

# GREATER MANCHESTER PENSION FUND - POLICY AND DEVELOPMENT WORKING GROUP

22 June 2023

Commenced: 11:00am

Terminated: 12.50pm

## IN ATTENDANCE

<b>Councillor Cooney (Chair)</b>	
<b>Councillor Fitzpatrick</b>	
<b>John Thompson</b>	<b>Trade Union Representative (UNITE)</b>
<b>John Pantall</b>	<b>Independent Observer</b>
<b>Councillor John Taylor (Stockport)</b>	<b>Observer</b>
<b>Mark Powers</b>	<b>Advisor to the Fund</b>
<b>Peter Moizer</b>	<b>Advisor to the Fund</b>
<b>Ronnie Bowie</b>	<b>Advisor to the Fund</b>
<b>Sandra Stewart</b>	<b>Director of Pensions</b>
<b>Tom Harrington</b>	<b>Assistant Director of Pensions (Investments)</b>
<b>Paddy Dowdall</b>	<b>Assistant Director of Pensions (Local Investments and Property)</b>
<b>Steven Taylor</b>	<b>Assistant Director of Pensions (Special Projects)</b>
<b>Neil Cooper</b>	<b>Head of Pension Investment (Private Markets)</b>
<b>Kevin Etchells</b>	<b>Principal Investment Manager (Local Investments)</b>
<b>Michael Ashworth</b>	<b>Senior Investments Manager (Public Markets)</b>
<b>Andrew Hall</b>	<b>Investment Manager (Local Investments)</b>
<b>Abdul Bashir</b>	<b>Investment Manager (Public Markets)</b>
<b>Mushfiqur Rahman</b>	<b>Investments Manager (Public Markets)</b>
<b>Alex Jones</b>	<b>Investment Officer (Local Investments)</b>
<b>Ben Farmer</b>	<b>Hymans Robertson</b>
<b>Elaine Torry</b>	<b>Hymans Robertson</b>

**Apologies for absence:** Councillor North and Petula Herbert

## 1. DECLARATIONS OF INTEREST

There were no declarations of interest.

## 2. MINUTES

The minutes of the meeting of the Policy and Development Working Group held on the 2 March 2023, were approved as a correct record.

## 3. INVESTMENT STRATEGY AND TACTICAL POSITIONING 2023/24

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

In addition, Hymans Robertson (Hymans) had undertaken asset liability modelling (ALM) of the Main Fund. The purpose of the ALM was to inform discussions on investment strategy and provide some context, quantitatively. ALM analysis provided a quantitative framework for considering whether the existing benchmark asset allocation remained appropriate for achieving the Fund's long-term objectives and consideration of risk exposures and downside risks inherent within the strategy. Hymans then presented the ALM analysis, which was attached as Appendix B to the report.

It was explained that the Investment Managers and Advisors believed that the current investment strategy was capable of delivering the required returns over the long term (albeit one Fund Manager was a more pessimistic 'dissenting' voice). Economic uncertainties remained, with a medium term outlook that, while broadly positive, could potentially encompass a number of unattractive scenarios (including the likelihood of economic recessions in the short term). 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 (recently improved) 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 to undertake further work in that 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 strong progress made in implementing these portfolios during 2022/23. 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 (although the recent market falls of 2022 had somewhat attenuated this). Officers were working with Hymans with a view to enhancing the benchmark indices used.

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. Following completion of the 2022 valuation, Officers were working with Hymans to review the Fund's liquidity arrangements and would report back to future meetings of the Panel.

Approval for a pilot Global (Developed) Value Equity allocation within the UBS Portfolio was given at the 24 November 2022 meeting of the Policy and Development Working Group. Following approval, a new UBS Global (Developed) Value Equity portfolio was incepted on 20 December 2022, equating to 2.6% of UBS' multi-asset portfolio and was funded from assets already managed by UBS. The Global (Developed) Value Equity allocation would be kept under review and increased subject to satisfactory progress against the standard monitoring framework and prior approval by Panel. It was anticipated that any increases would take into account the Main Fund's gradual reduction of exposure to the UBS Value Team within the regional equity allocation (as a result of the established Main Fund's 'come what may' move towards a global market cap 'centre of gravity').

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 supportive of broadly maintaining the current investment strategy, commenting in particular on the reliability of long term asset liability modelling, the Fund's current excellent funding position and the opportunities this afforded to take advantage of high interest rates.

#### **RECOMMENDED**

**That there be no significant changes to the Fund's approach and the current Investment Strategy and long term direction of travel be maintained.**

#### **4. INTERNALLY MANAGED PORTFOLIOS: INVESTMENT MANDATES**

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

It was explained that at the September 2020 meeting of the Policy and Development Working Group, Mark Powers, Advisor to the Fund, made a proposal for an initiative to formalise and codify the internally managed portfolios, in a similar way to other recent initiatives.

This proposal was enacted in 2021 with the formalisation and codification of a set of standardised Investment Mandates for all Internally Managed Portfolios.

The report included a third iteration of mandates.

#### **RECOMMENDED**

**That the Investment Mandates for the Internally Managed Portfolios, as appended to the report, be adopted by the Panel.**

#### **5. PRIVATE EQUITY: REVIEW OF STRATEGY AND IMPLEMENTATION**

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

The report and presentation outlined:

- Current approach to investing in Private Equity;
- Implementation during calendar year 2022;
- Current position against current strategy;
- Review of strategy; and
- Review of Implementation.

Discussion ensued with regard to the above and it was:

#### **RECOMMENDED**

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

<b>Geography</b>	<b>Target Range</b>
<b>Europe inc UK</b>	<b>35% to 50%</b>
<b>USA</b>	<b>35% to 50%</b>
<b>Asia &amp; Other</b>	<b>10% to 20%</b>

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

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

- (iv) the pace of Primary Fund commitments to be £120m pa so that, together with co-investment deployment of approximately £38m pa on average, private equity exposure is targeted at or around the 5% target strategic Main Fund allocation;
- (v) GMPF's private equity strategy is implemented by appropriately sized commitments to Northern Private Equity Pool such that the anticipated deployment will be consistent with the pacing recommendation at 8.5; and
- (vi) 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.

## 6. PRIVATE DEBT: REVIEW OF STRATEGY AND IMPLEMENTATION

The Assistant Director of Pensions, Investments, submitted a report and Members received a presentation, which updated the Working Group on investment activity in respect of the Private Debt portfolio during 2022, described the current portfolio and reviewed the strategy for the portfolio and its implementation.

The report and presentation outlined:

- Current approach to investing in Private Debt;
- Implementation during calendar year 2022;
- Actual position against current strategy;
- Review of Strategy; and
- Review of Implementation.

Discussion ensued in respect of the above and it was:

### RECOMMENDED

- (i) the medium-term strategic allocation for private debt remains at 5% by value of the total Main Fund assets.
- (ii) the target geographical diversification of the private debt portfolio remain as follows:

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

- (iii) the portfolio should continue to be populated by partnership commitments to funds where the vast majority of investments are senior secured loans;
- (iv) the scale of commitment to funds to be £375m per annum, to maintain the strategy allocation; and
- (v) it is recognised that the portfolio may not fall within the target ranges at 8.3 above from time to time to reflect, *inter alia*, portfolio repositioning.

## 7. INFRASTRUCTURE FUNDS: REVIEW OF STRATEGY AND IMPLEMENTATION

The Assistant Director of Pensions, Investments, submitted a report and Members received a presentation, updating members of the Working Group on investment activity in respect of the Infrastructure fund portfolio during 2022, described the current portfolio and reviewed the strategy for the portfolio and its implementation.

The report and presentation outlined:

- Current approach to investing in Infrastructure;
- Implementation during calendar year 2022;
- Actual position against current strategy;
- Review of Strategy; and
- Review of Implementation.

Discussion ensued in respect of the above and it was:

#### **RECOMMENDED**

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

<b>Geography</b>	<b>Target Range</b>
<b>Europe</b>	<b>50% to 70%</b>
<b>North America</b>	<b>20% to 30%</b>
<b>Asia &amp; Other</b>	<b>0% to 20%</b>

- (iii) **the target stage diversification of the infrastructure portfolio is amended to reduce the target range for Opportunistic, with a concomitant increase in the target range for Value Added:**

<b>Investment Stage</b>	<b>Relative Risk</b>	<b>Target Range</b>
<b>Core &amp; Long Term Contracted</b>	<b>Low</b>	<b>30% to 40%</b>
<b>Value Added</b>	<b>Medium</b>	<b>50% to 70%</b>
<b>Opportunistic</b>	<b>High</b>	<b>0% to 10%</b>

- (iv) **the pace of new fund commitments is reduced to £160m per annum to maintain achievement of the strategy over a sensible time frame;**
- (v) **the Private Markets team implement the Infrastructure strategy via commitments to private partnerships and to co-investments; and**
- (vi) **it is recognised that the portfolio may not fall within the target ranges at 8.3 and 8.4 from time to time to reflect, *inter alia*, portfolio repositioning.**

#### **8. SPECIAL OPPORTUNITIES PORTFOLIO: REVIEW OF STRATEGY AND IMPLEMENTATION**

Consideration was given to a report and presentation of the Assistant Director of Pensions Investments, updating the Working Group on investment activity in respect of the Special Opportunities Portfolio during 2022, described the current portfolio and reviewed the strategy for the portfolio and its implementation.

The report and presentation outlined:

- Current approach to investing in Special Opportunities;
- Implementation during calendar year 2022 – Private Debt Opportunities;
- Implementation during calendar year 2022 – Real Assets;
- Actual position against current strategy;
- Review of Strategy;
- Review of Implementation – Private Debt Opportunities;
- Review of Implementation – Real Assets; and

Discussion ensued in respect of the above and it was:

#### **RECOMMENDED**

- (i) the allocation to the Special Opportunities Portfolio remains at up to 5% by value of the total Main Fund assets; and
- (ii) the main strategic control to remain the Type Approval mechanism described at Section 3.2.

## 9. UK PROPERTY PORTFOLIO: REVIEW OF STRATEGY AND IMPLEMENTATION AND PERFORMANCE MONITORING

The Assistant Director, Local Investments and Property, submitted a report and delivered a presentation updating the Working Group on investment activity in respect of the UK Property Portfolio during 2022. It further reviewed future strategy and implementation.

The report and presentation outlined:

- Current portfolio construction;
- Current portfolio metrics;
- Deployment progress during 2022;
- Portfolio cashflow forecast;
- Key strategic objectives;
- Proposed deployment routes; and
- Portfolio pacing and pacing recommendation.

Discussion ensued in respect of the above and it was

### RECOMMENDED

- (i) That the medium-term strategic allocation for the UK Property portfolio remains at 8% by value of the total Main Fund assets;
- (ii) That the current Northern LGPS UK Housing allocation is transferred from local investments to UK Property as a deliberate over-weight position against the sectoral weightings within MSCI benchmark;
- (iii) That the UK Property portfolio construction is revised to the following sub allocations as per the contents of the report;

Allocation	Proposed Allocation Range	Proposed Allocation	Target MSCI Outperformance
Direct Property	2-3%	2.5%	0%
Balanced Funds	2-4%	3.0%	0%
Specialist	0-2%	1.0%	2%
Housing	1-2%	1.5%	0%
	7-9%	8.0%	

- (iv) That the pacing of commitment to UK property continue as per section 9.8 in order to meet a “realistic” target of allocation of 8% of the Main Fund allocation by end of 2025; and
- (v) That it be recognised that the portfolio may not fall within its target ranges from time to time to reflect, *inter alia*, portfolio repositioning.

## 10. OVERSEAS PROPERTY PORTFOLIO: REVIEW OF STRATEGY AND IMPLEMENTATION

The Assistant Director, Local Investments and Property, submitted a report and delivered a presentation updating the Working Group on investment activity in respect of the Overseas Property portfolio during 2022. It further described the current portfolio and reviewed the strategy and the implementation.

The report and presentation outlined:

- Current approach to investing in Global Property;
- Implementation during calendar year 2022;
- Current position against current strategy;
- Review of Strategy; and
- Review of Implementation.

Discussion ensued in respect of the above and it was:

#### **RECOMMENDED**

- (i) That the medium-term strategic allocation for the Overseas portfolio remains at a target range of 0-3% by value of the total Main Fund assets;
- (ii) That the Overseas Property target risk remains:

Risk Factor	Investment Characteristics	Outperformance over UK IPD	Target Portfolio Weight	Range
Matching (core and core plus strategies which are intended to match long running UK IPD – whilst providing diversification benefits)	Low to moderate use of leverage, benchmark level active management, and high-income return component.	0% (Europe and US) 2% (Rest of World)	50%	40 – 60%
Enhancing (value add and opportunistic strategies which are intended to enhance long running UK IPD through active management)	Moderate to high use of leverage, above benchmark level of active management and high capital value return component.	4% (Europe and US) Enhancing strategies in the Rest of the World will not be considered.	50%	40 – 60%

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

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

- (iv) That the pacing of commitment to funds to 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; and
- (v) That it is recognised that the portfolio may not fall within its target ranges from time to time to reflect, inter alia, portfolio repositioning.

#### **11. PROPERTY VENTURE FUND: REVIEW OF STRATEGY AND IMPLEMENTATION**

A report was submitted and a presentation delivered by the Assistant Director, Local Investments and Property, which updated the Working Group on investment activity in respect of the Property Venture Fund (GMPVF) portfolio during 2022. The report described the current portfolio and reviewed the strategy for the portfolio and its implementation.

The report and presentation outlined:

- Current approach to investing in the Property Venture Fund;
- Implementation during calendar year 2022;

- Current position against current strategy;
- Review of Strategy; and
- Review of Implementation.

Discussion ensued in respect of the above and it was

#### RECOMMENDED

- (i) the medium term strategic allocation for the GMPVF portfolio remains at 2.5% by value of the total Main Fund assets;
- (ii) the target geographical diversification of the GMPVF portfolio remains:

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

- (iii) the investment stage diversification of the GMPVF portfolio is amended as follows:

Stage	Current Core %	Current Range	Proposed Core%	Proposed Range	Change %
Income Generating Property	33%	20% - 45%	50%	40% - 60%	17%
Development Equity	15%	5% - 25%	20%	15% - 30%	5%
Development - Mezzanine Debt	26%	15% - 35%	10%	5% - 15%	-16%
Development - Senior Debt	26%	15% - 35%	20%	15% - 30%	-6%
	100%		100%		

- (iv) the sector diversification of the GMPVF Income Generating Properties is amended as follows:

Sector	Current Core %	Current Range	Proposed Core%	Proposed Range	Change %
Industrial	35%	25% - 45%	50%	40% - 60%	15%
Offices	35%	25% - 45%	25%	15% - 35%	-10%
Other (Retail, Leisure, Housing, Alternatives)	30%	20% - 40%	25%	15% - 35%	-5%
	100%		100%		

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

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

- (vi) commitments to projects continue to be scaled and timed such that, combined with investments in income producing property and likely realisations of existing developments, the allocation is deployed over the medium term. It is recognised that at any given time, the portfolio may vary significantly from the target ranges shown above.

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

The Assistant Director, Local Investments and Property, submitted a report and delivered a presentation reviewing the activity in respect of the Impact portfolio, which included the legacy Invest for Growth portfolio, during 2022.

The report and presentation outlined:

- Current approach to investing;
- Implementation during calendar year 2022;
- Current position against current strategy;
- Review of Strategy; and
- Review of Implementation.

Discussion ensued in respect of the above and it was:

### RECOMMENDED

- The medium term strategic allocation for the Impact portfolio remains at 2% by value of the total Main Fund assets.**
- The Impact Theme target diversification for the Impact portfolio remains:**

Impact Themes		Target % Range
<b>JOBS</b>	<b>50%</b>	<b>25%-75%</b>
Loans to SMEs		
Equity Investment in Underserved Markets		
Investment in Technology Jobs		
<b>PLACE</b>	<b>50%</b>	<b>25%-75%</b>
Social Infrastructure		
Housing/Property Dev in Underserved Markets		
Renewable Energy Infrastructure		
Social Investment		
<b>Total</b>		<b>100%</b>

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

## 13. GLIL INFRASTRUCTURE LLP: REVIEW OF STRATEGY AND IMPLEMENTATION

The Assistant Director, Local Investments and Property, submitted a report and delivered a presentation reviewing the activity and the strategy and implementation approach regarding investment in GLIL Infrastructure LLP in 2022.

The report and presentation outlined:

- Current approach to investing in GLIL;
- Implementation during calendar year 2022; and
- Current position against current strategy.

Discussion ensued in respect of the above and it was:

## **RECOMMENDED**

- (i) That the 5% Main Fund allocation to GLIL remains unchanged;**
- (ii) That the Investment Mandate and Investment Guidelines remain unchanged; and**
- (iii) That the results of the strategic review once approved by Northern LGPS, are reported to the working group.**

## **14. UPDATE ON LEVERAGE**

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

It was explained that there had been no change in the Fund's approach to leverage, since the previous annual update.

## **RECOMMENDED**

**That the content of the report and the Fund's position on leverage, be noted.**

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

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

The report provided an overview of the evolution of the Global Equity metric over 2022/23, vis-a-vis the trigger points. In accordance with the adopted formalised process, the report also proposed an updated estimate of Fair Value for global equities, associated updated trigger points and an update in relation to the 'size' of the maximum asset switch to be targeted, all for adoption by the Panel at its July 2023 meeting.

## **RECOMMENDED**

**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.**

## **16. MANAGER MONITORING REGIME INCLUDING MONITORING ESCALATION**

Consideration was given to a report of the Assistant Director of Pensions Investments, which summarised the results from the Monitoring Escalation Protocol as at 31 March 2023.

The Overall Status Levels and courses of action taken (or to be taken) in relation to the results from the most recent Monitoring Escalation Protocol were provided for each manager in an appendix to the report.

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

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

context to supplement the codified Status Levels of the Monitoring Escalation Protocol.

**RECOMMENDED**

**That the content of the report be noted.**

**17. DATE OF NEXT MEETING**

It was noted that the next meeting of the Policy & Development Working Group was scheduled to take place on Thursday 7 September 2023.

**CHAIR**