

## **GREATER MANCHESTER PENSION FUND ADVISORY PANEL**

**18 November 2016**

**Commenced: 10.00am** **Terminated: 12.35pm**

**Present: Councillor K Quinn (Chair)**

**Councillors: Brett (Rochdale), Grimshaw (Bury), Halliwell (Wigan), Pantall (Stockport) and Stogia (Manchester)**

**Employee Representatives:**

**Mr Allsop (UNISON), Mr Drury (UNITE), Mr Flatley (GMB), Mr Llewellyn (UNITE) and Mr Thompson (UCATT)**

**Local Pensions Board Members (in attendance as observers):**

**Councillor Fairfoull and Mr Schofield**

**Advisors:**

**Mr Bowie, Mr Moizer, Mr Powers and Ms Brown**

**Apologies for absence: Councillors Hamilton (Salford) and Mitchell (Trafford)**

### **48. CHAIR'S OPENING REMARKS**

The Chair welcomed Lynn Brown OBE, a new advisor to the Fund. He explained that Lynn brought with her a lot of experience and would add to the strength of advice the Fund received, particularly in relation to administration and employer perspective.

The Chair further announced that since the September quarter end, the Fund had broken through, and subsequently fluctuated around, £20 billion.

In respect of the LGPS Pooling agenda, the Chair reported that he and the Chairs' of Merseyside and West Yorkshire Pension Funds would be meeting with the Minister, Marcus Jones in December 2016. He added that Pooling was also an item later on the agenda today.

### **49. DECLARATIONS OF INTEREST**

There were no declarations of interest submitted by Members.

### **50. MINUTES**

The Minutes of the proceedings of the meeting of the Pension Fund Advisory Panel held on 23 September 2016 were signed as a correct record.

The Minutes of the proceedings of the meeting of the Pension Fund Management Panel held on 23 September 2016 were signed as a correct record.

The Minutes of the proceedings of the meeting of the Annual General Meeting held on 23 September 2016 were signed as a correct record.

## **51. 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:**

<b><u>Items</u></b>	<b><u>Paragraphs</u></b>	<b><u>Justification</u></b>
<b>7, 8, 9, 11, 12, 13, 14, 15</b>	<b>3&amp;10, 3&amp;10, 3&amp;10, 3&amp;10, 3&amp;10, 3&amp;10, 3&amp;10, 3&amp;10</b>	<b>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 beneficiaries and/or tax payers.</b>

## **52. POLICY AND DEVELOPMENT WORKING GROUP**

The Minutes of the proceedings of the Policy and Development Working Group held on 6 October 2016 were considered.

The Chair, Councillor K Quinn, reported that GLIL, the joint venture with London Pension Fund Authority had made an investment of £45 million to the East Anglia train franchise. This would provide new rolling stock to the line from London to Norwich and the return to the Fund was in the region of 9% with a low level of risk.

The Working Group had also been provided with an update on Matrix homes investments with Manchester and Tameside and approval to consider further with GVA how the model could be made more attractive with upfront investment, without materially changing the risk adjusted returns to GMPF.

The Working Group were further informed that, as the profile of the infrastructure investments increased, more and more opportunities were being received, including joint ventures investing in property in Glasgow and around HS2 stations. It was agreed that the team would continue to work on these and that Executive Director of Pensions would exercise delegated authority for any decisions needed before future meetings, in consultation with the Chair. Any investments would be made out of existing property allocations.

#### **RECOMMENDED**

**That the Minutes be received as a correct record.**

### **53. LOCAL PENSIONS BOARD**

#### **RECOMMENDED**

**That the Minutes of the proceedings of the Local Pensions Board held on 13 October 2016 be noted.**

### **54. INVESTMENT MONITORING AND ESG WORKING GROUP**

The Minutes of the proceedings of the meeting of the Investment Monitoring and ESG Working Group held on 14 October 2016 were considered.

The Chair of the Working Group, Councillor Taylor, explained that the Working Group had received a presentation from Investec, one of the new Fund Managers, who had explained to the Working Group why they had underperformed during the first twelve months of the relationship. They sought to reassure the Working Group that they were confident they would deliver outperformance over the long term and confirmed that they understood the significance of their underperformance for the Fund.

The Working Group had also heard from Capital, who outlined their corporate governance activity and trading costs, over the last twelve months.

PIRC, the Fund's independent corporate governance and shareholder advisory consultancy, had also attended before members and reported on PIRC's role in Corporate Governance reform.

#### **RECOMMENDED**

**That the Minutes be received as a correct record.**

### **55. PENSIONS ADMINISTRATION WORKING GROUP**

The Minutes of the proceedings of the meeting of the Pensions Administration Working Group held on 14 October 2016 were considered.

The Chair of the Working Group, Councillor J Lane, explained that the performance of the Scheme Additional Voluntary Contributions provider, Prudential, continued to be satisfactory.

The Working Group had also noted that whilst there were very few disputes and complaints under the formal statutory process, officers intended to undertake a review to ensure that all learning opportunities arising from complaints were captured and shared more widely with Employers to avoid future cases arising.

The Working Group were further pleased to note that Pensions Administration had made improvements on last years' performance.

The Working Group had supported further analysis of membership levels to ensure that the Fund and employers were doing all they could to encourage eligible members to save for their retirement.

The Working Group had also considered a report regarding the employer audits carried out by TMBC's Internal Audit Section and acknowledged that employer audits were a valuable tool and supported wider review in this area to ensure that, wherever possible, learning opportunities highlighted in employer audits could be extended to all employers within the Fund to reduce costs and ensure members received benefits expediently.

## **RECOMMENDED**

- (i) That the Minutes be received as a correct record;**
- (ii) In respect of Minute 11, Internal Dispute Resolution Procedure and Complaints received by the Pensions Administration Section, that the proposal to review and enhance current systems and processes should be undertaken;**
- (iii) With regard to Minute 12, Performance Standards, that further work be undertaken to make improvements in this area over the next twelve months; and**
- (iv) In respect of Minute 13, Local Authority Membership Levels, that further analysis be undertaken with a view to ensure that GMPF is doing all it can to encourage employees to save for retirement.**

## **56. ALTERNATIVE INVESTMENTS WORKING GROUP**

The Minutes of the proceedings of the meeting of the Alternative Investments Working Group held on 21 October 2016 were considered.

The Chair of the Working Group, Councillor Cooney, explained that the Group had considered at length proposals to change the implementation of GMPF's Private Equity strategy in Asia by allowing commitments to be made directly to Funds, rather than via Fund of Funds and that this had been supported.

The Working Group heard from the Fund's specialist adviser, Capital Dynamics who presented their half-yearly reviews of GMPF's Private Equity and Infrastructure portfolios to 30 June 2016. Both of these portfolios continued to develop well, with 'since inception' returns of 16.7% per annum and 10.5% per annum respectively.

Officers had presented a report on the activity and performance of GMPF's Special Opportunities Portfolio up to 30 June 2016.

The Working Group had also received a presentation from Palatine Private Equity, who explained their process of turning companies around, which had resulted in good returns for the Fund.

## **RECOMMENDED**

- (i) That the Minutes be received as a correct record; and**
- (ii) In respect of Minute 10, Private Equity Investing in Asia – Proposed Change to Implementation, that approval be given for a change to the implementation of GMPF's Asian Private Equity allocation to include direct fund commitments.**

## **57. EMPLOYER FUNDING VIABILITY WORKING GROUP**

The Minutes of the proceedings of the meeting of the Employer Funding Viability Working Group held on 28 October 2016 were considered.

The Chair of the Working Group, Councillor J Fitzpatrick, explained that the meeting had focused predominantly on the actuarial valuation process.

The Working Group had also received a presentation on proposals to set contribution rates and the potential range of outcomes, for example, employers.

It was explained that the actuary needed to set contribution rates in accordance with GMPF's Funding Strategy Statement and this had been discussed at the meeting. This document needed to go out to employers for consultation, hence its inclusion on the agenda today, with a view to further consideration at future Working Group meetings and the Management/Advisory Panel in March 2017.

It was further reported that taking place alongside the valuation process, was an exercise to review employer risk and create a framework to monitor employer risk going forwards. The results of this review would be used to assess the appropriateness of each employer's contribution rate.

#### **RECOMMENDED**

- (i) That the Minutes be received as a correct record;**
- (ii) In respect of Minute 14, Employer Risk Monitoring, that a full analysis of the output of the employer risk review be brought to a future meeting of the Employer Funding Viability Working Group;**
- (iii) With regard to Minute 15, Funding Strategy Statement, that an updated version of the Funding Strategy Statement, following the consultation with employers, be brought to the next meeting of the Employer Funding Viability Working Group; and**
- (iv) In respect of Minute 16, Consideration of Employer Contribution Rates, that the use of a risk based approach to calculate employer contribution rates by the Actuary be approved.**

#### **58. PROPERTY WORKING GROUP**

The Minutes of the proceedings of the Property Working Group held on 4 November 2016 were considered.

The Chair of the Working Group, Councillor S Quinn, explained that the main focus of the meeting was to review the GVA contract for the Property Venture Fund. Members had considered a presentation from GVA and a report from the team.

It was reported that Members were impressed by the improved reporting by GVA and the focus on properties that could produce material returns rather than longstanding smaller less viable sites. Officers reported that GVA had met most of the milestones in the business plans agreed two years ago. The Group agreed to continue the contract subject to annual reviews and this was the recommendation to the Panel.

#### **RECOMMENDED**

- (i) That the Minutes be received as a correct record;**
- (ii) In respect of, Minute 16, Review of GVA Appointment as Fund Manager, that;**
  - (a) That GVA be retained and a rolling one year monitoring programme be commenced based on new business plans to be agreed;**
  - (b) That a review of the portfolio investment principles and parameters be reviewed to ensure sufficiently wide enough to ensure opportunities to increase income are maximised; it being noted that a particular opportunity being considered which the Executive Director, in conjunction with the Chair of the Fund and the Working Group, would be authorised to bid at auction at a price that would provide the Fund with returns in line with the benchmark; and**
  - (c) That the use of other service providers for local property investments be agreed in principle subject to a further report setting out the detail.**

#### **59. THE FUTURE OF RESPONSIBLE INVESTING AND STEWARDSHIP**

Alan MacDougall and Janice Hayward of PIRC Ltd, gave a presentation on the future of responsible investing and stewardship and outlined the considerations the Fund needed to reflect upon and take into account moving forward, to strengthen its position.

Mr MacDougall began by summarising current issues as follows:

- Focus on Boards of Directors;
- Executive Pay;
- Reliable Accounts;

- Diversity;
- Company Taxation;
- Carbon Risk Strategies;
- Human Capital reporting; and
- Political Change and CG Reform.

He further gave details of new LGPS guidance, particularly with regard to:

- Funds retaining full fiduciary responsibility, pools must be accountable to funds;
- Managing ESG investment considerations;
- Certain investment strategies deemed as ‘inappropriate’;
- Wider remit on integrated reporting policies;
- Funds may pursue ‘Social Investments’; and
- Managing social impact and social return.

Mr MacDougall also commented on challenges faced going forward, particularly in respect of Pooled investments; heightened monitoring of asset manager ESG competence and capability and their client responsiveness; the process for supporting shareholder resolutions and director nominations, which required organised processes to reflect client wishes.

He further expanded on areas for the Fund’s future consideration as follows:

- Identifying Focused Engagement Themes;
- Scoping and Policy Review; and
- Stakeholder Engagement.

Discussion ensued, and Trustees raised a number of issues, including: influencing more transparency in the financial sector; gender split and discrimination on Boards and international reporting standards.

The Chair thanked Mr MacDougall for a very informative presentation and commented on the challenges ahead and the importance of retaining the Fund’s excellent reputation in this field.

## **RECOMMENDED**

- (i) **That the content of the presentation be noted; and**
- (ii) **That a progress report be submitted to future meetings of the Policy and Development Working Group and the Management/Advisory Panel.**

## **60. GMPF’S COMPLIANCE WITH THE UK STEWARDSHIP CODE**

Consideration was given to a report of the Assistant Executive Director of Pensions (Investments), explaining that the Fund had been a voluntary signatory of the UK Stewardship Code, which was designed to enhance the quality of engagement between institutional investors and companies since 2011.

It was explained that in 2016, the FRC wrote to all signatories of the Code to introduce a new tiering system. In order to meet the FRC’s reporting expectations and obtain ‘Tier 1’ status, the Fund had reviewed and updated its statement of compliance with the Code (a draft updated Statement was appended to the report).

The Assistant Executive Director reported that since writing the report, the FRC had published the results of its tiering exercise and was pleased to announce that the Fund had been awarded ‘Tier 1’ status, as had each of the Fund’s Asset Managers.

## **RECOMMENDED**

**That the draft statement of compliance with the UK Stewardship Code, as appended to the report, be adopted.**

## **61. SCHEME ADVISORY BOARD – INVESTMENT COSTS CODE OF TRANSPARENCY**

The Assistant Executive Director of Pensions (Investments) submitted a report, which gave details of the LGPS Scheme Advisory Board's proposals to launch a voluntary 'Code of Transparency' on Investment Costs in Autumn 2016, after consulting Fund Managers, CIPFA and LGPS Funds.

The report provided an update on action taken by the fund in relation to the Scheme Advisory Board's consultation process.

### **RECOMMENDED**

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

## **62. LGPS POOLING AND INFRASTRUCTURE INVESTMENT**

A report of the Assistant Executive Director of Pensions – Local Investments and Property was submitted providing an update on recent developments relating to the proposals for pooling investments across the LGPS in England and Wales and the recent activities of GMPF in this area.

It was reported that, no formal response had been provided to pools from Government on their July submissions. However, the DCLG Minister, Marcus Jones MP, had arranged meetings with pools to respond to their proposals and to set out his expectations for the rest of the programme. The Northern Pool's meeting was due to take place in the next two weeks.

Pending formal feedback from Government on the Northern Pool's submission, the funds were focussing on developing closer working relationships, particularly with regard to investments in alternative assets.

It was explained that due diligence was progressing on GMPF's pooling partners joining the GLIL infrastructure vehicle. Work was also underway to increase the alignment of private equity strategies across the funds in the Northern Pool. This would help the Funds to make collective investments in private equity funds in future which could help improve cost effectiveness.

It was reported that GMPF continued to participate in the cross pool working group on infrastructure on behalf of the Northern Pool. The Northern Pool and LPP were further ahead with development of capability and capacity to invest in infrastructure and had made it a higher priority than the other pools.

The Northern Pool and LPP were leading in terms of setting definitions for what a national approach to infrastructure investment on behalf of all pools should look like.

GMPF was also putting forward the benefits of a GLIL style approach to direct infrastructure investment to other LGPS funds and was preparing a range of alternative structures to build on GLIL where other Pools could participate with differing levels of governance according to their own internal capability, capacity and preference.

An update was given with regard to progress of the GLIL infrastructure vehicle, with recent achievements including:

- Expansion of overall committed capital
- A £45m investment into railway rolling stock; and
- Development of investment procedures for debt investment.

Mr Bowie, Fund Actuary and Advisor to the Fund commented on the good progress made and sought clarification with regard to the limit for investments and controls in place for assessing risks.

The Assistant Executive Director explained that investments over £100m or 20% of the portfolio were referred to the Chair and scrutinised by the Policy and Development Working Group.

Mr Bowie suggested that the ground rules for investments be revisited and the Chair agreed that a report be submitted to a future meeting of the Policy and Development Working Group to address governance arrangements and investment guidelines.

#### **RECOMMENDED**

- (i) That the content of the report be noted; and**
- (ii) That a report be submitted to a future meeting of the Policy and Development Working Group to address governance arrangements and investment guidelines.**

### **63. 31 MARCH 2016 ACTUARIAL VALUATION**

The Assistant Executive Director of Pensions – Funding and Business Development submitted a report explaining that the Actuary had given periodic updates to the Fund regarding the 2016 actuarial valuation and the issues arising therefrom. The report provided an update on progress since the last Panel meeting and set out the next steps in the valuation process.

Reference was made to the Funding Strategy Statement (FSS), which provided guidance to the Actuary in undertaking the actuarial valuation. Members were informed that, in order to support the requirement for a FSS, CIPFA produced guidance in 2004, which was periodically updated to reflect changes in the LGPS Regulations and the wider investment landscape. An updated FSS had been prepared reflecting the new CIPFA guidance and changes to the administration of GMPF over the intervening period, a copy of which was appended to the report.

It was explained that it was intended that the FSS be issued to employers for consultation in late November 2016, at the same time as employers would be notified of provisional contribution rates. The final version of the FSS was expected to be formally approved by the GMPF Management Panel at its meeting on 10 March 2017.

Whole-fund results, as presented at the last meeting of the Management Panel (Meeting of 23 September 2016, Minute 36 refers), were set out in the report and it was explained that a typical GMPF employer was likely to see an improvement in their funding level of around 5% from 2013, although this would differ between employers depending on liability profile and member experience.

The report concluded that, whilst very few valuations had reached a conclusion, the expectation was that GMPF would maintain its position as one of the better funded local authority schemes and its employers' average employer contribution rate would again be at the lower end of the range. GMPF's major employers such as the ten GM Local Authorities and the National Probation Service, were likely to see minimal changes to their rates. This was also the case for a large majority of Scheduled Bodies such as Academy Schools and Further Education Colleges.

However, careful consideration was being given to the proposed contribution rate for each employer to ensure it reflected the risk that the employer posed to the Fund, whilst remaining affordable for the employer. There was considerable work required in calculating and notifying employers of their revised contribution rates and answering any related questions from employers.

#### **RECOMMENDED**

**That the content of the report and the draft Funding Strategy Statement, (as appended to the report), be noted.**



## **64. QUARTERLY REPORTS OF THE EXECUTIVE DIRECTOR OF PENSIONS**

### **(a) Summary Valuation of the Pension Fund Investment Portfolio as at 30 June 2016 and 30 September 2016**

A report of the Assistant Executive Director of Pensions (Investments) was submitted, detailing and comparing the market value of the Fund's investment portfolio as at 30 June 2016 and 30 September 2016.

#### **RECOMMENDED**

**That the report be noted.**

### **(b) External Managers' Performance**

The Assistant Executive Director of Pensions (Investments) submitted a report, which advised Members of the recent performance of the external Fund Managers.

It was noted that in the quarter to 30 September 2016, Capital had outperformed by 0.1% against their benchmark index of 8.7%. UBS had also outperformed by 1.2% against their benchmark index of 7.8%, and Legal and General had broadly succeeded in tracking their benchmark.

Performance figures for the twelve months to 30 September 2016 were detailed which showed that Capital had underperformed their benchmark by 1.3% and UBS had outperformed their benchmark by 1.6%. Legal and General had broadly succeeded in tracking their benchmark.

#### **RECOMMENDED**

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

## **65. REPORTS OF THE MANAGERS**

The Chair announced that, further to the changes agreed at the last meeting of the Management Panel (Meeting of 23 September 2016, Minute 38 refers), in respect of a more in-depth look at Managers' performance, only UBS Asset Management would be presenting before the Panel today. He introduced William Kennedy and Malcolm Gordon, the new relationship team following the departure of Ian Barnes, and Jonathan Davies and Steve Magill from the investments team.

Mr Davies began by commenting on a strong quarter and year for the Portfolio and for markets in general.

In respect of multi-asset fund performance, Mr Davies made reference to the asset allocation strategy, which was broadly similar to the strategy held for some time, with a significant underweighting in North American equities, and an overweight position in Europe (ex UK) equities.

He further commented on the equity market strategy, explaining that the valuation gap between North American and European equities remained large due to the cyclical divergence between European and US earnings, which were currently well above the cyclical norm

With regard to long-term performance, Mr Davies outlined an average annual outperformance for the portfolio of 1.15% and displayed an index of Fund and benchmark returns from 31 Dec 1984 to support this.

Mr Magill then detailed UK Equity performance for the Fund, relative to benchmark and outlined stock attribution for GMPF for the 3 and 12 months to 30 September 2016.

The top 10 overweight and underweight sector position as at 30 September 2016 were also discussed and Mr Magill made reference to interesting opportunities within the banking sector, going forward.

Mr Davies then commented on the possible implications of the recent US election result and the potential impact of key policies for financial markets. Comparisons were also made between US and UK inflation rates and bond yields, following President Elect Trump's victory.

Mr Gordon concluded by providing an update on Investment Costs Code of Transparency and explained that UBS did participate in the consultation and would be signing up to the Code. The Advisors were then asked to comment.

Mr Moizer sought UBS's views on President Elect Trump's economic policies in particular in respect of a possible withdrawal from the Trans Pacific Partnership.

Mr Davies explained that it was anticipated that although this could benefit some parts of the US economy, there would be more resistance to imports from China and the Far East and lower levels of growth which would mean higher interest rates in the developed world as there would be less competition to drive prices down.

Mr Bowie made reference to the portfolio's outperformance in UK equities and asked if the same ethos could be applied to improve overseas performance. He also commented on the underweighting in property and sought UBS's views in respect of now being a good time to increase property holdings closer to the benchmark position. Mr Davies explained that he did not have a positive view on this.

## **RECOMMENDED**

**That the content of the Fund Manager's presentation and the comments of the Advisors be noted.**

## **66. CONSOLIDATION OF LGPS INTERESTS**

Consideration was given to a report of the Assistant Executive Director of Pensions – Funding and Business Development, which explained that one of GMPF's largest private-sector employers was considering consolidating its two other LGPS arrangements into a single fund, with GMPF being the preferred host fund.

The report gave background information on the employer's English LGPS arrangements, some rationale behind why the employer was seeking to consolidate those arrangements and highlighted the potential benefits and risks of this consolidation to GMPF.

Members were asked to consider whether GMPF should undertake further due diligence on the potential consolidation of the employer's interests. A paper from Hymans Robertson, Actuary to the Fund, was appended to the report, outlining the key funding and investment factors that would influence the decision.

It was further reported that, for the proposed consolidation to proceed, both the approval of the GMPF Management Panel and the Secretary of State would be required.

## **RECOMMENDED**

**That further due diligence be undertaken on the consolidation of the employer's LGPS interests into GMPF, and approval be given for additional meetings of the Policy and Development Working Group to be arranged as required, to progress this matter.**

## 67. LGPS UPDATE

The Assistant Executive Director of Pensions – Funding and Business Development, submitted a report providing a summary of items of note in respect of both the LGPS and the wider pensions environment since the last meeting of the Panel, as follows:

- Independent Review of State Pension Age;
- Secondary Annuity Market Plans Scrapped;
- Clarity on Public Sector Exit Payment Reforms;
- Lifetime ISA – Draft Legislation;
- Greater Manchester Pension Fund recognised as leading the way on Infrastructure.

### **RECOMMENDED**

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

## 68. FUTURE TRAINING DATES

Trustee Training opportunities were noted as follows:

SPS Conference – Annual Northern Pension Funds 22 November 2016

Investment Conference

Manchester Victoria and Albert Hotel

LGPS Fundamentals Training

Leeds Marriott Hotel

Day 3

6 December 2016

Capital International Training Day

Hilton Doubletree, Manchester

1 December 2016

LAPFF Annual Conference

Marriott Hotel Bournemouth

7 – 9 December 2016

PLSA Investment Conference

EICC Edinburgh

8-10 March 2017

PLSA Local Authority Conference

Cotswold Water Park Hotel, Gloucestershire

15-17 May 2017

## 69. DATES OF FUTURE MEETINGS

The dates of future meetings of the Greater Manchester Pension Fund Management/Advisory Panel, Local Board and Working Groups were noted as follows:

Management/Advisory Panel

10 March 2017

Local Pensions Board

15 December 2016

30 March 2017

Pensions Administration Working Group

27 January 2017

7 April 2017

Investment Monitoring & ESG Working Group

27 January 2017

7 April 2017

Alternative Investments Working Group

3 February 2017

Property Working Group	13 April 2017
	17 February 2017
	13 April 2017
Policy and Development Working Group	2 February 2017
	23 March 2017
Employer Funding Viability Working Group	10 February 2017
	21 April 2017

**CHAIR**