GREATER MANCHESTER PENSION FUND

POLICY AND DEVELOPMENT WORKING GROUP

18 July 2017

Commenced: 8.30am **Terminated: 10.20am**

	Councillor K Quinn (Chair)	
	Councillor M Smith	
	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**
	Mark Powers	**Advisor to the Fund**
	Steven Pleasant	**Chief Executive**
	Sandra Stewart	**Director of Pensions**
	Steven Taylor	**Assistant Director of Pensions (Investments)**
	Paddy Dowdall	**Assistant Director of Pensions (Local Investments and Property)**
	Euan Miller	**Assistant Director of Pensions (Funding and Business Development)**
	Tom Harrington	**Senior Investments Manager**
	Dan Hobson	**Senior Investments Manager**
	Andrew Hall	**Investments Manager (Local Investments)**
Apologies for absence:	**Councillor J Lane an Peter Moizer**	

1. DECLARATIONS OF INTEREST

There were no declarations of interest.

2. MINUTES

The Minutes of the proceedings of the meeting of the Policy and Development Working Group held on 22 February 2017, having been circulated, were agreed as a correct record.

3. INVESTMENT STRATEGY AND TACTICAL POSITIONING 2017/18

A report was submitted by the Assistant Director of Pensions (Investments), to facilitate a discussion of key relevant points between Working Group members and the Advisors in order to inform the finalised version of the report to Panel.

It was reported that the Investment Managers and Advisors believed that the current investment strategy was broadly capable of delivering the required returns over the long term (albeit there were short/medium term caveats). Economic uncertainties remained, with a medium term outlook which could potentially encompass a number of unattractive scenarios. In such circumstances, it was not apparent that any significant changes to the Fund's approach would prove beneficial.

The increasing maturity profile of Fund employers as public sector spending reductions continued were likely to reduce the tolerance of the Fund to its volatility of returns between years. Hymans Robertson were currently undertaking work with Officers on this issue.

Attention would continue to be devoted to the investment issues surrounding the particular circumstances of specific employers as issues raised during the 2016 Actuarial Valuation continued to be followed up.

Members were informed that, historically the Main Fund benchmark had contained an allocation of 10% to Property. Actual exposure to Property had long under-achieved this target exposure and currently amounted to just over 5.5% of Main Fund assets. It was not considered reasonable to expect La Salle to be able to move too rapidly towards the 10% benchmark allocation. In light of this, it was recommended that, following the approach used for some time for Alternative Assets, a 'realistic benchmark' allocation was used in respect of Property which would rise form 7% to 10% over the coming three years. Separately, 'realistic' benchmark for Private Equity, Infrastructure funds and Direct UK Infrastructure would be maintained.

One immediate implication of the increasing maturity of the fund was the change in the balance of cashflows between inflows (from employer and employee contributions) and outflows (for pension payments) whereby the latter now significantly exceeded the former with the net outflow growing year by year. The need to fund the increasing investments in Alternative, Property and Local assets and to preserve an appropriate allocation to cash, were likely to necessitate additional withdrawals of assets from the Fund's investment managers.

The assimilation of Probation Assets substantially increased the amount of assets managed by L&G, and over the course of the year the bulk of the aggregate cash requirements would come from that Manager following the July 2016 Panel decision. This would continue to reduce somewhat the post assimilation concentration of assets with L&G to around a quarter of the Fund.

It was concluded that the Fund was now facing a range of strategic and tactical investment related issues, each having their own 'research agenda' in terms of background work, policy formulation and practical implementation. How the Fund addressed these issues and implemented suitable changes would be a critical determinant of its standing in 5 or 10 years time.

Discussion ensued with regard to the above and the Advisors commented on the current overweight position in Emerging Markets. There was a broad consensus that, although some disappointing results from certain individual managers, the current position was the right one, however, a need for close monitoring of the strategy was required, going forward.

RECOMMENDED

(i) That there be no material change to asset allocations;

(ii) That a 'factor based investment' portfolio be implemented via the Special Opportunities Portfolio;

(iii) That the Hedging liability risks highlighted in the report be noted for future consideration.

4. GLOBAL TRIGGER UPDATE

Consideration was given to a report of the Assistant Director of Pensions (Investments) explaining that in May 2016, the Policy and Development Working Group considered detailed proposals regarding a ‘trigger process’ for Global Equities, to be implemented via an account with L&G. These proposals were adopted by the Panel.

It was explained that discussion and negotiation with L&G over the past year had been far more protracted than was envisaged. It had not proved straightforward to adapt the L&G approach to the needs of the GMPF process. However, agreement of final legal documentation and operational details was anticipated in the near future.

The current trigger process focused on a switch between global equities and cash. Once the trigger process was established, there may be an opportunity to enhance the approach in future years by considering additional potential switches between other asset classes.

An overview of the metric adopted by the Fund in 2016 for ‘measuring’ the value of the global equity market was given, including a comparison with the GMPF Fair Value estimate.

Proposed updated fair value estimate and trigger points for 2017/18, the ‘size’ of maximum asset switch to be targeted were also detailed.

The advisors and Members welcome the introduction of the trigger and the formalisation of the process although noted that they wanted to keep under close scrutiny the need to review the triggers. Additionally a further report was requested as to process, consequences and the governance in the event that a trigger was enacted.

RECOMMENDED

(1) That the updated Fair Value estimate, the associated updated trigger points, and the updated ‘size’ of the maximum asset switch to be targeted, as contained within the report, be adopted.

(2) That a further report be received before the end of the year setting out the process that would be followed and outcomes that would achieved should a trigger be hit

5. MANAGER MONITORING REGIME INCLUDING MONITORING ESCALATION

A report was submitted by the Assistant Director of Pensions (Investments) explaining that, in 2016, the Fund’s approach to Manager Monitoring, and the Management Information that was presented to the Panel, was identified as areas for review and enhancement.

Members were informed that the broad intention of the review were threefold. Firstly, to update the arrangements for Securities Manager attendance at meetings of the panel and its Working groups. Secondly, to develop a codified and more structured Securities Manager Monitoring Escalation Protocol. Thirdly, to enhance the Management Information presented to Panel, through the use of a ‘dashboard’ approach.

At the September 2016 meeting of the Management Panel, the Panel accepted the recommendations made regarding: changes to the arrangements for Securities Manager attendance at Panels and Working Groups and the Monitoring Escalation Protocol.

It was concluded that, when finalised, it was the intention of the Investments Team to share the details of the on-going manager Monitoring arrangements, and the Monitoring Escalation Protocol with the relevant Managers.

The report set out the basis upon which Securities Managers would attend future Panels and Working Groups and summarised the results from the Monitoring Escalation Protocol as at 31 March 2017.

It was further noted that the Fund's approach to Manager Monitoring and Management Information may need to change over the next 12 – 18 months in light of developments in relation to pooling and experience of any revised arrangements implemented.

The Advisors sought clarification in respect of the RAG (Red, Amber, Green) system of analysis and the process of assessing risk was explained and in particular that it was important to understand whether the risk to the Fund had increased where Fund Managers were performing extremely well. The matters that were considered and discussed with Fund Managers were far wider than performance and specific measures of risk and included key people risk and succession planning.

It was agreed that it was a welcome development in ensuring there was a systematic approach to governance and risk management.

RECOMMENDED
That the content of the report be noted.

6. HOUSING INVESTMENT UPDATE

Consideration was given to a report of the Assistant 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.

Members were informed that the Fund was formalising arrangements for pooling with Merseyside and West Yorkshire Pension Funds. The political leadership of Merseyside Pension Fund had expressed a desire to engage in a joint venture along with lines of Matrix Homes, with GMPF.

Officers from GMPF Property and Local Investments Team, together with a representative from GVA, attended Merseyside Pension Fund offices in early April 2017 to brief colleagues from Merseyside Pension Fund and Wirral MBC on the Matrix model. It was proposed that GMPF would be able to provide further assistance in investment management alongside a capital investment. The action following the meeting was for Merseyside Pension Fund to consider the information provided and to determine the level of interest from the Merseyside Councils in implementing a Matrix Homes type model. The option of GMPF to include Merseyside Pension Fund investment into a future matrix investment in Greater Manchester was also discussed.

Discussion ensued with regard to the Matrix model and housing investment in general and Advisors sought further information in respect of how much the Fund had invested in housing on a rolling basis, and the level of return.

RECOMMENDED
(i) That the report be noted;
(ii) That the progression of the three schemes by the Property and Local Investment Team, be approved; and

(iii) That details of the Fund's housing investment and level of returns be circulated to Members of the Working Group and Advisors.

7. INVESTMENT INITIATIVES

The Assistant Director of Pensions (Property and Local Investments) submitted a report providing an update on progress with specific investment initiatives, including the Impact Portfolio and the JV 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.

Detailed discussions took place about the issues and challenges to the Fund in getting access to trophy infrastructure assets and how the playing field was not equal where other investors may be looking for very minimal returns and just somewhere to park cash so were willing to pay significantly over the odds. It was agreed that further consideration needed to be given to this issue whilst recognising the significant journey the Fund had been on and the significant success achieved todate.

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.