

GREATER MANCHESTER PENSION FUND - INVESTMENT MONITORING AND ESG WORKING GROUP

7 April 2017

Commenced: 10.30 am

Terminated: 12.00 pm

Present: Councillors Taylor (Chair), Middleton, Ricci, Brett, Mitchell, Stogia and Mr Allsop

In Attendance:	Councillor K Quinn	Executive Leader
	Janice Hayward	PIRC Ltd
	Alan MacDougall	PIRC Ltd
	Sandra Stewart	Executive Director of Pensions
	Steven Taylor	Assistant Executive Director of Pensions (Investments)
	Tom Harrington	Senior Investments Manager
	Raymond Holdsworth	Investments Manager
	Michael Ashworth	Investments Officer
	Lorraine Peart	Investments Officer

Apologies for Absence: Councillors Grimshaw and Pantall

27. DECLARATIONS OF INTEREST

There were no declarations of interest.

28. MINUTES

The minutes of the meeting of the Investment Monitoring and ESG Working Group held on 27 January 2017 were approved as a correct record.

29. INVESTEC CORPORATE GOVERNANCE REVIEW

The Working Group welcomed Therese Niklasson of Investec who attended the meeting to report on Corporate Governance activity over the last 12 months.

It was reported that Environmental Social and Governance integration was a priority for the leadership at Investec as they believed that it added more value for clients if Environmental Social and Governance issues were treated as an integral part of the investment analysis and decision making process rather than a separate consideration. An internal framework for assessing the relevance of Environmental Social and Governance integration through the different stages of the investment process had been developed, which allowed Investec to apply a consistent approach to integration analysis and allowed the team to develop their own unique approach to Environmental Social and Governance.

The Working Group were informed that the '4Factor' team continued to focus on Environmental Social and Governance considerations throughout the investment process from universe screening,

fundamental analysis and portfolio construction to engagement with companies and reporting. Work would continue on further deepening Environmental Social and Governance integration by focussing on greater access to data and re-evaluating factors from a quantitative perspective, evaluating and improving Environmental Social and Governance fundamental analysis and training on Environmental Social and Governance topics.

The Working Group was notified that an Environmental Social and Governance portfolio screener had been developed, which allowed the manager to understand the Environmental Social and Governance footprint.

An overview of engagement across Greater Manchester Pension Fund since 2015 was provided. Members enquired about how reflective the engagement was. It was confirmed that engagement was an important point and Investec followed their client's strategic input and met with them prior to annual general meetings.

With regards to active ownership the proxy voting outcomes for Greater Manchester Pension Fund in 2016 were outlined. A wide ranging discussion took place on the content of Investec's report. Members commented that it was important to continue to challenge the imbalance around pay ratios and diversity issues.

Members also stressed the importance of embedding Environmental Social and Governance issues in the decision making process and ensuring that agents considered Environmental Social and Governance matters.

RECOMMENDED:

That the report be noted.

30. INVESTEC REVIEW OF TRADING COSTS

The Executive Director of Pensions submitted a report, which facilitated Members' scrutiny of Investec's approach to and practice with regard to trading costs. Investec's 'Level One' disclosure report and Greater Manchester Pension Fund's 'Level Two' disclosure report for the year to 31 December 2016 were appended to the report.

The 'Level One' report detailed the fund manager's policies and procedures for the management and monitoring of total trading costs in order to achieve the best execution for clients. The 'Level Two' report provided an analysis of Greater Manchester Pension Fund's trading volumes and commissions, which could be compared to Investec's average client commission rates.

Stephen Lee, Investec, presented both reports. There had been a number of minor changes to the 'Level One' report none of which were material. Investec had reviewed and updated their report in March 2017 with no significant changes to note. It was confirmed that officers of the Fund had reviewed the 'Level Two' report and any questions had been satisfactorily answered by Investec.

The IMA Disclosures Commission Report for the period 1 January 2016 to 31 December 2016 was outlined in the report. Investec's work streams relating to MiFID II and Local Government Pension Scheme Code of Transparency were also detailed in the report.

RECOMMENDED:

That the report be noted.

31. UNDERWRITING, STOCKLENDING AND COMMISSION RECAPTURE

The Assistant Executive Director of Pensions (Investments) submitted a report advising Members of the activity and income generated on Underwriting, Stocklending and Commission Recapture during the quarter.

It was reported that Capital International did not participate in underwriting activity and the Fund did not participate in any sub-underwriting via UBS in the quarter ended December 2016. Stocklending income during the quarter was £146,552 and Commission 'recaptured' was £24,362.

The report outlined that income generated from these activities was very sensitive to market conditions, therefore the amounts generated were expected to vary from one quarter to another, and from one year to another.

RECOMMENDED:

That the report be noted.

32. ROUTINE PIRC UPDATE

The Working Group welcomed Alan MacDougall and Janice Hayward of PIRC Ltd, who attended the meeting to present PIRC's report, entitled '2017 UK Shareowner Voting Guidelines', a copy of which was appended to the report.

It was explained that PIRC published guidelines for accountability reasons to enable clients to know the basis of their voting recommendations and they applied common governance standards across the market. All UK companies received a draft proxy report for comment and PIRC's research was based on publicly available disclosures and market intelligence.

Mr MacDougall outlined the key principles that companies should adopt to the Working Group, which included:-

- Clear values and high ethical standards throughout the company;
- An ability to account for shareowner capital and achieve an appropriate return;
- Developing a culture of transparency and accountability;
- Focussing on strategic issues and the quality of business;
- Developing appropriate checks and balances to deal with conflicts of interests;
- Maintaining effective systems of financial control and risk management;
- Creating fair remuneration structures that reward the achievement of business objectives; and
- Recognising and managing impacts on all stakeholders.

An update was provided on PIRC's activities over the past 12 months and objectives for the next 12 months. With regards to pay, it was reported that PIRC had made a good first step to reconfigure executive remuneration, which would be taken into account in analysis on company remuneration reporting during 2017. They would request far more disclosure of how remuneration committees used remuneration consultants including fee disclosures. PIRC were collecting data on audit committee composition and competence relevant to the sector and the process for assessing relevance.

With regards to Board diversity, the Hampton-Alexander review had led PIRC to change the percentage requirement of female directors to 25% of the Board and they would encourage companies to move towards 33% female representation by 2020. PIRC would no longer support Rule 9 Waivers unless the controlling shareholder was committed to not increasing their level of holding if the company were to make a share repurchase and they were collecting data to assess

whether companies were complying with the new disclosure requirements around the Modern Slavery Act.

A discussion ensued around the advantages and disadvantages of virtual engagement.

RECOMMENDED:

That the report be noted.

33. CLASS ACTION UPDATE

The Assistant Executive Director of Pensions (Investments) submitted a report, which provided Members with an update on litigation in which Greater Manchester Pension Fund sought to actively recover losses in the value of its shareholdings in various companies as a result of actions taken by those companies.

A quarterly update explaining active Class Actions, which remain outstanding, was presented to Members and recent developments relating to each action was provided. Members commented on the importance of taking part in litigation and taking a pro-active approach. They enquired about the costs involved in participating in litigation and also enquired about any further opportunities. It was confirmed that taking part in a Class Action did not result in any external costs and the Fund was automatically involved in any US class action by default.

The Executive Director of Pensions commented that it was important for the Fund to be adequately resourced to ensure that it could maximise recoveries where cost effective to do so.

RECOMMENDED:

That the report be noted.

34. URGENT ITEMS

There were no urgent items.