOMMENDED
That the content of the report be noted.

65. PROCUREMENT OF ACTUARIAL SERVICES

Consideration was given to a report of the Assistant Director, Funding and Business Development, which explained that GMPF's current contracts for actuarial services and benefit consultancy services would be ending on 31 December 2021. As a result, a re-tender of those services had been undertaken. The report outlined the procurement process for selecting a provider to deliver the services with effect from 1 January 2022.

Members were advised that, following the procurement process, it was the Administering Authority's intention to award the contract for actuarial and benefits consultancy work to Hymans Robertson. As part of the intention to award notification, a 10-day standstill period was initiated. The purpose of this standstill period is to allow time for unsuccessful bidders to review, and if they deemed it necessary, challenge the outcome of the further competition process before any contract was signed.

It was explained that the standstill period had ended on 22 November 2021 and no further correspondence had been received during the period. It was therefore, intended that a formal contract award letter be issued to Hymans Robertson and a new actuarial and benefits consultancy contract be entered into by 1 January 2022. The new contract was intended to remain in force until 31 December 2030, although the contract did allow earlier termination.

RECOMMENDED
That the provisional outcome of the procurement process set out in Section 3 of the report, be noted.

CHAIR