GREATER MANCHESTER PENSION FUND

POLICY AND DEVELOPMENT WORKING GROUP

22 February 2017

Commenced: 11.30am		**Terminated: 2.00pm**
	Councillor K Quinn (Chair)	
	Councillor J Fitzpatrick	
	Councillor Cooney	
	Councillor S Quinn	
	Councillor Taylor	
	Councillor Pantall	
	Lynn Brown	**Advisor to the Fund**
	Ronnie Bowie	**Actuary and Advisor to the Fund**
	Peter Moizer	**Advisor to the Fund**
	Mark Powers	**Advisor to the Fund**
	Steven Pleasant	**Chief Executive**
	Sandra Stewart	**Executive Director of Pensions**
	Steven Taylor	**Assistant Executive Director of Pensions (Investments)**
	Paddy Dowdall	**Assistant Executive Director of Pensions (Local Investments and Property)**
	Euan Miller	**Assistant Executive Director of Pensions (Funding and Business Development)**
	Tom Harrington	**Senior Investments Manager**
Apologies for absence:	**Councillors M Smith and J Lane**	

13. DECLARATIONS OF INTEREST

There were no declarations of interest.

14. MINUTES

The Minutes of the proceedings of the meeting of the Policy and Development Working Group held on 6 October 2016, having been circulated, were agreed as a correct record.

15. INVESTMENT MANAGEMENT ARRANGEMENTS

Consideration was given to a report of the Assistant Executive Director of Pensions (Investments), which explained by way of background information, that at the meeting of the Greater Manchester Pension Fund Management/Advisory Panel on 11 March 2016, a review of Investment Management arrangements was considered. Given the lack of clarity and detail surrounding pooling arrangements at that time, rather than instigate any changes to arrangements or negotiate further three year fee arrangements with two of the Fund's Investment Managers, it was resolved that a one year extension, to 31 March 2018, be implemented (Minute 77 refers).

In light of ongoing concerns in respect of a particular Fund Manager's performance, a special meeting of the Policy and Development Working Group of 3 August 2016 considered their continuing role for the Fund. Members recommended that the Fund Manager be retained in line with the arrangements and time frame agreed at the meeting of the Management Panel of 11 March 2016. It was further recommended that the Fund Manager's investment mandate be reduced by 10% of assets under management, to partially fund the newly appointed Credit Manager. The Management Panel adopted these recommendations at the meeting of 18 November 2016 (Minute 32 refers).

Representatives from the Fund Manager in question then attended before Members to explain the reasons for their continuing underperformance, and presented their proposed solution to address this underperformance.

They explained that the key area of weakness had been the management of equities, and although recent changes, including to key personnel, had led to some improvement, it was not enough to make investment results consistently better.

In order to address this issue, the Fund Manager was proposing to offer GMPF an alternative strategy for managing equities on a global basis. No changes to the management of fixed income or the asset allocation process were being proposed. The proposed approach would involve completely new portfolio managers from a separate area of the Manager's business.

It was further explained that the current GMPF equity team consisted of both regional and global managers, while the proposed alternative strategy was made up of global managers only and would require a switch from a regional benchmark allocation to a global benchmark.

The Manager concluded by stating that GMPF was an extremely important client and expressed their disappointment that they had not delivered for GMPF since mandate inception and that they had thought carefully about the most appropriate solution to deliver the results expected.

The proposed approach and new team has only been made available by the Manager to clients outside the US since October 2015. The proposed solution had a 23 year record of delivering superior results for institutional and individual investors in the US.

It was acknowledged that adoption of the proposed strategy would incur transaction costs and potential additional due diligence and the Manager was willing to discuss how they could cover the transaction costs involved.

The Advisors were then asked to comment.

Mr Powers expressed concern that this product was only now being offered to GMPF and sought information with regard to the current regional team and how they would be brought together with the global managers.

Mr Bowie concurred with Mr Powers concerns and added his frustrations that failures of the current strategy were not identified earlier and such a solution offered.

Mr Moizer also added his concerns that the Fund Manager's best ideas were not being implemented for GMPF and added that he was struggling to understand the rationale behind this. He also highlighted that a convincing rationale for the disparity in performance of the current approach for GMPF and the proposed approach had not been given and did not seem to align with historical reasons for underperformance.

Ms Brown further added her concerns regarding overly complex approaches to investment management and concurred with previous frustrations expressed by the advisors with regard to identifying and addressing the underperformance at an earlier stage.

The above concerns were also echoed by members of the Working Group.

The Fund Manager accepted that although changes were made to the team in an attempt to address the underperformance, this had not achieved what they had hoped.

Extensive discussion ensued with regard to the content of the presentation, the concerns raised by the Advisors and Members and the options available going forward, and it was:

RECOMMENDED
That the Fund Manager in question be retained in line with the arrangements adopted by the Panel at the meeting of 18 November 2016 (Minute 32 refers), pending the scheduled review of the overall Investment Management arrangements at the July/September 2017 meetings of Panel.

16. BESPOKE INVESTMENT STRATEGIES

The Assistant Executive Director of Pensions (Funding and Business Development) submitted a report, which explained that one of GMPF's key tasks in recent business plans was to develop the capability and capacity to implement employer specific investment strategies.

GMPF had been working with some of the larger employers with mature liability profiles to assess whether an investment strategy different to the Main Fund was appropriate and explored the practical ways of achieving this.

Previous meetings of the Employer Funding Viability Working Group had considered a bespoke investment strategy for Transport for Greater Manchester's (TfGM) sub-fund and made a recommendation for the Management Panel to approve, subject to Hymans Robertson providing confirmation on market conditions remaining suitable, the implementation of pooled funds designed to provide protection against higher than expected inflation.

The report provided an update on the implementation progress of this investment, other elements of the strategy for the TfGM sub-fund, which includes the creation of a credit portfolio and the potential to implement similar strategies for other GMPF employers.

RECOMMENDED
The Executive Director of Pensions be authorised to implement the appointment of a manager for the TfGM credit mandate in consultation with Hymans Robertson.

17. CONSOLIDATION OF LGPS INTERESTS

A report of the Assistant Executive Director of Pensions (Funding and Business Development) was submitted, informing Members that, as reported to the GMPF Management Panel in November 2016, (Minute 66 refers), 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. It also provided updated details of the funding position of the employer's admission agreements and summarised progress on GMPF's due diligence exercise.

It was explained that, for the proposed consolidation to proceed, both the approval of the GMPF Management Panel and the Secretary of State would be required. It was understood that the Secretary of State had indicated that he had no objections to the proposal subject to the consent of the receiving and ceding administering authorities.

Discussion ensued with regard to the above and it was:

RECOMMENDED
That, on the basis of the covenant advice provided to date, the proposal, as outlined in the report, be approved, in principle, subject to the Director of Pensions reaching agreement with the employer on funding strategy, contribution rates, the terms of the admission agreements and receipt of a direction from the Secretary of State.

18. MATRIX HOMES

Consideration was given to a report of the Assistant Executive Director of Pensions (Property and Local Investment), which updated Members on progress with Matrix Homes, focusing on work done since the last meeting of the working group considering new developments.

It was reported that the Fund was seeking to commit to build 750 homes, over the next 12 to 18 months. This should involve capital commitments of around £50-£75 million and a projected return of at least 7.5%. There were currently 3 schemes with early visibility to deliver this:

- A joint venture with Tameside;
- A follow on joint venture with Manchester City Council; and
- A development in Merseyside with MPF.

RECOMMENDED
(i) That the content of the report be noted;
(ii) The expedient progression of the three schemes be made by the Property and Local Investment team, to enable sign off by an Urgent Matters Meeting of the Panel in due course.

19. UPDATE ON INVESTMENT MANAGEMENT COST BENCHMARKING AND RECENT COST SAVINGS ACHIEVED

A report of the Assistant Executive Director of Pensions (Investments) was submitted, providing Members with an update on investment management cost savings achieved by the Investments team.

RECOMMENDED
That the content of the report be noted and updated for consideration by Management Panel.

20. UPDATE ON GLOBAL CREDIT MANAGER APPOINTMENT

The Assistant Executive Director of Pensions (Investments) submitted a report, informing Members that the Panel had previously agreed the creation of a new Global Credit portfolio representing 3-5% of Main Fund assets. The aim of the new mandate was to achieve broadly equity like returns, with lower volatility. Following a search for an overarching specialist Global Credit Manager, three managers were appointed to a Framework Agreement.

Members of the Policy and Development Working Group had interviewed each manager and had recommended that Stone Harbor be 'called off' the Global Credit Framework Agreement to manage between 3 and 5% of Main Fund assets by value subject to clarification of a number of points including the actual value of assets to be managed. The recommendations of the Working Group have subsequently been updated to reflect two developments.

Firstly, the Investment Strategy report presented to the Panel meeting on 1 July 2016 included a recommendation that Stone Harbor be funded with a 5% Main Fund allocation (currently £1 billion) with a concomitant 5% decrease in the allocation to Public Equity. This recommendation was adopted by Panel.

Secondly, work on finalisation of the form of the investment (ie as a segregated portfolio or a bespoke pooled vehicle) and the nature of the fee arrangement (ie fixed or performance fee based), is well advanced and the preferred final form of the investment is settled as a bespoke pooled vehicle, subject to nothing untoward arising from the external legal advice currently in train.

RECOMMENDED

(i) That *Stone Harbor Investment Partners LP* ("Stone Harbor") be 'called-off' the Global Credit Framework Agreement to manage 5% of Main Fund assets by value (broadly £1 billion) subject to:
- **(a) the Executive Director of Pensions being satisfied with clarifications to be supplied by Stone Harbor in relation to:**
  - **(1) its policy and approach on gender diversification;**
  - **(2) its approach to succession planning; and**
  - **(3) the pros and cons of a segregated versus a pooled approach and the estimated third party costs involved within a pooled vehicle.**
- **(b) satisfactory conclusion of legal agreements; and**
- **(c) finalisation of the form of the investment (as a bespoke pooled vehicle) and the nature of the fee arrangement (ie fixed or performance fee based).**

(ii) That the nature, timing and detailed implementation of the transition of assets to the appointed investment manager be settled by the Executive Director Pensions, following consultation with the advisors and/or managers where appropriate.

(iii) That progress on the above be noted.

21. INVESTMENT INITIATIVES

Consideration was given to a report of the Assistant Executive Director of Pensions (Property and Local Investments), which provided an update on progress on a number of specific investment initiatives undertaken by the Fund, including; the Impact Portfolio and the Joint Venture with LPFA investing in infrastructure. Members were further asked to note certain specific actions which had been taken under delegated authority following consultation with the Chair.

RECOMMENDED

That the content of the report be noted, including the actions proposed on additional investment initiatives to be taken by officers in consultation with the Chair.