

**Report To:** **GMPF MANAGEMENT/ADVISORY PANEL**

**Date:** 21 July 2017

**Reporting Officer:** Sandra Stewart, Director of Pensions

**Subject:** **MANAGEMENT SUMMARY**

**Report Summary** The aim of this report is to provide a short commentary on issues and matters of interest arising during the last quarter.

**Recommendations:** To note the progress on matters and issues raised in the Management Summary and the draft business plan which is currently being discussed at relevant working groups with a view that a final version will be considered at September meeting together with an appropriate progress proforma. .

**Policy Implications:** None.

**Financial Implications:** There are no material direct financial implications arising from this report.  
**(Authorised by the Section 151 Officer)**

**Legal Implications:** Legal advice needs to be taken expediently on each of the individual projects referenced in the report as required.  
**(Authorised by the Solicitor to the Fund)**

**Risk Management:** The report is primarily for information only.

**ACCESS TO INFORMATION:** **NON-CONFIDENTIAL**

**This report does not contain information which warrants its consideration in the absence of the Press or members of the public.**

**Background Papers:** For further information please contact Paddy Dowdall, Assistant Director – Property and Local Investments, tel 0161 301 7140, email [paddy.dowdall@tameside.gov.uk](mailto:paddy.dowdall@tameside.gov.uk).

## **1. INTRODUCTION**

- 1.1 In 2016, with assets of £17 billion, GMPF was the 9th largest pension fund in the UK. GMPF was also the largest LGPS fund, followed by Strathclyde at £16 billion, West Midlands at £12 billion, West Yorkshire at £11 billion, and Merseyside at £7 billion. With a further year of strong returns, GMPF's assets have subsequently risen to over £21 billion.
- 1.2 GMPF's returns were particularly strong in 2016/17 (+23.8%). In addition to large market rises, the Fund also significantly outperformed both its benchmark (+20.7%), and Local Authority peers (+21.4%). GMPF is ranked 7<sup>th</sup> in the Local Authority universe in 2016/17. GMPF is ranked in the top 10 Local Authority funds over the medium to long term, and is second over 30 years.
- 1.3 The latest funding estimates provided by the actuary are a ratio of asset to liabilities of 97% at 31 March 2017 and 98% at 8 June 2017 using GMPF's ongoing funding basis. GMPF had a funding level of 105.5% using the standardised assumptions set by the Scheme Advisory Board at 31 March 2016. Funding levels ranged from 66% to 123% across the LGPS in England and Wales. GMPF was ranked joint 14th best funded out of the 89 LGPS funds to submit results. GMPF's relative funding position is likely to have improved over the period since the valuation date due to the Fund's asset out-performance in 2016/17.

## **2. POOLING – SUMMARY UPDATE ON KEY TASKS**

- 2.1 Officers from the three Northern Pool funds are jointly undertaking a procurement exercise for a common custodian for the Pool, with a view to having appointed a preferred supplier by 1 April 2018. Thomas Murray, whom GMPF consider to be the pre-eminent specialist in this field, have been procured to provide consultancy services in connection with the exercise. The initial formal advert to potential bidders was issued on 7 June 2017 and the deadline for expressions of interest is 10 July 2017.
- 2.2 Officers from the three Northern Pool funds have been meeting to discuss all aspects of how Private Equity investment activities can be managed on a joint venture basis. Specialist external legal advice is in the process of being procured with a view to designing and implementing an appropriate legal framework for these activities. A broad investment strategy proposal has been outlined and officers are now turning to the operational aspects of how a pooled approach to Private Equity will work.
- 2.3 In December 2016 GLIL was expanded to include the pooling partners of LPFA and GMPF. Together with an additional £250m commitment from GMPF, total commitments to GLIL increased from £500 million to £1.3 billion. GLIL completed its 4th investment (its second in the UK rolling sock sector) in June, bringing total investments to £300 million. GLIL is also in the advanced stages of three further transactions, collectively worth more than £500 million. GLIL and its members are working on a revised structure that will facilitate the admission of additional LGPS funds. This structure will need to be FCA registered and we are evaluating a number of options to achieve that.
- 2.4 GMPF has long been committed to investments in housing which meet its twin aims of commercial returns and positive local impact. The extension of investment in housing was a key part of our pooling proposals and has been well received by government. The minister is considering an invitation to the Fund offices and sites to see how GMPF and Northern Pool are leading the way in this sector. Work continues on housing investment through the Matrix model and through mezzanine financing to private sector developers. The Policy and Development and the Property working groups are overseeing these investments.

### **3. LGPS INVESTMENT REGULATIONS – AN UPDATE**

3.1 In June 2017, the Government suffered a defeat in the High Court after its regulations on Local Government Pension Scheme (LGPS) investments were deemed unlawful.

3.2 Statutory guidance referred to by the regulations came into force on 1 November 2016. The guidance permits ethical and social objections to a particular investment to be taken into account. However, the guidance also states that administering authorities must not:

".... [use] pension policies to pursue boycotts, divestment and sanctions ["BDS"] against foreign nations and UK defence industries...other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.";

or

"pursue policies that are contrary to UK foreign policy or UK defence policy".

The guidance was subsequently challenged in the High Court by the Palestine Solidarity Campaign (PSC) to overturn the regulations via a judicial review, where it argued the government had acted outside of its powers, and it was "lacking in certainty".

3.3 The judge, Sir Ross Cranston, only agreed with the first argument, stating "the Secretary of State has not justified the distinction drawn between these and other non-financial cases by reference to a pensions' purpose. In issuing the challenged part of the guidance he has acted for an unauthorised purpose and therefore unlawfully". Sir Ross Cranston therefore granted a judicial review, meaning the government may have to rethink its approach to the rules if it wishes them to take effect.

3.4 The Fund's response to the Government's consultation paper on the guidance, issued in November 2015, maintained that the intervention powers proposed for the Secretary of State were far too extensive.

3.5 The Fund noted that the primary duty of the Fund's Management Panel was to pay the pension promises earned by its members. In reaching decisions it must comply with its fiduciary responsibilities. Whilst the Fund had a general policy not to interfere in the day to day investment decisions of its investment managers, it is only right that 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.

3.6 The Fund believed that the principle of Central Government intervention in Local Authority pension funds fundamentally undermined local democracy and accountability. Also, in practical terms, the impact of the Government's proposal risked placing an onerous burden on the LGPS to monitor the Government's evolving foreign policy, and to reflect this within its investment decisions.

3.7 The High Court judgement supports the Fund's position and the considered way in which the Fund applies social, ethical or environmental factors to investment decisions.

### **4. FCA ASSET MANAGEMENT MARKET STUDY**

4.1 The findings of the Financial Conduct Authority (FCA) asset management market study were published on 28 June. The final report confirmed the findings set out in the interim report published last year - noting:

- That despite a large number of firms operating in the market, there was evidence of "sustained, high profits over a number of years".

- Investors are not always clear what the objectives of funds are, and fund performance is not always reported against an appropriate benchmark.
- The FCA found concerns about the way the investment consultant market operates.

4.2 The remedies the FCA are taking forward fall in to three areas.

**To help provide protection for investors who are not well placed to find better value for money, the FCA proposes to:**

- Strengthen the duty on fund managers to act in the best interests of investors;
- Require fund managers to appoint a minimum of two independent directors to their boards;
- Introduce technical changes to improve fairness around the management of share classes and the way in which fund managers profit from investors buying and selling their funds.

**To drive competitive pressure on asset managers, the FCA will:**

- Support the disclosure of a single, all-in-fee to investors;
- Support the consistent and standardised disclosure of costs and charges to institutional investors;
- Recommend that the DWP remove barriers to pension scheme consolidation and pooling;
- Chair a working group to focus on how to make fund objectives more useful and consult on how benchmarks are used and performance reported.

**To help improve the effectiveness of intermediaries, the FCA will:**

- Launch a market study into investment platforms;
- Recommend that HM Treasury considers bringing investment consultants into the FCA's regulatory perimeter.

## **5. PROJECT MAGPIE**

- 5.1 First Bus Group, one of GMPF's largest private-sector employers, has proposed to consolidate its two other LGPS arrangements (currently in the West Yorkshire Pension Fund and the South Yorkshire Passenger Transport Pension Fund) into GMPF. This proposal was considered by the Policy and Development Working Group on 22 February, with the Working Group recommending to Panel at its March meeting that this be approved in principle, subject to certain conditions being met.
- 5.2 The consolidation will be effected by a Direction from the Secretary of State and the signing of admission agreements with the two Yorkshire operating companies. At the time of writing a final draft of the Direction is out for consultation with the three funds and First Group, with the effective date of the Direction being 1 November 2017.
- 5.3 Assuming the consolidation proceeds as planned there will be approximately 5,000 members and £600m of assets transferring to GMPF. Work is ongoing to implement the transfer of member data and assets and regular updates will be provided to the relevant working groups and the Management Panel as appropriate.

## **6. BUSINESS PLAN**

- 6.1 The senior Managers of the Fund have been reflecting on what priority projects that we need to focus upon to achieve the best outcome for the Fund and to ensure we maximize returns and recreate long term financial sustainability to meet its liabilities in the interests of taxpayers, employers and members alike and the appropriate resources to do this.

- 6.2 Importantly, in an increasingly complex environment, it is important that we remain focus on the purpose of the Fund and the values that underpin it and ensure that we find ways to ensure clear and transparent governance to enable the Panel to have clear oversight to ensure that we are remaining focused on delivering those necessary outcomes. This remains a continuing challenge for the team as well as ensuring that we ensure that we have the appropriate resources in place to act expediently as required whilst continuing to deliver value for money.
- 6.3 Meanwhile the team need to ensure that we continue to deliver and have produced a draft business plan setting out what needs to be achieved to deliver required progress. This is set out at the Appendix and the relevant priorities are being discussed at the appropriate working groups.

## **7. RECOMMENDATION**

- 7.1 To note the progress on matters and issues raised in the Management Summary.