GREATER MANCHESTER PENSION FUND

POLICY AND DEVELOPMENT WORKING GROUP

13 June 2019

Commenced: 11.00am **Terminated: 1.20pm**

IN ATTENDANCE:

Councillor Cooney (in the Chair)	
Councillor M Smith	
Councillor Pantall	
Mr Thompson	**UNITE**
Ronnie Bowie	**Advisor to the Fund**
Peter Moizer	**Advisor to the Fund**
Mark Powers	**Advisor to the Fund**
Lynn Brown	**Advisor to the Fund**
Sandra Stewart	**Director of Pensions**
Tom Harrington	**Assistant Director of Pensions (Investments)**
Paddy Dowdall	**Assistant Director of Pensions (Local Investments & Property)**
Euan Miller	**Assistant Director of Pensions (Funding & Business Development)**
Steven Taylor	**Assistant Director of Pensions (Special Projects)**
Neil Cooper	**Senior Investments Manager**
John Dickson	**Hymans Robertson**

APOLOGIES FOR ABSENCE:

Councillor Warrington

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 8 March 2019, having been circulated, were agreed as a correct record.

3. MANAGER MONITORING REGIME INCLUDING MONITORING ESCALATION

The Assistant Director of Pensions, Investments, submitted a report detailing the Fund's approach to manager monitoring and summarised the results from the Monitoring Escalation Protocol as at 31 March 2019.

The overall status levels and courses of action taken (or to be taken) in relation to the results from the most recent Monitoring Escalation Protocol were summarised within the report.

It was explained that the Manager Escalation Protocol included performance as the sole metric by which the Securities Managers were initially assessed. There were a number of less quantitative, softer dimensions which could be used to form a view on the manager's prospects of outperforming going forward. These would include the quality of the staff and turnover of key personnel, a coherent and robust approach to linking the underlying philosophy of investing to the actual purchases and sales made, and the underlying investment philosophy itself.

A detailed discussion ensued in respect of individual managers' performance and it was:

RECOMMENDED
That the content of the report be noted.

4. PRIVATE EQUITY – REVIEW OF STRATEGY AND IMPLEMENTATION

The Assistant Director of Pensions, Investments, submitted a report and Members received a presentation, which provided a review of activity and of the strategy and implementation approach regarding investment in private equity.

The report and presentation outlined:

- Current approach to investing in Private Equity;
- Implementation during calendar year 2018;
- Current position against current strategy;
- Review of strategy; and
- Review of Implementation.

An annual report covering Private Equity activity during 2018, produced by the Fund's specialist advisor, Capital Dynamics, was appended to the report.

Discussion ensued with regard to the above and it was:

RECOMMENDED

(i) The medium term strategic allocation for private equity remains at 5% by value of the total Main Fund assets;

(ii) The target geographical diversification of the private equity portfolio remains:

Geography	Target Range
Europe inc UK	35% to 50%
USA	35% to 50%
Asia & Other	10% to 20%

(iii) The investment stage diversification of the private equity portfolio remains:

Stage	Target Range
Lower Mid-Market & Growth	10%-20%
Mid-Market	45%-55%
Large Buyout	30%-40%

(iv) The scale of commitment to funds to be £240m per annum, to maintain exposure at or around the 5% target strategic main Fund allocation.

(v) GMPF's private equity strategy is implemented appropriately sized commitments to Northern Private Equity Pool such that the anticipated deployment will be consistent with the pacing recommendation at 8.5.

(vi) It be recognised that the portfolio may not fall within the target ranges at (ii) and (iii) above from time to time to reflect, inter alia, portfolio repositioning.

5. PRIVATE DEBT – REVIEW OF STRATEGY AND IMPLEMENTATION

The Assistant Director of Pensions, Investments, submitted a report and Members received a presentation, which updated the Working Group on investment activity in respect of the Private Debt portfolio during 2018, described the current portfolio and reviewed the strategy for the portfolio and its implementation.

The report and presentation outlined:

- Current approach to investing in Private Debt;
- Implementation during calendar year 2018;
- Actual position against current strategy;
- Review of Strategy; and
- Review of Implementation.

Discussion ensued in respect of the above and it was:

RECOMMENDED

(i) The medium term strategic allocation for private debt remained at 5% by value of the total Main Fund assets;

(ii) The large geographical diversification of the private debt portfolio remained as follows:

Geography	Target Range
Europe	40% to 50%
USA	40% to 50%
Asia & Other	0% to 20%

(iii) The portfolio should continue to be populated by partnership commitments to funds where the vast majority of investments are senior secured loans.

(iv) The scale of commitment to funds to be £450 m per annum, to work towards achievement of the strategy allocation by 2023.

(v) It be recognised that the portfolio may not fall within the target ranges at (ii) above from time to time to reflect, inter alia, portfolio repositioning.

6. INFRASTRUCTURE – REVIEW OF STRATEGY AND IMPLEMENTATION

The Assistant Director of Pensions, Investments, submitted a report and Members received a presentation, update members of the Working Group on investment activity in respect of the Infrastructure funds portfolio during 2018, to describe the current portfolio and to review the strategy for the portfolio and its implementation.

An annual report produced by the fund's specialist advisor, Capital Dynamics, was appended to the report, covering Infrastructure activity during 2018. Capital Dynamics advisory relationship with the Fund in respect of Infrastructure will end in July 2019 as a result of its withdrawal from the market.

The report and presentation outlined:

- Current approach to investing in Infrastructure;
- Implementation during calendar year 2019;
- Actual position against current strategy;
- Review of Strategy; and
- Review of Implementation.

Discussion ensued in respect of the above and it was:

RECOMMENDED

(i) The medium term strategic allocation to Infrastructure funds remained at 5% by value of total main Fund assets;

(ii) The target geographical diversification of the infrastructure portfolio remains:

Geography	Target Range
Europe	50% to 70%
North America	20% to 30%
Asia & Other	0% to 20%

(iii) The target stage diversification of the infrastructure portfolio remains:

Investment Stage	Relative Risk	Target Range
Core & Long Term Contracted	Low	30% to 40%
Value Added	Medium	40% to 60%
Opportunistic	High	0% to 20%

(iv) The pace of new fund commitments is increased to £240m per annum to work towards achievement of the strategy by 2022.
(v) The Private markets team continues to implement the Infrastructure strategy via 3 year programmes of commitments, across between 2 and 4 new funds per annum (averaging 3 new funds per annum).
(vi) Commitments to primary funds to be made directly to partnership vehicles.
(vii) It is recognised that the portfolio may not fall within the target ranges at (ii) and (iii) above from time to time to reflect, inter alia, portfolio repositioning.

7. INVESTMENT STRATEGY AND TACTICAL POSITIONING 2019/20

Consideration was given to a report and presentation of 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, other than the diversification methods already being employed by the Fund.

The increasing maturity profile of the 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. Options were being considered for better aligning Employers' investment strategies to their own funding position, which would help to reduce the funding level volatility of individual employers, and therefore the Fund as a whole.

Attention would continue to be devoted to the investment issues surrounding the particular circumstances of specific employers as issues raised during the 2019 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 around 8% 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, the approach of utilising a 'realistic benchmark' allocation in respect of Property had been used and would rise from 8% to 10% over the coming three years. Separately, 'realistic' benchmarks for Private Equity, Infrastructure Funds, Private Debt and Local Investments would be increased to reflect the progress made in implementing these portfolios during 2018/19. The likelihood of reaching these strategic benchmark weights would of course depend on how markets behaved over that timeframe, with the rapidly rising equity markets of recent years meaning an increased £ amount allocation was required to reach the target weights.

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 Funds' Investment Managers. This would continue to be funded from the L&G policy that was formed following the assimilation of the Probation Assets. This would continue to reduce somewhat the post assimilation concentration of assets with L&G.

During the second half of 2017, officers funded the allocation to Stone Harbor's Multi-Asset Credit portfolio. This was sourced entirely from equities, with £287 million being transferred from Capital and the remainder from L&G. Separately, the Capital mandate was terminated in Q3 of 2017 following the triennial review of Investment Management arrangements. The assets were temporarily transferred to L&G pending the implementation of replacement arrangements. These replacement arrangements would take the form of a 10% Main Fund allocation to Factor Based Investment and a 2% increase in the global equity mandate managed by Investec.

Following last year's Investment Strategy Review, the fund introduced a Main Fund allocation to Private Debt, funded from a reduction in equities to diversify the Main Fund, reducing the reliance on Public Equities as the source of growth assets. The Private Debt allocation within the Special Opportunities Portfolio was promoted into a standalone Main Fund allocation. Additional commitments to Private Debt had since been made and the portfolio was now 0.7% of the total value of the Main Fund. Officers had reviewed the Fund's current exposures to Private Debt across the Main Fund to potentially enhance portfolio construction, oversight and monitoring.

It was concluded that the Fund was 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 implements 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 consequences of diversification. There was a broad consensus that the current position was the right one, however, a need for close monitoring of the strategy was required, going forward.

RECOMMENDED

(i) Change the Fund's investment grade bond allocation split to 50:25:25corporate/bonds/index-linked gilts/fixed interest gilts, with a consistent split of 50:50 UK/Overseas to be applied across all three asset classes;

(ii) That all overseas currency exposure within the passive bond allocation (LGIM mandate) be hedged back to Sterling as the default;

(iii) That the existing process for managing the Fund's 'Internal' cash, i.e. the 1% of Fund assets (c£230 million) currently held in cash by the Tameside MBC Treasury Department, is maintained; and in respect of the Fund's 'external' cash – invest LGIM's cash mandate in a mix of cash and cash plus funds to increase the returns being generated by the cash allocation, with UBS's cash mandate unchanged;

(iv) In respect of UK: Overseas split of Public Equity – that the principle of increasing the overseas proportion of public equity, which has been phased for tactical and dollar averaging reasons, be paused;

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

(vi) That the use of an equity protection strategy was not necessary; and

(vii) In respect of setting a risk budget, that further development work be done on this issue and reported to a future Panel meeting.

8. UPDATE ON LEVERAGE AND PRIVATE DEBT

A report was submitted by the Assistant Director of Pensions, Investments, informing Working Group members that discussions with the Advisors during May 2018, in connection with the Property Portfolio, raised the profile of leverage and private debt exposures, as areas of focus. The report provided an update on each.

RECOMMENDED
That the content of the report be noted and the proposed way forward, as detailed in Section 5 of the report, be agreed.

9. FACTOR INDEXING PORTFOLIO – UPDATE REPORT

Consideration was given to a report of the Assistant Director of Pensions, Special Projects, updating the Working Group on the progress made by officers in establishing a Factor Indexing allocation and portfolio.

It was explained that, at its meeting on 19 October 2018, the Panel considered a report on the Fund's Review of Investment Management arrangements, which focused on a proposal for the introduction of Factor Indexing allocation and portfolio. A subsequent update report was considered at the January 2019 meeting of the Panel. As project work progressed, it became apparent that additional work was required beyond that anticipated at the Panel meeting in January 2019. The additional work had been predominantly, but not exclusively, focused on two main areas. The first related to the risk/return characteristics of the preferred index and the second related to certain contractual arrangements. There had also been additional work relating to changes in index methodology recently announced by the preferred index provider. Officers plan to transition the assets after a forthcoming rebalancing date in order to avoid unnecessary trading costs.

With regard to next steps, it was explained that after completion of further work on certain implications of the preferred version of the index, a final choice of preferred index would be made. Following this, the legal documents would require sealing.

The preferred Replicator would then need a period of around one month to set up the necessary counterparty agreements. During this period the transition plan would be finalised. Assets would then be transitioned to the Replicator in accordance with the transition plan.

RECOMMENDED
That the content of the report be noted.

10. GLOBAL EQUITY 'PURCHASE/SALE' TRIGGER PROCESS – UPDATE OF FAIR VALUE ESTIMATE TRIGGER POINTS AND SIZE OF SWITCH

The Assistant Director of Pensions, Investments, submitted a report explaining that, in May 2016, the Policy and Development Working Group considered detailed proposals regarding a 'trigger process' for Global Equities. These proposals were adopted by the Panel. No changes to the trigger process were being proposed.

The report provided an overview of the evolution of the Global Equity metric over 2018/19, vis-a-vis the trigger points. In accordance with the adopted formalised process, the report also proposed an updated estimate of Fair Value for global equities, associated updated trigger points and an update in relation to the 'size' of the maximum asset switch to be targeted, all for adoption by the Panel at its July 2019 meeting.

RECOMMENDED

(i) That the content of the report be noted;

(ii) That the updated Fair Value estimate, the associated updated trigger points and the updated 'size' of the maximum asset switch to be targeted, as detailed in the report, be adopted by the Panel.

11. SCHEME ADDITIONAL VOLUNTARY CONTRIBUTIONS

Consideration was given to a report of the Assistant Director of Pensions, Funding and Business Development, detailing a review of GMPF's AVC arrangements, which was currently ongoing. A comprehensive report setting out the proposed changes was due to be brought to the July meeting of the Management Panel meeting, for consideration.

It was explained that Prudential had recently informed GMPF that they intended to wind-up a number of legacy 'lifestyle options' used by GMPF members and the AVC funds of those members would need to transfer to alternative lifestyle options or other available AVC funds. In order to give members an appropriate amount of time to consider their options this aspect of the AVC review required consideration in advance of the July Management Panel meeting.

The Working Group was informed that Hymans Robertson had advised that a new lifestyle option be created and that Members in the legacy lifestyle options be transferred to this new option. Details of which were appended to the report.

RECOMMENDED

(i) That the content of the report be noted; and

(ii) That the introduction of a new bespoke lifestyle option be supported, including the transfer of members from the lifestyle option which Prudential was seeking to close, to this new lifestyle option.