GREATER MANCHESTER PENSION FUND - INVESTMENT MONITORING AND ESG WORKING GROUP

7 October 2022

Commenced: 09:00 **Terminated:** 10:30

Present:	Councillors Ryan (Chair), Andrews, Cowen, Drennan, Massey, Quinn, Ricci and Smart	
	Mr Caplan Drury, Flatley, Llewellyn	
	Fund Observers Pantall and Taylor	
In Attendance:	Sandra Stewart	Director of Pensions
	Tom Harrington	Assistant Director of Investments
	Paddy Dowdall	Assistant Director for Local Investments and Property
	Andrew Hall	Senior Investments Manager
	Lorraine Peart	Investment Officer
	Michael Ashworth	Senior Investments Manager
	Alan MacDougall	PIRC
	Tom Powdrill	PIRC
	Connor Constable	PIRC
Apologies for Absence:	Councillors Barnes, Jabbar, Lane, North and Ward	

7. DECLARATIONS OF INTEREST

There were no declarations of interest.

8. MINUTES

The minutes of the Investment Monitoring and ESG Working Group meeting on the 29 July 2022 were approved as a correct record.

9. AVISON YOUNG / GMPVF REPORT AND PRESENTATION

Consideration was given to a report and presentation of Avison Young, which provided a summary showing the financial allocation to the committed projects and the indicative allocation required for projects currently undergoing due diligence. The presentation provided an update on the progress achieved and the actions to be carried out in the coming months, across all the GMPVF developments sites.

The Working Group were presented with the Milestones from June 2021 to June 2022. During this period the projects Crusader Mill, Wilmslow Road, Circle Square, Manchester New Square and Adair Street reached practice completion. In total this amounted to 1,324 residential units and 275 hotel bedrooms, over 200 employment spaces. £139.5m was invested in these projects. New commitments included the projects, Island Site, Monarch 330 and Vita HQ. This amounted to a £84m investment.

In regards to the overall financial performance of the property venture fund, Members were presented with the money deployed on projects underway and those that were in the pipeline. The charts summarised the GMPVF's projected development costs as at the end of Q3 2022. The developments required investment over a period of time prior to exiting and recovering the investment and profits. Projects included Direct Property Development, Joint Ventures and Debt

Funding

Throughout 2022 Avison Young had maintained a consistent approach to the Funds targets for investment, assessing current commitments and the prevailing economic situation. Long term these areas for investment were to:-

- address a range of property sectors in order to build a balanced portfolio,
- target industrial development,
- focus on residential development in suburban locations and residential developments which was affordable in nature
- identify how sustainable development could be implemented and maximise ESG attributes in future investments.

The current allocation across the various property sector allocations for income generating properties was presented to the Working Group. Of the committed and Pipeline projects, there was £120.420m unspent, £62m in Offices, £76.08m in Industrial sectors and £38.5m in other.

Property sector allocations for development projects was made up of £58.5m in office developments, £150.3m in industrial, £155m in City Centre Residential, £144.5m in Suburban Residential, £43m in Retail/leisure and £228.7m remained unspent.

In regards to commercial offices in Manchester City Centre, historically GMPVF would invest in offices in the city centre, however there remained uncertainty due to reduced demand following Covid as many choose to work from home. The Working Group was presented with data on visits to workplaces and retail and recreation in the city based on phone data. One of the key findings was that active occupiers looking in the market had reduced their requirements by 30%. The merging patterns were:

- Reduced demand overall
- Smaller space was now preferred
- There was a demand for improved quality but less space
- ESG attributes were very important

The Island Site development was presented to the Working Group as a modern, sustainable building, it was explained that projects of this standard had the potential for pre-lets and rental growth.

The Working Group discussed residential needs, how they had changed and if recent developments were built accounting for the need to reduce carbon footprint. Gareth Conroy of Avison Young explained that the development Circle Square did not have any car parking, whereas a suburban development it would be normal to have one parking space per dwelling. In the City centre there was not a need for a space due to transport links available to them. Where developments did have car spaces usually in suburban developments, EV charging points were becoming normal and a way to future proof homes. In city developments, usually where there was basement parking, EV charging points or the infrastructure to add EV charging was the standard. It was further explained that there was a cost implication to incorporate suitability attributes such as insulation to developments, however, this was priced in and expected.

RECOMMNEDED
That the report be noted.

10. RESPONSIBLE INVESTMENT UPDATE

Consideration was given to a presentation of PIRC in relation to the current ESG debate and the use of shareholder resolutions in engagement.

It was reported that the rapid growth in ESG products and services had recently generated a backlash from some quarters. Examples included

- US Republican politicians taking aim at asset managers that were seen as promoting a focus on ESG factors.
- HSBC former Head of Responsible Investment claiming that climate change did not pose a serious risk to investors.
- Former senior Blackrock sustainable investment specialist Tariq Fancy arguing that ESG was a dangerous placebo that harmed the public interest.
- A special report in The Economist in July claiming that ESG was broken.

Some of the arguments against ESG was on legitimacy and mandate, that investors sought political outcomes without a democratic mandate, further, ESG supplants effective regulation and law with weaker alternatives. Arguments were made that companies could be good on E but poor on S and G, so how could such companies be defined as 'good'. Some criticisms were that there was a lack of correlation in ESG rankings from different sources and limited evidence on financial returns. It was explained that there was criticism from both ends of the political spectrum.

The Working Group were advised that some of the criticisms were valid but much of these criticisms have been known for many years. It was explained that Investors should be clear what they were trying to achieve, create value or seek positive outcomes, or both. It was important to acknowledge that they did not always overlap. There can be trade-offs by seeking certain objectives.

It was further explained that it was no surprise that ESG ratings diverge, weightings were different and mainstream research differed. By giving different weightings on E, S or G the views on stocks would differ. In regards to implications for UK investors, there was no sign of a political backlash in the UK against ESG.

In regards to Shareholder resolutions, it was reported that shareholder resolutions had become a more mainstream stewardship tool. Investors had become very comfortable filing particularly in the US. The Working Group was presented with a list of shareholder resolutions that had taken place in the UK with their proposals categorised according to ESG. It was explained that in the US the filing of resolutions was seen as a way to initiate engagement with companies whereas in the UK and Europe investors were more likely to file if engagement had reached an impasse. The Working Group were presented with a summary of some key shareholder resolutions in 2021-22 that the Fund had been actively involved in.

Members of the Working Group highlighted the importance of advocating for lower emissions and net zero but also for air quality which was already having a negative effect on people's health.

RECOMMNEDED
That the report be noted.

11. UNITED NATIONS PRINCIPLES FOR RESPONSIBLE INVESTMENT REPORTING FRAMEWORK

Consideration was given to a report of the Director of Pensions / Assistant Director for Investments. As a direct signatory to the PRI, the Fund was required to publicly report on its responsible investment activity through the PRI's 'Reporting Framework'. The Fund was required to report its responsible investment activity to the PRI for 2020 by 30 April 2021.

In September 2022, the Fund received feedback on its responses to the PRI's 'Reporting Framework' in relation to its responsible investment activity for 2020. The asset classes held by the Fund determined the sections of the PRI 'Reporting Framework' that the Fund was required to report on, and consequently the sections where the Fund has been assessed.

Under the new framework the grading system had changed where previously the highest grade was A+ this had now changed to a number-based system where the highest score is 100. This change made comparison of this years' results to the results under the previous framework impossible.

Under the new framework, the Fund exceeded the PRI median score in all modules where it was scored. These include 'Investment & Stewardship Policy', 'Listed Equity Voting' and 'Manager Selection, Appointment and Monitoring' modules.

From the feedback received in the previous PRI assessment, Officers identified enhancements to the reporting to the PRI of its monitoring of Fixed Income investments and its manager and selection process. These enhancements were recognised by the PRI and had been reflected in the assessment.

Officers have investigated potential enhancements to its reporting to the PRI of GMPF's current practices in relation to ESG issues. These included noting that GMPF's voting was consistent with its Responsible Investment advisor and that GMPF pre-declares its votes.

RECOMMENDED
That the report be noted.

12. INVESTMENT CONSULTANT OBJECTIVES FOR HYMANS ROBERTSON

Consideration was given to a report of the Director of Pensions / Assistant Director of Pensions for Investments. This report provided members of the Working Group with an update on investment consultant objectives and a review of Hymans Robertson's performance for the year 2021.

It was reported that as part of the Fund's annual review, Hymans Robertson's performance over the preceding year had been evaluated and a qualitative assessment versus objectives undertaken. To support the assessment of performance versus investment consultants objectives, Hymans Robertson provided 'evidence' of work undertaken and areas of focus over the year.

Officers concluded that Hymans Robertson had met their investment consultants objectives for 2021. As part of ongoing deliberations, areas of focus and specific projects, as well as feedback had been discussed. It was not proposed to make any changes to the agreed investment consultants objectives at this stage.

RECOMMENDED
That the report be noted.

13. URGENT ITEMS

There were no urgent items.

CHAIR