GREATER MANCHESTER PENSION FUND - INVESTMENT MONITORING AND ESG WORKING GROUP

13 July 2018

Commenced: 10.30 am **Terminated:** 12.15 pm

Present:	Councillors Taylor (Chair), Drennan, Ricci, Grimshaw, O'Neill, Pantall and Mr Allsop	
In Attendance:	Sandra Stewart	Director of Pensions
	Tom Harrington	Assistant Director of Pensions (Investments)
	Michael Ashworth	Investments Manager
	Abdul Bashir	Investments Manager
	Raymond Holdsworth	Investments Manager
	Iain Campbell	Investments Manager
	Lorraine Peart	Investments Officer
Apologies for Absence:	Mr Llewellyn	

1. DECLARATIONS OF INTEREST

There were no declarations of interest.

2. MINUTES

The Minutes of the Investment Monitoring and ESG Working Group held on 6 April 2018 were approved as a correct record.

3. UBS CORPORATE GOVERNANCE REVIEW

The Working Group welcomed Malcolm Gordon and Paul Clark of UBS who attended the meeting to present Corporate Governance activity over the past 12 months.

It was reported that UBS Asset Management had a dedicated sustainability research and stewardship function, which was structured with two distinct teams of experienced staff.

Examples of key engagements were provided along with voting statistics for the nine months to 31 December 2017. UBS had voted at 253 company meetings on 3,557 separate proposals.

A wide ranging discussion ensued with regards to environmental, social and governance factors in global emerging markets and in different sectors.

RECOMMENDED:
That the report be noted.

4. UBS: REPORT ON TRADING COSTS

The Assistant Director of Pensions (Investments) submitted a report to facilitate Member's scrutiny of UBS's approach and practice to trading costs. UBS's 'Best Execution and Order Handling Policy' and ‘level two’ disclosure report for the period 1 January 2017 to 31 December 2017, were appended to the report and considered by the Group.

Malcolm Gordon of UBS presented GMPF’s trading costs report for the 12 month period ending 31 December 2017. It was reported that the ‘level two’ report had been reviewed by officers of the Fund and questions arising from the review had been satisfactorily answered by UBS. The ‘Best Execution and Order Handling Policy’ had replaced the former IMA level one report, as a result of the implementation of the new Market in Financial Instruments Directive (MiFID II), which came into force on 3 January 2018, and from which point all external research costs would be met by UBS.

The report contained two tables detailing transaction costs and analysis of trading for the year ending 31 December 2017, which were discussed with the Group.

RECOMMENDED:
That the report be noted.

5. UPDATE FROM PIRC

The Working Group welcomed Paul Hunter and Tim Bush of PIRC Ltd who attended the meeting to report on Disruptive Technology and the John Kingman Independent Review of the Financial Reporting Council Call for Evidence. Copies of both reports were appended.

It was reported that a Local Authority Pension Fund Forum (LAPFF) scoping paper had been prepared on disruptive technology following on from a paper that had been produced on the transport sector and climate risk in October 2017. It outlined the implications for member funds and highlighted the potential scope and scale of the impact of disruptive technology. It was highlighted that disruptive technology was not an invention or new technology, but the point at which it became widely adopted. Examples were given of the invention and growth of the motor car, the rise of film streaming versus the demise of film rental shops, which were classed as disruptive technology and the introduction of ATM’s, which was classed as technological development.

It was explained that although technological innovation was at the heart of productivity gains, economic growth and shareholder return, the pace and potential scope of recent change was likely to lead to the creation of new business models and the destruction of old ones. This could create opportunities as well as new risks for existing firms and new entrants, such as regulation and regulators, tax, unethical behaviour, (un)employment and poor corporate governance. The scope of disruption was limitless and could potentially impact all sectors. It was proposed LAPFF engage companies on the subject to help best protect the long-term interests of beneficiaries. A catalogue of approaches and practice would be compiled through the creation and introduction of a standard question on the topic. This would be reviewed after six months and a report produced, which would include the option of whether an in-depth survey of the FTSE 100 was required.

Members voiced concerns on the possible segmentation of certain customers, which could border on exclusion, and asked how PIRC would ensure that companies had business models that addressed all needs. In response, it was outlined that engagement was key and there was a high reputational risk if a company were to exclude certain groups.

With regard to the John Kingman Independent Review of the Financial Reporting Council (FRC), it was reported that a call for evidence had been initiated in order to facilitate an independent review to assess whether the current regulator, and the current regulatory structure were as effective as they needed to be, in addition to examining its structure, governance, powers and resourcing. The findings would be submitted to the Secretary of State for Business, Energy and Industrial Strategy and the FRC Board by the end of 2018, a public consultation would be undertaken and a final report published with consultation on the Government’s response to the review recommendations.

The call for evidence highlighted that he Financial Reporting Council's remit had developed considerably since it was first established and was last subject to a review in 2011/12. Since that date there had been changes in regulation, expectations of regulators and how they operated. In the context of the UK's exit from the EU, it was considered important that regulatory structures were fit for the future and for the UK to be at the forefront of corporate governance.

The independent reviewer would be supported by an advisory group who would advise on the direction of the review and sources of evidence and would help to scrutinise and challenge emerging findings and recommendations.

RECOMMENDED:
That the report be noted.

6. 2018 GLOBAL INVESTOR STATEMENT TO GOVERNMENTS ON CLIMATE CHANGE

The Assistant Director of Pensions (Investments) submitted a report detailing the 2018 Global Investor Statement to Governments on Climate Change that had been drafted on behalf of a collection of bodies representing institutional investors from around the world, to call on global leaders to reiterate support for the Paris Agreement, accelerate private sector investment into the low carbon transition and commit to improve climate-related financial reporting.

It was reported that GMPF were one of 319 signatories to the Statement, a copy of which was appended to the report.

RECOMMENDED:
That the report be noted.

7. UNDERWRITING, STOCKLENDING AND COMMISSION RECAPTURE

The Assistant 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 the Fund did not participate in any sub-underwriting via UBS in the quarter ended March 2018. Stocklending income during the quarter was £105,829, compared to £127,940 in the same quarter of 2017, and Commission 'recaptured' was £3,197, compared to £24,153 in the same quarter of 2017. The value of securities on loan at the end of the quarter was £134.9 million (0.6% of GMPF assets) and collateral valued at £139.8 million was held against these loans.

The report outlined that income 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.

8. UPDATE ON ACTIVE PARTICIPATION IN CLASS ACTIONS

The Assistant 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 and Antitrust Litigations, which remain outstanding, was presented to Members, and recent developments relating to each action was provided.

RECOMMENDED:
That the report be noted.

9. URGENT ITEMS

There were no urgent items.