

**GREATER MANCHESTER PENSION FUND
ADVISORY PANEL**

16 September 2022

Commenced: 10.00am **Terminated: 12.20pm**

Present: **Councillor Cooney (Chair)**
Councillors: Cowen (Bolton), Cunliffe (Wigan), Grimshaw (Bury), Massey (Rochdale), and Smart (Stockport)

Employee Representatives:
Ms Blackburn (UNISON), Mr Caplan (UNISON), Mr Flatley (GMB), Mr Llewellyn (UNITE) and Mr Thompson (UNITE)

Fund Observer:
Councillor Taylor (Stockport)

Local Pensions Board Member (in attendance as observer):
Councillor Fairfoull

Advisors:
Mr Moizer and Mr Powers
Mr Bowie joined the meeting virtually

Apologies for absence: **Councillors Andrews (Manchester), Barnes (Salford) and Jabbar (Oldham)**
Mr Drury (UNITE)
Mr Pantall – Independent Observer

25. CHAIR'S OPENING REMARKS

The Chair, Councillor Cooney welcomed everyone to the meeting of the Panel during the period of National Mourning for Queen Elizabeth II.

He explained that, in line with protocol, and in particular Operation London Bridge, once a summons for a meeting had been issued, there was no provision for meeting to be postponed unless the circumstances made it impossible for the meeting to be held. Therefore, meetings, which had already been summonsed, were required to proceed as planned.

The Chair reflected that Queen Elizabeth II was an extraordinary woman who dedicated her life to public service and upheld the highest standards of dignity, courtesy, decency and honour. Her Majesty the Queen touched the lives of so many people across the world over the 70 year reign and had been a devoted servant to her people.

The meeting then stood and observed one minute's silence in memory of Queen Elizabeth II.

The Chair added that, on the basis that discretion was required regarding announcements, publicity or public facing activity during the period of National Mourning, it was intended to forgo the Chair's usual introduction in respect of general Fund activities in order to strictly undertake the summonsed business.

The Chair then welcomed Cllr John Taylor from Stockport who had been appointed as an observer; at the 19 July 2022 meeting of Tameside Council; in order that his corporate knowledge of the Fund could be retained. This was important in a time of constant change and helped ensure necessary scrutiny to keep on the straight and narrow.

26. DECLARATIONS OF INTEREST

There were no new declarations of interest submitted by Members.

27. MINUTES

- (a) The Minutes of the proceedings of the meeting of the Pension Fund Advisory Panel held on 15 July 2022 were signed as a correct record.
- (b) The Minutes of the proceedings of the meeting of the Pension Fund Management Panel held on 15 July 2022 were noted.

28. 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, 14, 15, 19, 20, 21, 22, 23, 24	3&10, 3&10, 3&10, 3&10, 3&10, 3&10, 3&10, 3&10, 3&10, 3&10, 3&10, 3&10, 3&10	Disclosure would or would be likely to prejudice the commercial interests of the Fund and/or its agents, which could in turn affect the interests of the stakeholders and/or tax payers.

29. LOCAL PENSIONS BOARD

The Minutes of the proceedings of the meeting of the Local Pensions Board held on 28 July 2022 were received.

The Chair of the Local Pensions Board, Councillor Fairfoull, advised that the 2022 actuarial valuation and its progress to date, was discussed. There was focus on the draft Funding Strategy Statement that was now being consulted on with employers. The purpose of the Funding Strategy Statement was to establish a clear and transparent fund specific funding strategy, which would identify how employers' pension liabilities were best met going forward. The new Funding Strategy Statement would place GMPF in good stead for the future and would ensure stability in the funding strategy. He added that he looked forward to the Panel meeting's valuation agenda item and the presentation prepared by the Actuary.

The 2021/2022 annual accounts and reporting process was also considered. The Local Board section of the annual report for 2021/2022 was reviewed. It was pleasing to note that the Local Board's expenditure was well within budget. Preparing reports and accounts was a statutory obligation of all local authorities. However, it was also beneficial for members and employers that

they could access accurate information about the Local Board and the Fund.

As at each meeting, the monitoring of late payment of contributions or late submissions of data from employers was reviewed. It was encouraging to hear that the timeliness of contribution payments and receipt of data from employers had generally been good over the last quarter.

Reassuring updates were also provided from the Fund's pension administration team on a number of ongoing work streams and the Board discussed the findings of recent internal audit reports and the current version of the Fund's risk register.

RECOMMENDED

That the Minutes of the proceedings of the Local Pensions Board held on 28 July 2022 be noted.

30. INVESTMENT MONITORING AND ESG WORKING GROUP

The Minutes of the proceedings of the meeting of the Investment Monitoring and ESG Working Group held on 29 July 2022 were considered.

It was stated that representatives of UBS attended the meeting and gave informative updates on their Responsible Investment activity, and trading costs over the last 12 months.

UBS made reference to their proprietary ESG risk dashboard and the ongoing active engagement with companies flagged as having elevated sustainability risks. Engagement expectations and outcomes were discussed.

PIRC also attended the meeting and updated the group on the work they had been doing around workforce safety disclosures.

PIRC discussed the link between executive pay and safety, and the lack of comprehensive or standardised reporting on health and safety issues, especially from companies with contingent workers, which were areas PIRC would push for improvements on.

Two particular key points that the Chair said he took from the working group were

1. Putting pressure on fossil fuel providers to commit windfall profits to investment in renewables and the transition process. UBS were following this aspect up with BP and Shell. Incidentally they pointed out that all producers of energy, including sustainable sources benefitted from the currently extremely high energy prices caused by the war in Ukraine.
2. The emphasis on the health and safety of employees was a very important S factor. Developing comparative measures will be important.

RECOMMENDED

That the Minutes be received as a correct record.

31. 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 29 July 2022 were considered.

The Chair of the Working Group, Councillor North, advised that discussion had taken place in respect of 'year in review' reports, which were distributed to the ten local authorities for 2021/2022. The report provided each employer with statistics and information relating to their GMPF members and highlighted how well they were fulfilling their role as an LGPS employer. The intention of the annual report was to help employers identify where they could make improvements and where

benchmarking against their peers may help them drive forward efficiencies. Feedback from the local authority employers had been positive and had helped provide a critical eye to their pensions' functions.

Cyber security was also discussed, and the recent cyber security simulation exercise that was carried out. The simulation exercise was designed by the National Cyber Security Centre and was available through their website. GMPF carried out eight different simulation exercises, ranging from a work mobile device being stolen to a ransomware attack. Each exercise provided a scenario, which prompted and facilitated discussions around the controls that were in place to mitigate against the risks relating to the scenario. Following the exercise some areas for improvement were identified but, overall, the exercise demonstrated that in most areas, GMPF had appropriate controls in place.

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

RECOMMENDED

- (i) That the Minutes be received as a correct record; and**
- (ii) In respect of Administration Developments & Technologies Update; that the content of the report be noted and that the proposal to proceed with the procurement of a contract to replace and renew audio-visual solutions within Guardsman Tony Downes House to meet the new demands of the service, be approved.**

32. POLICY AND DEVELOPMENT WORKING GROUP

The Minutes of the proceedings of the meeting of the Policy and Development Working Group held on 8 September 2022 were considered.

The Chair of the Working Group, Councillor Cooney, advised that UBS attended the Working Group to present their performance review for the quarter ending 30 June 2022, which was reported on in detail later in the agenda.

UBS also presented details of a proposal for a pilot of a Global Equity Value allocation. Members and Advisors broadly supported the proposal subject to some further due diligence by officers that would be considered at the next meeting of the Working Group. The additional work would look at things like the role analysts at UBS, their ability to spot value opportunities in all regions, and the optimal size for an initial pilot allocation.

The focus of most of the remainder of the meeting was on the annual performance updates for the various internal portfolios, along with the external property portfolios. This included a presentation from MSCI on the performance of both externally and internally managed property. It was pleasing to see the fruits of the significant work that had been undertaken to professionalise and future proof the fund reflecting its £30 billion status.

RECOMMENDED

- (i) That the Minutes be received as a correct record;**
- (ii) In respect of the Report of the Manager; that a pilot of a Global (Developed) Equity Value allocation within the UBS mandate be approved, subject to satisfactory completion of additional due diligence, to be submitted to the next meeting of the Working Group**

33. 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:

- **Direct Infrastructure Platform (GLIL):** the acquisition of a stake in Hornsea One – part of the world's largest operational wind farm; and
- **Impact Portfolio** - £105m commitment to Northern Gritstone helping to finance companies in some of the UK's fastest growing sectors

He further made reference to the Northern LGPS Stewardship quarterly report, which explored Climate Voting alerts, Banking, Electric Vehicles, Mining, Jet Zero and Sainsbury's.

In terms of the UK Stewardship Code, Members were advised that GMPF's application renew its signatory status of the UK Stewardship Code was successful. GMPF was now one of 236 signatories:

- 169 asset managers
- 48 asset owners
- 19 service providers
- UBS, LGIM, Ninety One, PIRC and Hymans Robertson were signatories.

The Assistant Director further commented on the DLUHC consultation with regard to assessing, managing and reporting climate-related risks in line with Task Force on Climate Related Financial Disclosures (TCFD), and advised that GMPF had been reporting voluntarily in line with TCFD for 5 years. Information was also provided in respect of the Carbon Disclosure Project.

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

Discussion ensued in respect of the content of the report and presentation, with further clarity sought in respect of harnessing members' views through the Investment Strategy Statement.

The Chair thanked the Assistant Director for the comprehensive and informative presentation.

RECOMMENDED

That the content of the report and presentation be noted.

34. GMPF'S APPROACH TO CLIMATE RISK

Alex Lake and Sudeep Ar of Trucost presented before Members and gave an analysis of the Fund's Carbon Footprinting Assessment of its equity and corporate bond holdings. The presentation further provided details of a 'mapping' exercise of the Fund's holdings against analysis undertaken by the Transition Pathway Initiative, a global, asset-owner led initiative, which assessed companies' preparedness for the transition to a low carbon economy.

Discussion ensued and Members sought further information on carbon capture and plans to reduce CO² emissions.

The Director of Pensions made reference to the Fund's Annual Report, which set out the position on carbon, how it was being managed and what was being done to achieve net zero.

The Advisors commented on the transition of fund manager portfolio's over time and supported GMPF's approach and the use the voting and influences to effect that rather than to dispose.

The Chair thanked Mr Lake and Mr Ar for a thought provoking presentation.

RECOMMENDED

That the content of the presentation be noted.

35. ADMINISTRATION AND BENEFITS REVIEW

Consideration was given to a report of the Assistant Director Pensions Administration and the Assistant Director, Funding and Business Development, which provided:

- A review of the work carried out by the Administration teams during 2021/22 together with information about the membership of the Fund as of 31 March 2022. It also provided an update on performance and engagement activities carried out in Quarter 1; and
- Information about how LGPS benefits are inflation proofed and explained the impact changes in inflation had on member pension benefits.

The Assistant Director of Pensions Administration explained the primary focus of the service over the last two and half years had been to respond to the demands generated by the coronavirus pandemic. The pandemic presented some big challenges for GMPF's administration service, causing material volatility to workloads and driving a lot of change within a short space of time. However, it also presented numerous opportunities. A significant amount of time had been spent on reassessing and changing how the administration service was delivered and on developing the team's resilience and capacity. The team had implemented new systems and had enhanced the technology around them, which had reformed how teams worked and how they delivered their service to members.

The report then gave a detailed overview in terms of the following:

- Membership and key statistics;
- Member Services;
- Employer Services;
- Communications and Engagement;
- Developments and Technologies; and
- Risks and Challenges.

In respect of administration, performance and engagement activities, a performance dashboard for Quarter 1 (April to June 2022) was appended to the report.

The Assistant Director, Funding and Business Development, then advised Members with regard to how benefits were linked to inflation.

He explained that most pension schemes included a mechanism for inflation proofing, to try and ensure pension benefits broadly maintained their purchasing power when the cost of living increased. However, the extent of inflation proofing and the methods used to achieve this differed from scheme to scheme. Broadly speaking, LGPS benefits were fully linked to increases in the Consumer Price Index, ('CPI') which was now the Government's preferred inflation measure. However, the calculation and timing of increases differed depending on the type of benefit being built up and whether it was in payment or not.

RECOMMENDED

That the content of the report and presentations be noted.

36. 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 the previous three Panel meetings on some of the likely key issues influencing the outcomes of the valuation.

Preliminary whole-fund valuation results were discussed and it was explained that GMPF's investment returns had offset higher expected inflation and, therefore, the funding position had improved marginally since 2019 valuation.

In respect of employer-level results, Members were advised that work was underway to ensure appropriate funding plans were in place for each employer.

Members were advised that, 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 Funding Strategy Statement was to "establish a clear and transparent fund specific funding strategy which would identify how employers' pension liabilities were best met going forward". The Funding Strategy Statement 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.

A draft copy of the Funding Strategy Statement was presented to Panel, the Administration, Employer Funding and Viability Working Group and the Local Pensions Board at their respective July meetings. The draft Funding Strategy Statement was approved to be issued for consultation with employers. Consultation with employers commenced on 15 August 2022. Employers were notified via email that GMPF was consulting on its Funding Strategy Statement and invited responses from employers wishing to do so. The deadline for consultation responses was 11 October 2022. A verbal update on responses received to date would be provided at the upcoming meeting of the Administration, Employer Funding and Viability Working Group.

RECOMMENDED

- (i) That the content of the report and the presentation from Hymans Robertson, be noted;**
and
- (ii) That the progress on the valuation be noted.**

37. 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 2 2022 Performance Dashboard was summarised. It was explained that, although most of the world had moved beyond the COVID-19 pandemic, the impact of financial policies and economic problems had created high inflation, supply problems and other uncertainties going forwards. The uncertainty had been increased by the invasion of Ukraine by Russia. Recession fears and an accelerated Federal Reserve trajectory for raising interest rates weighed on markets during the second quarter. The European Central Bank and the Bank of England also outlined a much more aggressive plan to raise rates. Inflation levels had continued to surprise to the upside, fuelled by ever higher oil and commodity prices, labour shortages, and ongoing supply chain disruptions. Supply and demand imbalances remained across industries and extended from labour challenges to energy resources to semiconductor stocks. As inflation forecasts continued to rise, global growth forecasts remained on a downwards trend: June's consensus forecasts global GDP rising 2.9% in 2022 and 2.8% in 2023, down from 4.1% and 3.2%, respectively, at the start of the year. Equity and bond markets posted negative returns; compounding what was already a difficult start to the year. Q2 2022 witnessed markets performing negatively for the second consecutive quarter; in fact, excluding global property and commodities, all primary listed asset classes had negative returns this quarter.

Despite ongoing upwards revisions to consensus analyst earnings forecasts, global equities fell over the quarter, as increases in expectations for the path of interest rates extended the recent decline in equity market valuations. The S&P 500 lost 16.1% over the quarter. The 20% fall in the index year to date marked the largest first half decline since 1970. The technology sector notably underperformed on the back of rising interest rates whilst returns within the consumer discretionary sector were impacted by a weakening consumer outlook. In contrast, consumer staples outperformed, as investors perhaps placed a premium on the sector's inherent pricing power. Traditionally defensive sectors including utilities, telecoms, and healthcare outperformed over the quarter, whilst the more cyclical basic materials and industrials sectors underperformed. North America underperformed, owing to its large exposure to the technology sector. Meanwhile, above-average exposure to energy, metals, and miners, saw the UK continue its recent outperformance, and the easing of lockdown restrictions in China provided some relative support to Emerging and Asian markets equities.

Government bond prices fell and yields rose, as markets moved to price in significant further increases in interest rates in addition to those already announced. The impact of rising government bond yields on the total returns of corporate bonds has been compounded by spread widening, as both inflation and growth concerns have weighed on global corporate bond markets.

Over the quarter total Main Fund assets decreased by £480 million to £27.7 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 re-couched 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 4% in aggregate). Allocations to Private Debt, Infrastructure and GLIL were also overweight relative to their respective (realistic) benchmarks. The overweight positions were offset by underweight positions in bonds, equities and property. The property allocation continued to be underweight (by around 0.6%) versus its benchmark. On a cumulative basis, over the period since September 1987, the Main Fund had outperformed the average LGPS, equating to over £4.6 billion of additional assets.

The Main Fund outperformed its benchmark over Q2 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 Q2 2022, 1 year active risk rose having already increased dramatically over recent quarters. Active risk remained elevated relative to recent history – 1 year active risk was now 3 times the levels reached 10 years ago. 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 more stable at around 1.5% pa. Risk in absolute terms (for both portfolio and benchmark) increased in Q2 2022. 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 2; three of the Fund's active securities manager outperformed their respective benchmarks whilst one manager underperformed its benchmark. Over a 3 year period, one manager underperformed its benchmark whilst two managers outperformed their respective 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.

38. 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 2022/23 business plan was detailed in the report.

The Director highlighted an error in the report as follows:

Key Project 4 – McCloud – Status should read 'on track' and not 'completed' as stated 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.**

39. GMPF'S STATEMENT OF ACCOUNTS AND ANNUAL REPORT

The Director of Pensions submitted a report, which provided an update on the draft Annual Report and Accounts for GMPF including a summary financial report and advised Members in respect of the external audit.

The summary financial report for 2022 was detailed in the report and a link to the draft Annual Report was provided.

It was explained that, at the time of writing, the audit findings report for GMPF was in draft form awaiting confirmation of sign off from national review team. The draft report contained no material or high-risk findings.

RECOMMENDED

- (i) That the draft Annual Report be approved;
- (ii) That the Summary Financial Report be noted; and
- (iii) That the update on progress of external audit be noted.

40. 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:

- Pensions Age Publication About GMPF;
- Education sector and the LGPS;
- Cost Control Mechanism;
- McCloud Update;
- MAPS Pension Dashboard update;
- The Pensions Regulator; and
- Pooling update.

RECOMMENDED

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

41. 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
LAPFF Annual Conference - Bournemouth	7-9 December 2022
LGA Fundamentals Day 3 - Virtual	20 December 2022
LGPS Governance Conference - Bournemouth	20-21 January 2023

42. DATES OF FUTURE MEETINGS

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

Management/Advisory Panel	2 Dec 2022 24 March 2023 14 July 2023 15 Sept 2023 1 Dec 2023 8 March 2024
Local Pensions Board	6 Oct 2022 26 Jan 2023 13 April 2023 27 July 2023 28 Sept 2023 25 Jan 2024 11 April 2024
Policy & Development Wrk Grp	24 Nov 2022 2 March 2023 22 June 2023 7 Sept 2023

	23 Nov 2023 22 Feb 2024
Investment Monitoring & ESG Wrk Grp	7 Oct 2022 20 Jan 2023 14 April 2023 28 July 2023 29 Sept 2023 26 Jan 2024 12 April 2024
Administration & Employer Funding Viability Wrk Grp	7 Oct 2022 20 Jan 2023 14 April 2023 28 July 2023 29 Sept 2023 26 Jan 2024 12 April 2024

43. CHAIR'S CLOSING REMARKS

The Chair announced that this was the last meeting for Euan Miller, Assistant Director, Funding and Business Development, who was leaving the Fund to join West Yorkshire Pension Fund, as its Director. He would still be in contact however, as he would remain part of the Northern Pool. The Chair thanked Euan for over 8 years of service with the Fund, and added that he had been an absolute asset. He wished Euan every success in his new role.

CHAIR