

GREATER MANCHESTER PENSION FUND
POLICY AND DEVELOPMENT WORKING GROUP

20 September 2019

Commenced: 11.00am

Terminated: 1.05pm

IN ATTENDANCE:

Councillor Warrington(Chair)	
Councillor Cooney	
Mr Thompson	UNITE
Councillor Pantall	Fund Observer
Mark Powers	Advisor to the Fund
Lynn Brown	Advisor to the Fund
Sandra Stewart	Director of Pensions
Tom Harrington	Assistant Director of Pensions (Investments)
Euan Miller	Assistant Director of Pensions (Funding & Business Development)
Steven Taylor	Assistant Director of Pensions (Special Projects)
Neil Cooper	Senior Investments Manager
Andrew Hall	Investment Manager (Local Investments)
Kevin Etchells	Investment Manager (Local Investments)
Misodzi Dent	Investment Officer (Local Investments)
Michael Ashworth	Investment Manager (Public Markets)
Abdul Bashir	Investment Manager (Public Markets)
Mushfiqur Rahman	Investment Manager (Public Markets)

UBS Representatives: Malcolm Gordon, Alistair Moran and Steve Magill

APOLOGIES FOR ABSENCE:

Councillor M Smith
Mr Ronnie Bowie – Advisor to the Fund
Mr Peter Moizer – Advisor to the Fund

12. DECLARATIONS OF INTEREST

There were no declarations of interest.

13. MINUTES

The Minutes of the proceedings of the meeting of the Policy and Development Working Group held on 13 June 2019, having been circulated, were agreed as a correct record.

14. REPORT OF THE MANAGER

Malcolm Gordon, Head of UK Institutional, Steve Magill, Head of European Value and Alistair Moran, Portfolio Manager Investment Solutions, UBS, attended before Members and gave a presentation detailing their performance up to 30 June 2019.

Mr Gordon began by explaining the disappointing performance of the portfolio over the prior 12 months. He made reference to the market conditions and added that the portfolio's performance was consistent with their value style and that a short term recovery in performance, post 30 June 2019, had been seen.

Mr Magill gave a detailed account of UK and European ex UK equity performance, including the impact of low interest rates on the value style of investing. The impact of climate change on society and business was also explored including how this affected investment decisions.

Potential catalysts for future outperformance of the value style were outlined as follows:

- Bond yields rising from extreme low levels;
- Clarity in relation to geopolitical events;
- Individual stock performance; and
- Takeover activity.

Asset allocation was detailed including an overweighting in UK and Japanese equities and an underweighting in US equities. The reasons for an underweight bond allocation, particularly in the UK, was given and a positive cash position was also highlighted.

Wide ranging discussion ensued with regard to the content of the presentation, in particular, the impact of climate change and its effect on investment decisions and achieving carbon neutrality as expediently as possible together with the possible effects of Brexit, going forward.

The Director of Pensions asked UBS to reflect on the level of risk in the portfolio, for future discussion.

RECOMMENDED

That the content of the presentation be noted.

15. 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 30 June 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.

16. OVERSEAS PROPERTY PERFORMANCE

A report was submitted by the Assistant Director, Local Investments and Property, which updated the Working Group on the returns achieved by GMPF's Overseas Portfolio to the end of 2018.

RECOMMENDED

That the report be noted.

17. PROPERTY STRATEGY

Consideration was given to a report of the Assistant Director, Local Investment and Property, summarising the progress of the strategic review into GMPF's property investment allocation, and in particular provided feedback on a meeting with the Advisors on the 18 July 2019. It also gave an update on the proposed investment framework for the overseas property allocation.

RECOMMENDED

- (i) That the content of the report be noted; and**
- (ii) That the recommendations, as set out in Section 8 of the report, be agreed.**

18. GREATER MANCHESTER PROPERTY VENTURE FUND – REVIEW OF PERFORMANCE

A report of the Assistant Director, Local Investments and Property was submitted updating the Working Group on the returns achieved by the GMPVF portfolio to the end of 2018.

The report summarised that the current GMPVF portfolio was relatively immature, with £211m of capital being deployed in the last two years. In that context, the current IRR of 4.7%, together with the positioning of the portfolio, progress on current developments and the returns achieved for the exited investments was strong evidence that the portfolio was on track to achieve the strategic return objective over the medium to long-term.

RECOMMENDED

That the content of the report, including the benchmarking review exercise being undertaken across the Fund, be noted.

19. SPECIAL OPPORTUNITIES PORTFOLIO – REVIEW OF ACTIVITY AND PERFORMANCE

Consideration was given to a report of the Assistant Director, Investments, which provided the Working Group with a routine annual update on the activity and performance of GMPF's Special Opportunities Portfolio for the 12 months ending 30 June 2019.

RECOMMENDED

- (i) That the content of the report be noted; and**
- (ii) That the Type Approval in respect of Factor Based Investing within the Special Opportunities portfolio be removed as redundant, as outlined in the report.**

20. HYMANS ROBERTSON GOOD GOVERNANCE SURVEY

The Assistant Director, Funding and Business Development submitted a report informing Members of the Working Group about the results of Hymans Robertson's Good Governance Survey, which formed part of the 'Good Governance' project it was facilitating for the Scheme Advisory Board.

It was explained that Hymans Robertson originally proposed four different governance models which they sought comment on:

- *Option 1 – Improved practice:* Introduce guidance or amendments to LGPS Regulations 2013 to enhance the existing arrangements by increasing the independence of the management of the fund and clarifying the standards expected in key areas.
- *Option 2 – Greater ring-fencing of the LGPS within existing structures:* Greater separation of pension fund management from the host authority, including budgets, resourcing and pay policies.

- *Option 3 – Joint Committee ('JC')*: Responsibility for all LGPS functions delegated to a JC comprising the administering authority and non-administering authorities in the fund. Inter-authority agreement ('IAA') makes JC responsible for recommending budget, resourcing and pay policies.
- *Option 4 - New local authority body*: An alternative single purpose legal entity that would retain local democratic accountability and be subject to Local Government Act provisions.

SAB decided upon 6 criteria that were used to assess proposed changes to LGPS governance arrangements. These were 'standards', 'conflicts of interest', 'representation', 'clarity', 'consistency' and 'cost'.

It was reported that Hymans Robertson found little support amongst LGPS funds for significant changes to governance arrangements. Options 3 and 4 were rejected by the vast majority of funds for the additional cost and complexity they would introduce to the LGPS' governance arrangements.

Most respondents to the survey stated an affinity for Option 1 or Option 2. Although it was agreed by respondents that a 'one size fits all' approach should not be forced on LGPS funds. Hymans Robertson therefore, highlighted a series of potential changes, detailed within the report, without explicitly endorsing any one governance model over another.

It was concluded that Hymans Robertson's proposals would be reviewed by SAB who might seek to ask MHCLG to implement some of the suggested changes, subject to formal consultation with LGPS stakeholders.

RECOMMENDED

That the content of the report be noted, including the results of the Hymans Robertson's Good Governance survey, which forms part of the 'Good Governance' project it was facilitating for the Scheme Advisory Board.

21. RISK MANAGEMENT AND BUSINESS PLANNING

A report was submitted by the Assistant Director of Pensions, Funding and Business Development, which explained that for many years the governance arrangements of GMPF had managed to effectively manage risks via a variety of channels. Given the increasing focus on risk management and recent changes to GMPF's governance arrangements it seemed an appropriate time to analyse whether and how the risk management processes could be strengthened and how they could be clearly documented to demonstrate their operation and effectiveness to relevant external parties such as the Pensions Regulator.

The report brought together all relevant aspects of risk management and proposed a process for Panel oversight of risk going forward.

Discussion ensued with regard to the content of the report and Members and Advisors supported the proposals, as set out in the report, ahead of presentation for approval to the Management Panel on 18 October 2019.

RECOMMENDED:

- (i) That the content of the report be noted; and**
- (ii) The proposals, as set out in the report, be supported.**

22. ADMITTED BODIES

The Assistant Director, Funding and Business Development briefly outlined recent developments in respect of a former Admitted Body, which may have financial consequences for the Fund.

Members would be informed of progress as the Director of Pensions and Assistant Director gathered more information.

23. LAPFF INVESTMENT AWARDS

The Chair informed Members that the Fund had won the Scheme Administration Award at the LAPFF Investment Awards, last night.

The Chair congratulated all involved.