GREATER MANCHESTER PENSION FUND
ADVISORY PANEL

15 July 2022

Commenced:	**10.00am**	**Terminated: 12.30pm**
Present:	**Councillor Cooney (Chair)** **Councillors: Andrews (Manchester), Barnes (Salford), Cowen (Bolton), Grimshaw (Bury), Massey (Rochdale), and Smart (Stockport)** **Employee Representatives:** **Ms Blackburn (UNISON), Mr Caplan (UNISON), Mr Drury (UNITE), Mr Flatley (GMB), Mr Llewellyn (UNITE) and Mr Thompson (UNITE)** **Fund Observer:** **Mr Pantall** **Local Pensions Board Member (in attendance as observer):** **Mark Rayner** **Advisors:** **Mr Bowie** **Mr Moizer and Mr Powers joined the meeting virtually**	
Apologies for absence:	**Councillors Cunliffe (Wigan) and Jabbar (Oldham)**	

1. CHAIR'S OPENING REMARKS

The Chair, Councillor Cooney, began by welcoming everyone to the first face-to-face meeting of the Panel in over two and half years. It was also the first hybrid meeting in the history of the Fund, with some colleagues joining the meeting virtually. The Chair expressed his honour at being appointed the Chair of the Fund, which he had been appointed to over 30 years ago and reiterated the need to hold strong to governance and beliefs in order to weather any storms that could set the Fund off course.

He welcomed new and returning Trustees and in particular, Councillor North, Vice Chair and Cllr Oliver Ryan who was an observer on the Fund and who was now the Deputy of the Fund and representative on the Northern LGPS.

The Chair extended a warm welcome to new Trustees as follows:

- Cllr Lisa Smart (Stockport), replacing Cllr John Taylor
- Cllr Philip Massey (Rochdale), replacing Cllr Peter Joinson
- Cllr Amy Cowen (Bolton), replacing Cllr Stuart Hartigan

He added that Trafford had yet to make an appointment to the Fund and he looked forward to welcoming their representative in the near future.

The Chair extended his thanks and gratitude to retired Members of the Panel for their contribution to the work of the Fund over the last few years, in particular Councillor Brenda Warrington, the former Chair, who steered the Fund through Covid and the world of zoom/virtual meetings. He further thanked Councillor Mike Smith, the former Deputy Chair of the Fund and former Chair of the Administration and Employer Funding Viability Working Group.

The Chair also thanked for their contribution and commitment, David Boyle, who had retired as an adjudicator under the Internal Dispute Resolution Procedure and Pat Catterall who had retired from the Local Board as the retired Members representative.

The Chair stressed the importance of ensuring ordinary working people in public sector jobs serving their communities, were able to live out their retirement years with security and dignity. He further emphasised the need to safeguard the deferred pay, which was the pensions of public sector workers, whilst balancing the need to ensure that they were affordable and sustainable to employers and tax payers alike.

The Chair made reference to the challenging nature of the 2050 target of cutting carbon levels to net zero. Switching the global economy from extractive to regenerative energy meant finding secure and reliable alternatives to burning oil and gas. So far, making such a breakthrough had proved difficult. Energy bills for homes, businesses and motorists had rocketed since the second half of last year. Increasing demand had hit the supply of traditional energy sources, such as gas, whilst modern, cleaner technologies like windfarms were the victim of there not being 'enough wind' in the North Sea. Shifting the world onto electrically powered vehicles would only push demand higher, and that was without building the charging infrastructure needed to support the motoring revolution. Oil and gas had powered the world for more than 100 years. It was deeply embedded within the infrastructure of communities and had made parts of the world extremely prosperous.

He commented that change was not easy and the challenge was not limited to finding alternative sources of energy. Millions of people's livelihoods were directly connected to oil and gas and the industries they supported. If governments worked to replace fossil fuels with cleaner alternatives, they could be creating poverty. ESG-led investing was not just about protecting the environment for future generations, there was also a social element in the strategy, so putting logs of people out of work and, therefore, decimating communities to fix environment concerns was a conflict within the ethos of sustainable investing. People living in a world of lower temperatures and free from extreme weather patterns was not a trade-off for living in poverty. Governments and investors were being encouraged to ensure that there was a just transition from fossil fuels to regenerative sources of energy so that no one was left behind as there was a move towards a sustainable future.

The energy transition was one of social justice not just environmental justice. In the early days, responsible investment focused on governance. Then it focused on environmental impacts. In the past 18 months to two years, there had been more discussions around nature and the social elements, and the frameworks to consider this.

From a just perspective, the best thing to do as an investor was not to abandon the sector. It would be socially irresponsible to make it harder for companies to turn themselves around. More importantly emerging economies could be big losers due to their high dependence on the sectors net-zero plans were targeting. South Africa was an example of where a just transition could be a challenge. It had a challenge ahead in terms of the transition itself in weaning the country off fossil-fuel intensive industries, but there was the added challenge of already high levels of poverty. If investors stopped financing the current set-up, there was a risk off cutting the lights off for millions of people. There needed to be a plan to finance the transition.

The Chair made reference to COP26, and in a first of its kind agreement, South Africa would receive around £6.4bn from the US and countries in Europe as part of a "Just Energy Transition Partnership". This aimed to accelerate South Africa's green transition but some of the money would be investments in social infrastructure, to manage labour and support workers impacted by the transition. For example, the 90,000 miners involved in coal extraction would be helped to find other industrial roles or education provided to re-skill and work in other areas, such as renewable energy. But a just transition could not happen unless governments, regulators, companies and investors had wider support. The energy transition was used as an example and it was explained that going from wood to coal and from coal to oil took 100 years, yet energy systems were expected to change within a couple of decades or so. That was a real challenge, which was bound to throw up destabilising elements in the economy and within society.

The Chair explained that UBS would be presenting before Members later in the agenda explaining why they thought energy companies remained a good investment and what they were doing to engage with those companies to achieve net zero and a just transition.

The Chair stated that environmental issues were right at the top of the agenda, however, he added that raising awareness of social issues was also crucial. He explained that the Assistant Director of Pensions Investments would be reporting later in the agenda in respect of the work undertaken for the Fund's application to retain its UK Stewardship Code status including being at the forefront of seeking changes in tax being paid by some large, global companies, which, it was known, had destroyed high streets.

The Chair also commented on the Palestine issue. He referenced the Local Authority Pension Fund Forum (LAPFF), the leading voice for local authority pension funds across the UK, who were working with the Scheme Advisory Board (SAB) to understand how companies were put on the UN list and what they needed to do to come off it, to avoid potential legal challenges. A letter was written in response to Professor Lynk, the UN Special Rapporteur in January, seeking clarification, no response had been received and it had since transpired that he had retired and been replaced, and a further letter was being sent next week from SAB and LAPFF seeking the same answers to the new Special Rapporteur so there was currently no progress to report on this matter.

The Chair concluded by strengthening the Fund's commitment to a more resilient future.

2. DECLARATIONS OF INTEREST

There were no new declarations of interest submitted by Members.

3. MINUTES

(a) The Minutes of the proceedings of the meeting of the Pension Fund Advisory Panel held on 18 March 2022 were signed as a correct record.

(b) The Minutes of the proceedings of the meeting of the Pension Fund Management Panel held on 18 March 2021 were noted.

4. 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, 17, 18, 22, 23,	**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**

24	**3&10, 3&10, 3&10, 3&10, 3&10**	**the stakeholders and/or tax payers.**

5. LOCAL PENSIONS BOARD

The Minutes of the proceedings of the meeting of the Local Pensions Board held on 7 April 2022 were received.

RECOMMENDED
That the Minutes of the proceedings of the Local Pensions Board held on 7 April 2022 be noted.

6. INVESTMENT MONITORING AND ESG WORKING GROUP

The Minutes of the proceedings of the meeting of the Investment Monitoring and ESG Working Group held on 8 April 2022 were considered.

As the former Chair of the Working Group, Councillor Cooney explained that Ninety One attended the meeting and gave an informative update on their Responsible Investment activity, and trading costs over the last 12 months.

Ninety One made reference to their integration of sustainability factors into their investment approach and gave details of their sector sustainability framework, along with a carbon scorecard for an example company.

Ninety One's focus was on emissions pathways, not current emissions, and they were working towards ensuring companies had robust transition plans.

Members were also provided with an update from PIRC on their '2022 UK Shareowner Voting Guidelines'. In particular, a number of changes had been made to the guidelines such as voting against accounts if they were not Paris aligned, and voting against the re-election of the chair of nomination committees where boards were not suitably diverse.

RECOMMENDED
(i) That the Minutes be received as a correct record;
(ii) In respect of GMPF Submission to the UK Stewardship Code Reporting Framework, that the draft updated GMPF Stewardship Report for submission to the FRC subject to any minor updates which are delegated to Officers, be endorsed; and
(iii) In respect of the Update on Active Participation in Class Actions, that GMPF recouches the loss threshold as 0.17% of US equities, as at 31 December 2021, as set out in the report before seeking active participation in Class Actions.

7. 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 8 April 2022 were considered.

RECOMMENDED
That the Minutes be received as a correct record;

8. POLICY AND DEVELOPMENT WORKING GROUP

The Minutes of the proceedings of the meeting of the Policy and Development Working Group held on 23 June 2022 were considered.

The Chair of the Working Group, Councillor Cooney, advised that Members and the Advisors devoted time to considering a draft of the Investment Strategy report for the Main Fund. Feeding into the Strategy were detailed reviews of strategy and implementation covering the internally managed portfolios of Alternative, Local and Property Investments. The final Investment Strategy report would be presented later in the Panel agenda.

Separately, as a reminder, over four years ago the Fund implemented a Global Equity Trigger Process, which was designed to either protect the Fund when the stock market became very expensive, or enhance the Fund's returns by investing at times of extreme stock market lows.

Going into 2021/22, the triggers had been fully activated following markets rising substantially above the Fund's estimate of Fair Value. Over the course of the year, the market remained expensive and the protection remained in place. More recent market falls meant that some of the protection had been unwound.

Officers provided Members with an updated estimate of Fair Value for 2022/23. Officers also provided an update in relation to the size of the maximum asset switch to be targeted. Those updates were recommended for adoption by the Panel today.

RECOMMENDED

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

(ii) In terms of Investment Strategy and Tactical Positioning 2022/23, that there be no significant changes to the Fund's approach and the current Investment Strategy and long term direction of travel be maintained;

(iii) In respect of Internally Managed Portfolios: Investment Mandates, that the Investment Mandates for the Internally Managed Portfolios, as appended to the report, be adopted by the Panel;

(iv) In terms of Private Equity: Review of Strategy and Implementation, that

(a) 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;

(b) 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%

(c) 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%

(d) 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;

(e) 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 8.5;

(f) it is recognised that the portfolio may not fall within the target ranges at 8.3 and 8.4 above from time to time to reflect, *inter alia*, portfolio repositioning.

(v) In terms of Private Debt: Review of Strategy and Implementation, that

(a) the medium-term strategic allocation for private debt remains at 5% by value of the

total Main Fund assets.

(b) 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%

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

(d) the scale of commitment to funds to be £375m per annum, to work towards achievement of the strategy allocation over a sensible time frame.

(e) 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.

(v) In respect of Infrastructure Funds: Review of Strategy and Implementation, that

(a) 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;

(b) 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%

(c) 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%

(d) the pace of new fund commitments is maintained at £240m per annum to work towards achievement of the strategy over a sensible time frame;

(e) the Private Markets team implement the Infrastructure strategy via commitments to private partnerships and to co-investments; and

(f) 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.

(vi) With regard to, Special Opportunities Portfolio: Review of Strategy and Implementation, that

(a) the allocation to the Special Opportunities Portfolio remains at <u>up to</u> 5% by value of the total Main Fund assets; and

(b) the main strategic control to remain the Type Approval mechanism described at Section 3.2.

(vii) In respect of Special Opportunities Portfolio: Approval of an Investment Type – Private Debt Opportunities:

(a) That approval be given to the making of investments from the Special Opportunities Portfolio under a new, broader Type Approval, "Private Debt Opportunities", defined as follows:

i) private loan or loan-related investments;

ii) globally;

iii) across a full range of collateral types;

iv) of a senior or junior nature;

v) with a view to creating a diversified portfolio targeting returns, typically, though not exclusively, in the range of 6% to 12% per annum; and

vi) without creating any overlap with the Main Fund Private Debt strategic

allocation.

(b) A non-exhaustive list of permitted investments within the "Private Debt Opportunities" Type Approval includes:
  i) Corporate junior and mezzanine loans;
  ii) Leveraged senior corporate loans;
  iii) Distressed corporate and other loans;
  iv) Real Estate loans;
  v) SME Equipment Finance;
  vi) Aviation Leasing;
  vii) Residential and Commercial Mortgage finance;
  viii) Consumer Finance;
  ix) Insurance Linked Securities; and
  x) Trade Finance

(c) That the exposure cap for the broader Type Approval "Private Debt Opportunities" be increased from 2% of Main Fund Assets to 3% of Main Fund Assets.

(viii) In terms of UK Property Portfolio: Review of Strategy and Implementation and Performance Monitoring:

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

(b) 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%

(c) That the pacing of commitment to UK property to continue at an average of c. £200m per annum in order to meet a "realistic" target of allocation of 8% of the Main Fund allocation by end of 2024.

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

(ix) In respect of Overseas Property Portfolio: Review of Strategy and Implementation:

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

(b) 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%

(c) 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%

(d) That the pacing of commitment to funds to remain at £100m per annum in order to maintain a “realistic” target allocation of 2% of the Main Fund allocation over the next 4 years.

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

(x) With regard to Property Venture Fund: Review of Strategy and Implementation:

(a) the medium term strategic allocation for the GMPVF portfolio remains at 2.5% by value of the total Main Fund assets

(b) the target geographical diversification of the GMPVF portfolio remains:

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

(c) 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%

(d) 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%

(e) **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

(f) **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.**

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

(xi) **In terms of Impact and Invest for Growth Portfolio: Review of Strategy and Implementation:**

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

(b) **The Impact Theme target diversification for the Impact portfolio is adjusted as follows:**

Impact Themes		Target % Range
JOBS	50%	25%-75%
Loans to SME's		
Equity Invest in Underserved Markets		
Investment in technology jobs		
PLACE	50%	25%-75%
Renewable Energy Infrastructure		
Social Investment		
Social Infrastructure		
Housing		
Total		100%

(c) **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. In addition to this routine portfolio activity, will be the Northern Gritstone Investment and a significant investment targeted at local infrastructure which will be a project that the team will commence work on subject to approval. It is envisaged that over medium term this could involved deployment of up to £100m.**

(d) **It is recognised that the portfolio may not fall within the target ranges at 8.2 from time to time to reflect, inter alia, portfolio repositioning.**

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

(xii) **With regard to Northern LGPS Housing: Review of Strategy and Implementation:**

(a) **The medium term strategic allocation for the Northern LGPS Housing portfolio remains at 1% by value of the total Main Fund assets; and**

(b) **The implementation process continues to be overseen by GMPF Investment Committee and Northern LGPS Directors.**

(xiii) **GLIL Infrastructure LLP: Review of Strategy and Implementation, that the 5% Main Fund allocation to GLIL remains unchanged and the Investment Mandate and Investment Guidelines remain unchanged.**

(xiv) **Global Equity 'Purchase/Sale' Trigger Process – Update of Fair Value Estimate, Trigger Points and Size of Switch, that the updated Fair Value estimate, associated updated trigger points and the updated 'size' of the maximum asset switch to be targeted, as contained within the report, be adopted.**

9. NORTHERN LGPS JOINT OVERSIGHT COMMITTEE

The Minutes of the proceedings of the meetings of the Northern LGPS Joint Oversight Committee held on 3 February and 14 April 2022 were received.

RECOMMENDED
That the Minutes of the proceedings of the Northern LGPS Joint Oversight Committee held on: 3 February and 14 April 2022 be noted.

10. SCHEME GOVERNANCE/WORKING GROUP MEMBERSHIP 2022/23

Consideration was given to a report of the Director of Pensions, which gave details of the appointments to the Working Groups, Scheme Governance and Terms of Reference.

RECOMMENDED
That the content of the report including the membership of the Working Groups, Scheme Governance and Terms of Reference, be noted.

11. RESPONSIBLE INVESTMENT UPDATE

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

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 report publicly 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 the quarter against the six PRI principles was detailed in the report.

The Assistant Director gave details of deployment of capital as follows:

- **Impact Portfolio**: £10 million commitment to purchase and refurbish properties in the North West to provide accommodation to families at risk of homelessness
- **Property Venture Fund:** £48m commitment to build three logistics units within Greater Manchester with strong sustainability and energy ratings.

He further made reference to the Northern LGPS Stewardship quarterly report, which explored water stewardship; tackling tax; effective engagement and voting on shareholder resolutions. Members were advised that GMPF co-filed three shareholder resolutions aligned to its RI Policy in respect of tax transparency and climate reporting. Northern LGPS Net Zero targets were also discussed. Reference was also made to the LAPFF quarterly engagement report, which focused on Ukraine, UK Endorsement Board, Mining and Human Rights issues.

Details of GMPF's Responsible Investment partners and collaborations were appended to the report. Detailed discussion ensued in respect of the content of the report and presentation, with particular focus on the consequences of extreme weather events on emerging economies and how this affected their ability to move towards a Net Zero position and the role of the Fund as an influencer on the global stage.

The Chair thanked the Assistant Director for the comprehensive and informative presentation, which detailed the action taken towards the goal to achieve a net zero carbon fund and demonstrated the Fund's approach to a Just Transition.

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

12. LGPS PERFORMANCE UPDATE

Karen Thrumble of PIRC, attended virtually before Members and delivered a presentation, which provided an overview of the Fund's investment performance within a long-term, peer group context to enhance governance and improve decision making.

The Chair thanked Ms Thrumble for a very thought provoking presentation. He added that he was pleased to note the Fund's impressive performance over 30 years.

RECOMMENDED
That the content of the presentation be noted.

13. UBS TRAINING ITEM

Steve Magill, Head of UBS European and UK Value and Francis Condon, Head of Thematic Engagement & Collaboration, Sustainable Investment Research**,** UBS, attended virtually before Members and delivered a presentation.

Mr Magill began by discussing key ESG trends including the underlying dynamics and drivers of the SI market and outlined the sustainable development scenario vs net zero emissions.

Further information was provided in respect of the energy transition and how energy companies were leading the way. Collaboration with companies to support a transition was detailed including UBS's commitment to engaging with companies to help them transition to a lower carbon future and to playing an important role in solving the climate change emergency. How UBS was driving the climate change agenda was also explored and the importance of ownership of the most polluting stocks by the most responsible investors was emphasised.

Detailed discussion ensued in respect of the content of the presentation and Members sought further clarification as to how UBS incorporated ESG factors in decision making and diversification of the portfolio.

The Chair thanked Mr Magill and Mr Condon for a very interesting and helpful presentation.

RECOMMENDED
That the content of the presentation be noted.

14. 2022 ACTUARIAL VALUATION

A report was submitted by the Assistant Director of Pensions, Funding and Business Development and a presentation delivered by Steven Law of Hymans Robertson, Actuary to the Fund.

It was reported that GMPF's actuary Hymans Robertson presented at both the December 2021 and March 2022 Panel meetings on some of the likely key issues influencing the outcomes of the valuation. It was explained that, whilst actuarial assumptions were yet to be agreed by the Management Panel, at a whole fund level, it was expected that GMPF would disclose a broadly similar funding level at the 2022 valuation compared to 31 March 2019. GMPF's investment returns exceeded the assumption made at the 2019 valuation, but an increase in future expected price inflation was likely to increase the present value of the Fund's liabilities, offsetting much of the asset gains. Whilst changes were also being proposed to some demographic assumptions (such as life expectancy) to reflect observed trends over the inter-valuation period, the changes were expected to have a less material impact on the valuation results.

As was typically the case, there would likely be a wide variety of outcomes across employers. Increases in both asset and liability values tended to produce more favourable outcomes for those employers whose sections of GMPF were already well funded and/or those employers who had a relatively 'mature' liability profile (i.e. a relatively high proportion of pensioner members and/or non-pensioner members who were relatively close to retirement).

Members were advised that, as part of the 2022 valuation, GMPF would need to update its Funding Strategy Statement ('FSS') and consult on this with employers. The Funding Strategy Statement provided guidance to the Actuary in undertaking the actuarial valuation. Regulation 58 of the LGPS Regulations 2013 required each administering authority to prepare and maintain a Funding Strategy Statement. The purpose of the FSS was to "establish a clear and transparent fund specific funding strategy which would identify how employers' pension liabilities were best met going forward". The FSS also set out other aspects of GMPF policy, such as how early retirement costs were funded, and how debts for employers who terminated their participation in the fund were calculated. The Funding Strategy Statement was attached to the report. A draft Funding Strategy Statement for 2023 to 2026, was also appended to the report.

Other points of note including the McCloud/Sargeant judgements in the LGPS, were also detailed and discussed.

RECOMMENDED
(i) That the content of the report and the presentation from Hymans Robertson, be noted; and
(ii) That the draft Funding Strategy Statement be approved for consultation with employers following further discussion at the Administration, Employer Funding and Viability Working Group on 29 July 2022.

15. INVESTMENT STRATEGY AND TACTICAL POSITIONING 22/23

Consideration was given to a report and presentation of the Assistant Director of Pensions, Investments, to review the benchmark asset allocations for the Main Fund and Investment Managers and to consider changes to the investment restrictions.

It was reported that 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 and it was intended that further work be undertaken in this area, post the 2022 Actuarial Valuation.

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 8.5% 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 2021/22. 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 the 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 had since been made and the portfolio was now 3.4% 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.

RECOMMENDED

1. **Main Fund Overall Asset Allocation**
    - (a) **No changes proposed for the 'fully implemented' benchmark asset allocation.**
    - (b) **Adjust the Public Equity to take account of the changes in 'realistic benchmark' allocations to Infrastructure and Private Debt *[see 5. (f) and 5. (g) below].* More specifically, reduce the Public Equity allocation by 1.0% (from 46.3% to 45.3%) to take account of this changes.**
2. **Public Equity Allocation**
    - (a) **Set the Public Equity benchmark allocation as 45.25% *[see 1. (b) above]*.**
    - (b) **No changes proposed for the overall splits within the Public Equity allocation**

– maintain the Public Equity allocation as 64% Regional and 36% Global, and maintain the current Regional Equity mix.

(c) Continue with the "strategic direction of travel" in terms of moving gradually over a number of years from the recouched current mix of the Regional Equity allocation towards a Market Cap weighted shape as adopted at the July 2021 Panel. No further change necessary at this time.

3. Debt Related Investments (inc Bonds)/Cash Allocation

(a) No changes proposed for the overall bond position – maintain current overall benchmark allocation for bonds.

(b) No change to the 3.2% allocation to Strategic Cash.

(c) No changes proposed to the current 'liquidity waterfall' and approach to managing the Fund's liquidity needs. Any developmental changes regarding the ongoing management or implementation of the Fund's liquidity requirements to be considered as part of the Fund's review of Investment Management Arrangements.

4. Environmental, Social and Governance Factors

(a) No changes proposed for the Fund's incorporation of ESG factors into the strategic benchmark and investment strategy.

(b) The Fund's approach to being an activist investor via company engagement, as outlined in 15.3, is noted.

5. Alternative Investments

(a) Private Equity : The recommendations of the Policy & Development Working Group be adopted (minute 5 refers).

(b) Infrastructure : The recommendations of the Policy & Development Working Group be adopted (minute 7 refers).

(c) Private Debt : The recommendations of the Policy & Development Working Group be adopted (minute 6 refers).

(d) Special Opportunities Portfolio : The recommendations of the Policy & Development Working Group be adopted (minutes 8 and 9 refers).

(e) Maintain the strategic target allocation to private equity at 5%.

(f) Change the realistic allocation to Infrastructure from 3.5% to 4.0%.

(g) Change the realistic allocation to Private Debt from 3.0% to 3.5%.

(h) Maintain the realistic allocation to Special Opportunities Portfolio at 2.0%.

(i) All increases in realistic allocation to Infrastructure and Private Debt to come entirely from Public Equities.

6. Direct UK Infrastructure

(a) Maintain the realistic allocation to GLIL of 3%.

(b) Direct Infrastructure : The recommendations of the Policy & Development Working Group be adopted (minute 15 refers).

7. Property

(a) Maintain the overall strategic target exposure to property at 10%.

(b) Property : The recommendations of the Policy & Development Working Group be adopted (minutes 10 and 11 refers).

8. Local Investment

(a) Maintain the overall limit on those assets which are locally invested at 5% of Main Fund as agreed at the July 2011 Panel. Maintain the 'realistic benchmark' allocations for Local Investments.

(b) Local Investment: The recommendations of the Policy & Development Working Group be adopted (minutes 12, 13 and 14 refers).

9. Currency hedging

Maintain the existing currency hedging arrangements and review at future reviews of investment strategy. No other changes are proposed to the management of currency exposure elsewhere within the Fund at this stage.

10. Rebalancing
No changes are proposed to the existing rebalancing arrangements. Any developmental changes to the Fund's approach to rebalancing and its implementation to be considered as part of the Fund's review of Investment Management Arrangements

11. Benchmark Indices
No changes are proposed to the current benchmark indices of the Fund.

12. Implementation
The nature, timing and detailed implementation of any benchmark changes necessary to reflect the decisions of the Panel be settled by the Director of Pensions following consultation with the Advisors and/or managers where appropriate.

16. INVESTMENT MANAGEMENT ARRANGEMENTS

The Assistant Director of Pensions Investments submitted a report in relation to the Fund's consideration of Investment Management arrangements, focussing on rebalancing.

It was explained that the Investment Management arrangements of the Fund reflected a wide range of significant past decisions concerning how the Fund chose to position itself in terms of the management of its assets. The 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.

Areas of focus identified in the October 2020 review of Investment Management Arrangements report to Panel had formed the basis of subsequent reports to a number of Panel meetings since that time and were detailed and discussed.

The report focused on a review of GMPF's approach to rebalancing. Members were advised that rebalancing could be defined as the action / trading strategy of bringing an investors asset allocation back towards what the investor would consider to be the ideal asset allocation given their current views. It was required as a result of different asset classes producing different returns over time, leading to one asset class potentially 'growing' faster than another.

Rebalancing the Main Fund Asset Allocation was considered as part of the 2018/19 Investment Strategy. At that time, Officers weighed the potential advantages of various rebalancing strategies with possible costs.

Following the 2018 assessment, officers proposed that "*The Main Fund is formally monitored once a year immediately following the review of Investment Strategy and rebalanced back to the Main Fund benchmark allocation as necessary. The nature, timing and detailed implementation of any required benchmark changes are settled by the Director of Pensions following consultation with the Advisors and/or managers where appropriate*". The proposal was adopted at the July 2018 meeting of the GMPF Management Panel.

Consideration and evaluation of alternative approaches was specified and key learning points were identified.

It was concluded that, from the papers considered, and having discussed the perspectives with a knowledgeable practitioner at one of the Fund's Public Market Managers, Officers believed that, on balance, the Fund's current rebalancing arrangements continued to provide a reasonable compromise between the risk of a significant deviation away from the Strategic Asset Allocation, the cost of more frequent rebalancing, and the desire to avoid any detrimental performance as a result of missed price-momentum effects. The current approach also benefited from being relatively simple to operate and had low operational risk when compared to the other potential strategies discussed.

RECOMMENDED
(i) That the content of the report be noted, and
(ii) That the Panel endorse the continuing use of the current GMPF rebalancing approach as set out at paragraph 3.3 of the report.

17. 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.

Key information from the Quarter 1 2022 Performance Dashboard was summarised. It was explained that the Russia-Ukraine conflict, and its impact on commodity prices, had exacerbated existing inflationary pressures, weighing on the growth outlook as input and living costs rise, and central banks turned less accommodative. This had resulted in negative returns across bond and equity markets. Russia and Ukraine represented a small share of global GDP and trade but produced a disproportionate share of key global commodity exports. Physical disruptions and sanctions had triggered broad commodity price rises, which alongside existing inflationary pressures, were increasing input costs and weighing on consumer's real incomes. As a result, CPI inflation forecasts had reached new highs while consensus forecasts for global growth had been revised downwards, but still pointed to a relatively robust pace of growth over 2022 and 2023 by post-GFC standards. Soaring energy costs pushed headline inflation higher, but core inflation, which excluded volatile energy and food costs, also rose and was running at a 30-year high, indeed in the UK it was expected that a large number of households would be subject to 'fuel poverty' and additionally, food prices had continued to increase further, increasing poverty and exacerbating inequality. The inflation backdrop had seen central banks turn gradually more hawkish this year, despite the potential downside risks to growth from higher commodity prices. The major central banks, including the Bank of England, had responded to higher inflation by raising base interest rates and reducing the size of their balance sheets.

Quarter one had witnessed markets performing negatively for the first time in a while; in fact, excluding global value, property and commodities, all primary listed asset classes had had negative returns. Concerns about central bank tightening, slowing earnings momentum, and the geopolitical situation had all contributed to global equities falling in Q1 2022, despite a bounce back in March. Value stocks notably outperformed growth stocks as rising yields weighed most heavily on the valuations of stocks with earnings growth further in the future, such as those in the technology sector. Commodity prices surged to extreme levels, with oil and industrial metals benefitting, and faster than expected monetary tightening in the US contributed to a rally in the dollar, whilst safe-haven appeal drove gold prices higher. Bond yields rose sharply as investors priced in a faster withdrawal of monetary stimulus and increased interest rate rise expectations. Corporate bonds also posted a negative return over the quarter.

Over the quarter total Main Fund assets decreased by £14million to £28.1 billion. With the exception of private equity, allocations to alternative assets, whilst increasing, remained below their long-term targets. Funding continued apace with allocations expected to increase further over the coming years.

Following the 2021/22 review of Investment Strategy, the current 'rules' governing the Public Equity allocation were recouched in order to simplify the presentation of the current and future positions. In addition, further changes to the 'realistic' strategic allocations to alternatives were made in Q4 2021.

Within the Main Fund, there was an overweight position in private equity and cash (of around 2% each versus target respectively). This was offset by underweight positions in bonds and (other) alternatives. The property allocation continued to be underweight (by around 2%) versus its benchmark.

On a cumulative basis, over the period since September 1987, the Main Fund had outperformed the average LGPS, equating to over £4.1 billion of additional assets. The Main Fund outperformed its benchmark over Q1 2022. Relative performance over 1 year and 3 years was positive. The Main Fund was also ahead of its benchmark over 5 and 10 years and performance since inception remained strong.

Over Q1 2022, 1 year active risk remained broadly at levels reached in Q3 2021 having increased dramatically over recent quarters. Active risk remained elevated relative to recent history. This had resulted in a marked increase in active risk over 3 and 5 year periods. However, over longer time periods, active risk of the Main Fund remained broadly consistent at around 1%-1.5% pa. Risk in absolute terms (for both portfolio and benchmark) slightly increased in Q1 2022 having fallen in Q4 2021. There was now greater uncertainty surrounding the macro economic outlook; in particular, future inflation levels, the war in Ukraine, supply chain disruptions and the future impact of the pandemic on economic output remained unclear

As at the end of Quarter 1; over 1 year; one of the fund's active securities managers had outperformed its respective benchmark whilst three managers underperformed their benchmarks. Over a 3 year period, whilst one manager had underperformed its benchmark two managers outperformed their benchmarks. The long-term performance of one manager remained strong. The performance history of the Factor Based Investing portfolio was extremely short, so at a very early stage, no conclusions could be drawn with regard to performance.

RECOMMENDED
That the content of the report be noted.

18. LONG TERM PERFORMANCE 2021/22 – MAIN FUND AND ACTIVE MANAGERS

The Assistant Director of Pensions Investments, submitted a report, which advised members of the recent and longer term performance of the Main Fund as a whole and of the external Public Markets active Fund Managers. Detailed results covering periods up to 30 years were given.

The performance of UBS over their time as a Manager for the Fund and short term only performance for Ninety One since their inception in 2015/16, were displayed.

RECOMMENDED
That the content of the report be noted.

19. CASH MANAGEMENT

A report was submitted by the Assistant Director of Pensions Investments, which explained that the Fund adopted a relatively prudent approach to its cash management. The report outlined the constraints in place to ensure an appropriate level of prudence, focusing primarily on capital preservation and secondly on higher returns. It also detailed the performance achieved over the last three years.

The report concluded that the Pension Fund's cash had been generally well managed. Performance in 2021/22 exceeded market returns and total interest received was £0.6 million.

RECOMMENDED
That the content of the report be noted.

20. BUSINESS PLANNING, BUDGET AND RISK MANAGEMENT

Consideration was given to a report of the Director of Pensions providing an update on the current business plan and highlighted the current key risks being monitored.

Progress being made on the six key strategic projects set out in the 2021/22 business plan was detailed in the report. Overall, progress was generally in line with the timescales. All business plan tasks continued to be monitored and reviewed each month by the Director of Pensions.

In terms of risk management, Members were advised that the overarching risk register was reviewed and updated at least once each quarter and the latest version was appended to the report. Specific risks being monitored closely by officers were highlighted and included issues relating to high inflation, assessing the impact of the McCloud changes; and cyber security work.

RECOMMENDED
(i) That the progress on the current key business plan tasks be noted; and
(ii) That the risk register and the controls in place to mitigate each risk, be noted.

21. ADMINISTRATION UPDATE

The Assistant Director of Pensions Administration submitted a report providing an update on the following key items:

- Performance and engagement activities;
- Compliance activities; and
- Key projects updates.

RECOMMENDED
That the content of the report be noted.

22. 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:

- DLUHC publishes statutory guidance on special severance payments;
- Cost Control Mechanism;
- McCloud Update;
- MAPS Pension Dashboard update;
- The Pensions Regulator;
- Scheme Annual Report 2021; and
- Pooling update.

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

23. FUTURE DEVELOPMENT OPPORTUNITIES

Trustee development opportunities were noted as follows:

PLSA Annual Conference – ACC Liverpool	**12-13 October 2022**
LGA Fundamentals Day 1 - Virtual	**18 October 2022**
LGA Fundamentals Day 2 - Virtual	**22 November 2022**
LGA Fundamentals Day 3 - Virtual	**20 December 2022**
LGPS Governance Conference - Bournemouth	**20-21 January 2023**

24. DATES OF FUTURE MEETINGS

It be noted that the date of future meetings be held as follows:

Management/Advisory Panel	16 Sept 2022 2 Dec 2022 24 March 2023 14 July 2023 15 Sept 2023 1 Dec 2023 8 March 2024
Local Pensions Board	28 July 2022 29 Sept 2022 26 Jan 2023 13 April 2023 27 July 2023 28 Sept 2023 25 Jan 2024 11 April 2024
Policy & Development Wrk Grp	8 Sept 2022 24 Nov 2022 2 March 2023 22 June 2023 7 Sept 2023 23 Nov 2023 22 Feb 2024
Investment Monitoring & ESG Wrk Grp	29 July 2022 30 Sept 2022 27 Jan 2023 14 April 2023 28 July 2023 29 Sept 2023 26 Jan 2024 12 April 2024
Administration & Employer Funding Viability Wrk Grp	29 July 2022 30 Sept 2022 27 Jan 2023 14 April 2023 28 July 2023 29 Sept 2023 26 Jan 2024 12 April 2024

CHAIR