

APPENDIX C

TAMESIDE MBC

ADMINISTERING AUTHORITY OF THE GREATER MANCHESTER PENSION FUND

INVESTMENT STRATEGY STATEMENT

1) Background

- 1.1 This Statement has been prepared in accordance with the *Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016* ("the Regulations"). The Regulations require administering authorities to prepare, publish, and when appropriate revise, a written statement recording the investment policy of the pension fund; they also stipulate certain key issues which must be covered in the Statement.
- 1.2 The terms of appointments of any external investment managers include a provision that the investment manager must take account of, and shall not contravene, this Statement in undertaking its management role. The Fund may terminate the appointment of any external investment manager by not more than one month's notice.
- 1.3 The Local Government Pension Scheme ("the Scheme") was established by statute to provide death and retirement benefits for all eligible employees. The Scheme is a contributory, defined benefit occupational pension scheme.
- 1.4 Tameside MBC ("the Council") became the administering authority of the Greater Manchester Pension Fund ("the Pension Fund" or "the Fund") in 1987 after the abolition of the Greater Manchester County Council in 1986. The Fund covers all ten district councils of Greater Manchester, the National Probation Service and numerous other smaller employers.
- 1.5 The Statement outlines the broad investment principles governing the investment policy of the Pension Fund. In preparing the Statement, the Council has consulted those persons it considered appropriate.

2) Organisation and Management Arrangements of the Fund

- 2.1 The investment powers of the Council under the Scheme are given in the Regulations. Amongst other matters, the Regulations require the Council to have regard to both the suitability and diversification of its investments and to take proper advice in making decisions regarding the investment matters of the Fund.
- 2.2 The Council has delegated all its functions as administering authority of the Pension Fund to the Pension Fund Management Panel ("the Management Panel" or "the Panel") which routinely meets on a quarterly basis and whose Terms of Reference are detailed in the Council's "Constitution". Amongst other matters, the Panel decides on the investment policy most suitable to meet the liabilities under the Scheme and has ultimate responsibility for the investment strategy.

- 2.3 The Management Panel has in turn appointed a Pension Fund Advisory Panel and external professional Advisors, and has dedicated internal Officers of the Fund to advise it on the exercise of its delegated powers. There are also a number of Working Groups which report quarterly to the Panel on specialist matters.
- 2.4 The Executive Director of Pensions exercises certain delegated powers as specified in the Constitution and provides the link between the Panel, the external professional Advisors and the Fund's investment managers. Each year a Fund "Business Plan" is submitted by the Executive Director of Pensions to the Management Panel for consideration.
- 2.5 A primary objective of the Council is to maintain a low and stable employer contribution rate. This is to be achieved by attempting to maximise the long-term investment return whilst not exceeding an acceptable degree of risk.
- 2.6 The assets of the Fund are separated into two distinct parts – a Main Fund and a Designated Fund. This separation has been made in order to reflect a major difference in liability profiles between most of the employers of the Fund and that of a small number of other employers of the Fund.
- 2.7 Having taken appropriate advice, the Management Panel has decided that a bespoke benchmark, which is biased towards equity is a suitable investment benchmark for the management of the Main Fund. Detail on the Main Fund's bespoke benchmark is included in the Fund's Annual Report and Accounts. This benchmark will be reviewed annually and when appropriate in response to significant changes in the investment environment. The Designated Fund has a bespoke benchmark which is heavily orientated towards UK index linked stock.
- 2.8 The Management Panel has delegated the management of the majority of the Main Fund's securities portfolio, and the management of the Main Fund's direct property portfolio, to regulated, external, professional investment managers whose activities are defined and constrained by detailed Investment Management Agreements. The remainder of the Main Fund (including private equity, infrastructure, local investments, elements of the Special Opportunities Portfolio and UK cash), together with the Designated Fund, is managed internally by Officers of the Fund. The 'Treasury Management' of all UK cash is undertaken by Officers of Tameside MBC.
- 2.9 The Main Fund is largely actively managed but has a significant element, which is passively managed on a pooled basis. Three of the appointed external securities managers have been given individual differing active multi-asset (ex property) discretionary benchmarks reflecting their perceived skills and the relative efficiency of markets. The fourth appointed external securities manager has a single broad equity market benchmark reflecting its specialist mandate. These individual benchmarks are detailed in the Investment Management Agreements and have been chosen so as to be consistent with the overall bespoke benchmark determined for the Main Fund.

- 2.10 Each of the Main Fund's external active securities managers has been set the target of achieving a rolling three year average performance which exceeds the average performance of their individual benchmark by at least 1% per annum. The Fund anticipates that in two years out of three the external active multi-asset securities managers' annual performance will be within 4½% of the annual performance of their individual benchmark. The equivalent range for the specialist securities manager is +/-7%.
- 2.11 The fees of two of the three external active securities managers consist of two elements: an ad-valorem base fee together with a performance element which is capped at a prudent level of outperformance. The fees of the third external active securities manager consists of a fixed base fee with no performance element. The fees of the Main Fund's external passive securities manager consists of an ad-valorem base fee with no performance element. The fees of the external property manager comprise of a combination of a fixed and ad-valorem base fee with no performance element.
- 2.12 The Designated Fund is passively managed on a segregated basis.
- 2.13 The investment returns of the Main Fund, its underlying component portfolios and the Designated Fund are calculated quarterly by an external, third party professional performance measurement company appointed directly by the Council.
- 2.14 The Management Panel monitors the performance of the appointed external investments managers at each of its quarterly meetings. The performance of the specialist portfolios managed internally by Officers of the Fund is monitored annually by the Panel.

3) The Types of Investments to be Held

- 3.1 The Regulations require the Council to set out the maximum percentage of the total value of all investments of fund money that it will invest in particular investments or classes of investment. These maximum percentage limits are set out in an Appendix to this Statement, and are applicable only at the time the investment is made. The Regulations also require that not more than 5% of the total value of all investments of fund money be invested in entities which are connected with the authority, within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007.
- 3.2 In addition to the Regulations, the Council has decided to further restrict the types of investment which the appointed external securities managers may hold and to restrict the type and extent of investment activity which they are permitted to undertake. These further detailed restrictions are extensive and are documented in a Schedule to each of the Investment Management Agreements.
- 3.3 Fund assets currently include a UK and overseas spread of equity, fixed interest bonds (including those issued by Governments, companies and other entities), index linked bonds, private equity, infrastructure and property. The Main Fund's external active multi-asset securities managers are permitted limited use of certain derivatives. The Fund supplements its investment income by participating in a Commission Recapture program.

4) The Balance between different Types of Investments

- 4.1 The Regulations require the Council to have regard to the diversification of its investments.
- 4.2 The overall bespoke benchmark of the Main Fund comprises a mix of different assets (broadly 75% real assets and 25% monetary assets) which is sufficient to provide adequate diversification for the Main Fund. The Fund's Annual Report and Accounts contains more detail on the overall Main Fund benchmark.
- 4.3 The strategic balance of investments takes account of the risk/return characteristics of each asset class and in particular the potential for enhanced long term returns from equity and the higher level of short term volatility associated with that asset class. In this context, risk in relation to any asset class is considered 'in the round' rather than being analysed into the specific components of risk (eg liquidity, foreign exchange, interest rate sensitivity etc). Allowance is also made for the benefits of diversification across the asset class mix within the Main Fund. The overall bespoke benchmark provides a reasonable long-term balance appropriate to the liabilities relevant to the Main Fund and its funding position.
- 4.4 For the Main Fund, tactical asset allocation is delegated to the appointed external multi-asset securities managers who must operate within asset class and country restrictions which are documented in a Schedule to the Investment Management Agreements.
- 4.5 The bespoke benchmark of the Designated Fund has also been specifically chosen in the context of the relevant liabilities and funding position.

5) Risk : Measurement and Management

- 5.1 The Management Panel recognises that risk is inherent in any investment activity. The overall approach is to seek to reduce risk to a minimum where it is possible to do so without compromising returns (eg in operational matters), and to limit risk to prudently acceptable levels otherwise (eg in investment matters).
- 5.2 Operational risk is minimised by :
 - Having custody of the Fund's financial assets provided by a regulated, external, third party, professional custodian appointed directly by the Council with control and liability issues thoroughly addressed in a Global Custody Agreement;
 - Having the deeds of direct property investments held securely by the Fund's Legal Section;
 - Documenting control and liability issues relating to the relationships with the appointed external investment managers in the Investment Management Agreements;
 - Having an external, third party, accounting provider independently maintain complete accounting records relating to the investment activity of the appointed external securities managers and to the entitlements (eg income) arising from the Fund's securities portfolios;

- Officers of the Council's Internal Audit and of the Fund's Investments Group receiving reports on and reviewing the internal operating procedures of the appointed external custodian, securities managers and accounting provider; and
- Subjecting internal investment management activity to close Internal Audit scrutiny.

5.3 Investment risk is constrained by :

- Diversifying across investment managers;
- Diversifying across types of investment;
- Restricting external appointed investment manager activity as documented in a Schedule to or in relevant Clauses of the Investment Management Agreements;
- Selecting appropriate investment benchmarks in order to control the risk that the assets will not be sufficient to meet the liabilities whilst also having a strong likelihood of achieving a good return;
- Taking appropriate internal and external professional advice on the investment activity of both the externally managed securities portfolios and of the internally managed portfolios;
- Quarterly, formal, Management Panel monitoring of asset allocation against the investment benchmarks and asset class restrictions; and
- Quarterly, formal, Management Panel monitoring of investment manager and overall Fund activity and performance.

5.4 Some risks lend themselves to being measured (eg using such concepts as 'Active Risk' and such techniques as 'Asset Liability Modelling') and where this is the case, the Fund employs the relevant approach to measurement. The Fund reviews new approaches to measurement as these continue to be developed.

6) The Expected Return on Investments

6.1 There is a broad expectation that in the longer term the return on equity will be greater than on other assets.

6.2 The overall Main Fund return is expected to be broadly in line with the overall bespoke benchmark. Over the last twenty years this benchmark has averaged a return which is comfortably ahead of both price and earnings inflation over the same period. However over any shorter period, such as one or five years, actual Main Fund returns may vary significantly from the benchmark and indeed benchmark returns may vary significantly from their long-term averages.

6.3 Over the long term appropriate to the liabilities of the Scheme it is expected that the investment returns of both the Main Fund and the Designated Fund will be at least in line with the assumptions underlying the actuarial valuations.

7) The Realisation of Investments

- 7.1 General investment principles require that issues of liquidity and marketability be considered in making any investment decision. Pension payments are expected to exceed employer and employee contributions by around £200m per year over the coming three years. During this period, investment income, outwith that which is automatically reinvested within pooled vehicles, is anticipated to generate around £300m per year of receipts to the Fund. Thus it is not expected that there will be any material need to realise investments in the near future other than to seek higher returns.
- 7.2 The vast majority of the Pension Fund's assets are readily marketable. However some investments, such as property, and more so private market assets, are less easy to realise in a timely manner. Such relative illiquidity is not considered to have any significant adverse consequences for the Fund. However, over the coming couple of years, Officers of the Fund will be investigating options for dealing with the deteriorating cash-flow position of the Fund.
- 7.3 The Council informs the appointed external investment managers of any projected need to withdraw funds in order to enable the investment managers to plan an orderly realisation of assets when this proves necessary.

8) The Fund's Approach to Pooling Investments

- 8.1 The Council has signed a memorandum of understanding with the administering authorities of the Merseyside Pension Fund and the West Yorkshire Pension Fund to create the Northern Pool ('the Pool') in order to meet the criteria for pooling investments released by Government on 25 November 2015.
- 8.2 The three funds submitted their pooling proposal to Government in July 2016 and the Department for Communities and Local Government provided its confirmation in January 2017 that it is content for the funds to proceed with the formation of the Pool as set out in the July 2016 proposal. A copy of the proposal is on GMPF's website.
- 8.3 Based on 31 March 2015 asset values, the total value of assets, across the three participating funds, to be invested in the Pool is £35.416 billion, which is in excess of the £25 billion criteria set by Government. All assets other than day-to-day cash used for scheme administration purposes will be invested via the Pool once transition is complete. Day-to-day cash is assumed to be 1% of total assets for each fund.
- 8.4 For the immediate future after inception of the Pool, the Fund's public-market assets will continue to be held in segregated mandates owned directly by the administering authority, but managed by the Pool. A single custodian will be appointed by the Pool, which will simplify the future consolidation of mandates.
- 8.5 All non-listed assets will be managed by the Pool from its formation. Subject to value for money requirements being fulfilled, new investments (i.e. those entered into after the formation of the Pool) in private market assets will be made on a shared ownership basis, via either collective investment vehicles or limited partnerships. Legacy private market assets (i.e. those entered into prior to the formation of the Pool) will be run-off on a segregated basis.

- 8.6 This approach will be reviewed periodically going forwards to ensure this continues to demonstrate value for money, particularly following any changes to funds' strategic asset allocations, pool management arrangements or taxation policy in the UK or internationally. The reviews will take place no less than every 3 years.
- 8.7 Once established it is intended that the Pool will provide the following services to the participating authorities on an in-house basis:
- Implement the strategic asset allocations of the participating authorities
 - Management of UK and Overseas equities and bonds
 - Selection of private equity, infrastructure & property funds
 - Direct UK infrastructure investment via a collective investment vehicle
 - Legal and accounting support
- 8.8 It is intended that the Pool will externally procure the following services:
- External fund management for certain mandates
 - Common custodian for Pool (plus depositaries & fund administrators where required for any pooled funds that are established for non-listed assets)
 - Investment management systems
 - Audit services
 - Performance analytics
 - Responsible Investment advisory services
 - Value for money reviews of structure
- 8.9 A Pool Oversight Board will be established to:
- i) provide oversight of the Pool; and
 - ii) act as a forum for the participating authorities to express the views of their pension committees.
- 8.10 The Oversight Board's primary roles are to ensure that the Pool is effectively implementing the participating authorities' strategic asset allocations and to oversee reporting to the participating authorities' pension committees.
- 8.11 The legal structure of the Oversight Board is expected to be a joint committee. There will be clear separation of duties between the Oversight Board and the Pool. The Oversight Board will not be undertaking any regulated activities.
- 8.12 The Pool's governing documentation will grant the Oversight Body and each administering authority certain powers regarding the operation of the Pool, which can be used to ensure the effective performance of the Pool.

- 8.13 Reporting processes of the Pool will include regular written reports on the performance of Pool investments to the Oversight Body, which will be discussed at formal meetings. Officers of the Pool will also report to and present directly to the administering authorities' pension committees and local pension boards as appropriate.
- 8.14 A report on the progress of asset transfers will be made to the Scheme Advisory Board annually.

9) Socially Responsible Investment

- 9.1 The Fund holds a general policy of not interfering in the day to day investment decisions of its investment managers. However, the Fund may choose to actively invest in or disinvest from companies for social, ethical or environmental reasons, so long as that does not risk material financial detriment to the Fund.
- 9.2 As a responsible investor, the Fund wishes to promote corporate social responsibility, good practice and improved company performance amongst all companies in which it invests. On environmental issues, the Fund wishes to promote and encourage compliance with its own "UK Environmental Investment Code". The Fund's appointed external securities managers are encouraged to operate a policy of constructive shareholder engagement with companies. The Fund is a 'Tier 1' signatory of the UK Stewardship Code.
- 9.3 The Fund endeavours to be a socially responsible investor wherever possible but does so within the duties placed upon it under statute and under general trust law principles to manage the Scheme in the best financial interests of the Scheme members and beneficiaries.
- 9.4 From time to time the Fund will pursue certain specific issues direct with investee companies, either individually or, more usually, collectively with other institutional investors via its membership of the 'Local Authority Pension Fund Forum', its membership of the 'Institutional Investors Group on Climate Change', as a signatory to the 'UN Principles for Responsible Investment' or by means of other ad-hoc groupings.
- 9.5 The Panel has approved an allocation to Local Investments, which has the twin aims of generating a commercial return and delivering a positive social impact. The Fund's Annual Report and Accounts contains more detail on the specific investments within this allocation.

10) The Exercise of Investment Rights

- 10.1 The exercise of rights which are not voting rights (eg dividend entitlements, rights issues etc) are delegated by the Council to the investment managers of the Pension Fund as part of their normal investment responsibilities.
- 10.2 The Fund wishes to exercise the voting rights attaching to its investments to promote and support good corporate governance principles. The Fund will report on its voting activity as part of its Annual Report.

- 10.3 The Fund requires the appointed external active securities managers to vote on behalf of the Fund at every opportunity in the UK and when reasonably practicable and commercially prudent overseas.
- 10.4 In casting the Fund's votes in the UK, the appointed external active securities managers are mandated to implement the Fund's bespoke "UK Voting Guidelines". Any overseas votes exercised must be cast in line with the spirit of the Guidelines.
- 10.5 The appointed external passive securities manager votes in respect of the Fund at every opportunity in the UK and in respect of companies in the vast majority of overseas markets except where practicalities are a significant obstacle.
- 10.6 In casting votes in respect of the Fund in the UK, the appointed external passive securities manager normally implements its own 'Voting Policy'. However the passive securities manager will vote in respect of the Fund according to the Fund's instructions on a case by case basis should the Fund so require.

11) Stocklending

- 11.1 The Fund itself has participated in a prudently structured Stocklending program via its Custodian since March 2003. However, the Fund suspended its Stocklending program between September 2008 and May 2011 in the wake of the 2008 financial crisis.
- 11.2 The Fund does not lend UK and US Equities and does not take Cash as collateral. The maximum volumes of stock "on loan" are set at a lower level than the Regulations permit. All loans must be pre-collateralised and be subject to recall upon demand.
- 11.3 Certain pooled vehicles within which the Fund invests may undertake an amount of Stocklending on behalf of the pooled vehicle investors. Where this occurs, the extent of the activity is disclosed by the pooled vehicle. The Fund considers this aspect of the pooled vehicle when making investment decisions.

Version 1.0

Adopted by the Pension Fund Management Panel for Tameside MBC as administering authority of the Greater Manchester Pension Fund: March 10, 2017

SJT/PFIG
February, 2017

APPENDIX TO INVESTMENT STRATEGY STATEMENT

TABLE OF LIMITS ON INVESTMENTS

Investment	Limit
1. Any single sub-underwriting contract	1%
2. All contributions to any single partnership	5%
3. All contributions to partnerships	30%
4. The sum of – a) all loans (but see paragraph 1 below); and b) any deposits with – i. any local authority; or ii. any body with power to issue a precept or requisition to a local authority, or to the expenses of which a local authority can be required to contribute which is an exempt person (within the meaning of the Financial Services and Markets Act 2000) in respect of accepting deposits as a result of an order made under section 38(1) of that Act	10%
5. All investments in unlisted securities of companies	10%
6. Any single holding (but see paragraphs 2 and 3 below)	10%
7. All deposits with any single bank, institution or person (other than the National Savings Bank)	10%
8. All sub-underwriting	15%
9. All investments in units or shares of the investments subject to the trusts of unit trust scheme managed by any one body (but see paragraph 3 below)	25%
10. All investments in open-ended investment companies where the collective investment schemes constituted by the companies are managed by one body	25%
11. All investments in unit or other shares of the investments subject to the trusts of unit trust schemes and all investments in open-ended investment companies where the unit trust schemes and the collective investment schemes constituted by those companies are managed by any one body (but see paragraph 3 below)	25%
12. Any single insurance contract	35%
13. All securities transferred (or agreed to be transferred) by the authority under stock lending arrangements	25%

EXCEPTIONS TO LIMITS IN THE TABLE

1. The restriction in item 4 of the table does not apply to a Government loan.
2. The restriction in item 6 of the table does not apply if—
 - (a) the investment is made by an investment manager; and
 - (b) the single holding is in units or other shares of the investments subject to the trusts of any one unit trust scheme.
3. The restrictions in items 6, 9 and 11 do not apply to—
 - (a) National Savings Certificates;
 - (b) fixed-interest securities issued by Her Majesty's Government in the United Kingdom, the Government of Northern Ireland or the Government of the Isle of Man and registered in the United Kingdom or the Isle of Man or Treasury Bills;
 - (c) any securities the payment of interest on which is guaranteed by Her Majesty's Government in the United Kingdom or the Government of Northern Ireland; or
 - (d) a deposit with a relevant institution.

END OF APPENDIX (10/03/17)