GREATER MANCHESTER PENSION FUND ADVISORY PANEL

19 July 2019

Commenced:	**10.00am**	**Terminated: 12.30pm**
Present:	**Councillor Warrington (Chair)**	
	Councillors: Andrews (Manchester), Barnes (Salford), Grimshaw (Bury), Parkinson (Bolton), Mitchell (Trafford), O'Neill (Rochdale)	
	Employee Representatives:	
	Mr Drury (UNITE), Ms Fulham (UNISON), Mr Llewellyn (UNITE), and Mr Thompson (UNITE)	
	Councillor Pantall - Observer	
	Local Pensions Board Members (in attendance as observers):	
	Councillor Cooper and David Schofield	
	Advisors:	
	Mr Bowie, Mr Moizer and Ms Brown	
Apologies for absence:	**Councillors Halliwell (Wigan) and Taylor (Stockport), Mr Flatley (GMB) and Mr McDonagh (UNISON)**	
	Mr Powers - Advisor	

1. CHAIR'S OPENING REMARKS

The Chair welcomed everyone to the first meeting of the cycle and in particular welcomed new Councillors nominated to Panel for 2019/20: Councillors Jack Homer, George Newton, Tafheen Sharif and Eleanor Wills, all from Tameside MBC, together with Councillor Diane Parkinson (Bolton), Councillor John Taylor (Stockport) and welcomed back Councillor Abdul Jabbar (Oldham). The Chair further extended her gratitude to retired Members of the Panel for their contribution to the work of the Fund over the last year, which was formally set out in the Annual Report and was due to be published next week following the sign off of the accounts by the Auditors.

In addition, the Chair welcomed Councillors John Pantall of Stockport MBC, a long stand Member of the Fund and Oliver Ryan, Executive Member for Finance and Economic Growth at Tameside MBC, who had each accepted the role of Observer. She explained that the purpose of the observer role was to strengthen governance within the Fund by enhancing the scrutiny of decision making, and provide the Management and Advisory Panel with additional experience and knowledge, impartial from Fund officers, and to create some resilience for the Administering Authority in knowledge and experience.

The Chair stressed the importance of ensuring that ordinary people working in public sector jobs serving their communities, were able to live out their retirement years with security and dignity. The need to safeguard deferred pay, the pensions of public sector workers, whilst balancing the affordability to the employers and tax payers alike, was paramount.

The Chair further reminded Members of the importance of attendance at meetings and training, to ensure an appropriate skill and knowledge base to be a trustee.

The Chair went on to explain the absence of herself and Lynn Brown (Advisor) from the previous meeting (meeting of 12 April 2019), as they were called to London to be interviewed at a shortlisting event by the Municipal Journal. She was delighted to confirm that this resulted in Sandra Stewart, Director of Governance and Pensions being announced as the Municipal Journal

first Corporate Director of the Year. In their unanimous decision, the judges paid tribute to Sandra going 'way beyond the call of duty and consistently performing over and above what is expected in her role'. In addition, the Chair announced that the GLIL infrastructure partnership had won the European Pensions Award for 'Infrastructure Manager of the Year'. She congratulated everyone involved in respect of both awards.

As the largest local government pension scheme in the country, the GMPF managed the pension arrangements for 585 employers and 377,000 members from across the public sector, in Greater Manchester and beyond. Balancing the long term solvency of the GMPF as a whole whilst maintaining its affordability for employers, was a responsibility that could not be discharged effectively without regular communication and engagement.

The Chair reflected that the past year had been one of the most turbulent in the world of pensions in recent memory, as ongoing concerns over global trade wars and Britain's exit from the European Union had fostered an atmosphere of considerable uncertainty and turbulence. However, thanks to the hard work of the managers, advisors and staff, she was pleased to announce that at the end of the valuation cycle as at 31 March 2019 the Fund stood at £23.8 billion. This was both a higher funding level than that identified in the previous valuation and on track compared to actuarial expectation. She added that today, the Fund stood at £24.8 billion.

During the year, welcome news was also received that, according to the annually updated index of Global Pension Funds, Greater Manchester Pension Fund was now ranked as the 11th biggest Pension Fund in the UK, one place above the position last year, and the 153rd biggest in the world, up seven places from last year.

The Chair explained that, whilst the returns for this year were below set targets, the Fund remained ahead of expectation in the long-term specific and peer group benchmarks. Work continued with consultants Hymans Robertson, to look at what could be done to further improve governance arrangements to be both an exemplar and to improve both risk adjusted investment returns and resilience in the face of adverse investment and regulatory conditions.

It had become increasingly apparent that the Pension Fund's response to the generational challenge presented by the climate crisis and environmental protection was an area of significant concern to members, employers and stakeholders. Greater Manchester Pension Fund had pledged to become carbon neutral by 2050 at the very latest – a higher target than the Government had set itself. As part of the process to deliver that commitment expediently, a number of exercises had been undertaken to acquire an in-depth understanding of the Fund's carbon footprint. Progress would be regularly evaluated, taking care to avoid stranded assets and deliver pensions to members in a way that remained sustainable for employers and taxpayers.

It was further explained that the Fund was the biggest local government pensioner investor in renewable energy and energy efficient, with a half a billion pounds allocated in a number of areas, including biomass assets and a significant stake in the Clyde wind farm, one of the largest off-shore facilities of its kind in Europe. These efforts to date had been recognised by the House of Commons Environmental Audit Committee noting the Fund's highest levels of engagement to manage the risks that climate change posed to UK pension investments.

The Pension Fund had a track record of using its position on the Local Authority Pension Fund Forum to challenge companies in which it had an interest to direct their own efforts towards environment sustainability and other issues of concern. Over the past year there had been a number of successes in such engagements, including co-filing a resolution requesting that BP set out a business strategy consistent with the goals of the Paris Agreement on climate change.

It was because of this history of close and productive dialogue that 80% of Members agreed that a consultative approach was more effective than divesting holdings to others who may not share the Fund's commitment to responsible investment and engagement. The Responsible Investor policy had also been refreshed and published, with support from the ESG advisor PIRC.

The Chair reiterated that fighting the climate crisis was one of the Fund's highest priorities. Failure to deliver on this would not just threaten the viability of the Pension Fund, it would threaten the viability of the economy, the society, and the planet as a whole.

This needed to be addressed within the fiduciary duty that as a Fund and as Trustees, it had to be demonstrated that investment decisions did not threaten financial performance. It was a matter of fact that over the last three years, the Fund achieved over £400 million more in returns than if it had divested from equities in such companies such as BP Centrica, formerly known as British Gas.

Accordingly, with such clear evidence that disinvestment rushed at this stage would cause material financial detriment to the Fund, a 'Just Transition' was required, which ensured that the burden of this cost was not transferred to the employers and taxpayers of Greater Manchester alike, which would result in significant Council tax hikes, and importantly avoided job loses for residents across the conurbation who were employed in those industries. As part of a recent review of investment strategy, the Fund was currently implementing £2.5 billion of Fund assets being divested to a low carbon approach targeting a significant reduction in carbon footprint and intensity.

The Chair made reference to a meeting she had attended with Fossil Free GM last week, where it was recognised that there was a shared goal of a zero-carbon economy as quickly as possible, although Fossil Free GM would like this to be faster. The Fund was working on this, whilst also committed to a Just Transition, ensuring interests of workers and communities were properly taken into account.

It was further explained that, earlier in the year, the Fund signed up to 'Just Transition' because delivering a just transition would be key to the UK's success in building a zero-carbon and resilient economy. However, this needed to be done in a sustainable way that supported an inclusive economy, with a particular focus on workers and communities. The Paris Agreement on climate change stated that its Parties take into account *'the imperatives of a just transition of the workforce and the creation of decent work and quality jobs in accordance with nationally defined development priorities'.*

The Grantham Research Institute on Climate Change and the Environment at the London School of Economics and Political Science and the Sustainability Research Institute at the University of Leeds, Principles for Responsible Investment (PRI) and the Trades Union Congress (TUC) analysis showed that unless a transition was effected carefully, the parts of the country that would be impacted most would be the North of England.

The Chair explained that, Nick Robins, Professor in Practice in Sustainable Finance from the London School of Economics and Political Science would be presenting to the Panel later in the agenda. Professor Robins brought a wealth of experience and expertise from the public and private sector. As co-director of UN Environment's Inquiry into a Sustainable Finance System, he led country activities in Brazil, the EU, India, Italy and the UK, as well as thematic work with a focus on investors, insurance and green banking. Prior to this role, he was also Head of the Climate Change Centre of Excellence at HSBC, Head of Sustainable and Responsible Investment funds at Henderson Global Investors, and worked at the International Institute for Environment and Development, the European Commission and the Business Council for Sustainable Development. He was at the tip of the spear in the drive for investing in a Just Transition and what could be done to enable a shift to allow carbon economy that was not only sustainable but also fair to workers and businesses alike.

The Chair further made reference to items later in the agenda updating on ongoing commitment to harnessing the financial power and unique long-term outlook of the Pension Fund through pooling arrangements; driving regeneration and investment across the country, while at the same time providing a commercial return that would allow the Fund to continue to meet its obligations to members. The focus today would be on a presentation on the forthcoming actuarial evaluation and related matters, including developments in the wider Local Government Pension Scheme and the impact that they had on the contribution rates of employers. Additionally the focus would be on the

Investment Strategy to ensure the Fund was in a position to meet those liabilities and ensure the approach of low cost sustainable pensions, was continued.

2. DECLARATIONS OF INTEREST

There were no new declarations of interest submitted by Members.

3. MINUTES

The Minutes of the proceedings of the meeting of the Pension Fund Advisory Panel held on 12 April 2019 were signed as a correct record.

The Minutes of the proceedings of the meeting of the Pension Fund Management Panel held on 12 April 2019 were signed as a correct record.

4. LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

(a) Urgent Items

The Chair announced that there were no urgent items for consideration at this meeting.

(b) Exempt Items

RESOLVED
That under Section 100 (A) of the Local Government Act 1972 the public be excluded for the following items of business on the grounds that:

(i) they involve the likely disclosure of exempt information as defined in the paragraphs of Part 1 of Schedule 12A of the act specified below; and

(ii) in all circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information for reasons specified below:

Items	Paragraphs	Justification
9, 10, 11, 12, 13a, 13b, 13c, 15, 16, 17, 21, 22, 23, 24, 25, 26, 30, 31, 32, 33	**3&10, 3&10, 3&10, 3&10, 3&10, 3&10, 3&10, 3&10, 3&10, 3&10, 3&10, 3&10, 3&10, 3&10, 3&10, 3&10, 3&10, 3&10, 3&10, 3&10,**	**Disclosure would or would be likely to prejudice the commercial interests of the Fund and/or its agents, which could in turn affect the interests of the stakeholders and/or tax payers.**

5. LOCAL PENSIONS BOARD

RECOMMENDED
That the Minutes of the proceedings of the Local Pensions Board held on 13 June 2019 be noted.

6. POLICY AND DEVELOPMENT WORKING GROUP

The Minutes of the proceedings of the meeting of the Policy and Development Working Group held on 13 June 2019 were considered.

Councillor Cooney, who had been in the Chair, as a reminder, explained that the Fund had implemented a Global Equity Trigger Process, which was designed to either protect the Fund when the stock market became very expensive, or enhance the Fund's returns by investing at times of extreme stock market lows. When the stock market continued to rise at the start of 2018, a trigger was hit and the Fund protected itself against falls in the market on £210 million of its equities. A subsequent fall in the stock market towards the end of 2018 resulted in profits of £11million as a result of the protection that the Fund had taken out. In accordance with the agreed process, Officers provided Members with an updated estimate of Fair Value, along with updated trigger points at which the Fund would buy or sell equities. Those updates were recommended for adoption by the Panel today.

Separately, the Working Group, along with the Advisors, devoted substantial time to considering a draft of the Investment Strategy report, along with the Private Equity Private Debt and Infrastructure strategies which fed into the overarching Investment Strategy. The final report, which had been updated to reflect feedback from the Working Group, would be presented later in the agenda today.

RECOMMENDED

(i) That the Minutes be received as a correct record;

(ii) In respect of Private Equity – Review of Strategy and Implementation:

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

(b) 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%

(c) 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%

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

(e) 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 of the report.

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

(iii) In respect of Private Debt – Review of Strategy and Implementation:

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

(b) 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%

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

(d) The scale of commitment to funds to be £450 m per annum, to work towards achievement of the strategy allocation by 2023.
(e) It be recognised that the portfolio may not fall within the target ranges at (b) above from time to time to reflect, inter alia, portfolio repositioning.

(iv) In respect of Infrastructure – Review of Strategy and Implementation:
(a) The medium term strategic allocation to Infrastructure funds remained at 5% by value of total main Fund assets;
(b) 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%

(c) 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%

(d) The pace of new fund commitments is increased to £240m per annum to work towards achievement of the strategy by 2022.
(e) 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).
(f) Commitments to primary funds to be made directly to partnership vehicles.
(g) It is recognised that the portfolio may not fall within the target ranges at (b) and (c) above from time to time to reflect, inter alia, portfolio repositioning.

(v) In respect of Investment Strategy and Tactical Positioning 2019/20:
(a) 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;
(b) That all overseas currency exposure within the passive bond allocation (LGIM mandate) be hedged back to Sterling as the default;
(c) 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;
(d) 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;
(e) That there be no material change to asset allocations;
(f) That the use of an equity protection strategy was not necessary; and
(g) In respect of setting a risk budget, that further development work be done on this issue and reported to a future Panel meeting.

(vi) In respect of Update on Leverage and Private Debt that the proposed way forward, as detailed in the report, be agreed.

(vii) In respect of Global Equity 'Purchase/Sale' Trigger Process – Update of Fair Value Estimate Trigger Points and Size of Switch; that the update 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.

(viii) In respect of Scheme Additional Voluntary Contributions; 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.

7. INVESTMENT MONITORING AND ESG WORKING GROUP

The Minutes of the proceedings of the meeting of the Investment Monitoring and ESG Working Group held on 22 March 2019, were considered.

The Chair of the Working Group, Councillor Cooney, was pleased to report that Investec gave an informative update on their corporate governance activity, and trading costs over the last 12 months. Investec highlighted progress achieved over the year, which included the expanded ESG component of their fundamental company research notes and highlighting engagement opportunities. Investec informed the Working Group that the focus was now to further develop and roll out the improved ESG component of their research notes, to encourage activity particularly in Asia and expand the analytical work around ESG factors. ESG trends that Investec would be focussing on during 2019 included a response to the Taskforce on Climate related Financial Disclosures, anti-biotics in the food supply chain, understanding impact measurement, Sustainable Development Goals and water management.

The Working Group was updated on the progress of Investec's engagements with companies as part of a stronger strategic commitment to aligning business with the Paris Agreement.

Members were also provided with an update from PIRC on both their review of key corporate governance voting trends from 2018 and their '2019 UK Shareowner Voting Guidelines'.

RECOMMENDED
That the Minutes be received as a correct record.

8. ADMINISTRATION, EMPLOYER FUNDING AND VIABILITY WORKING GROUP

The Minutes of the proceedings of the meeting of the Administration, Employer Funding and Viability Working Group held on 22 March 2019 were considered.

The Chair of the Working Group, Councillor J Fitzpatrick, reported that it had been a fruitful meeting with discussion on the Fund's review of Additional Voluntary Contributions arrangements in some detail. AVC's allowed scheme members to pay more to build up extra savings for their retirement. Objectives of the review included assessing the current choice of default fund for members who did not want to make an investment choice, and seeing if the wide number of legacy AVC providers inherited from other LGPS funds following the probation service transfers, could be reduced.

GMPF's administration expenditure incurred by the Fund for the 10 months up to 31 January 2019 was also discussed. It was noted that actual expenditure was £3.36 million less than the estimated amount, which was largely attributable to lower than expected investment management fees owing to efficiencies achieved by the Fund.

Updates were also provided on the continued progress of ongoing projects such as; the implementation of the i-Connect system which allowed monthly data submissions from employers; developments concerning My Pension, which allowed members to access their pension details online; and the website re-development project.

RECOMMENDED
(i) That the Minutes be received as a correct record; and
(ii) In respect of the AVC Review, that a report be produced for the next meeting of the Working Group or the Management Panel, setting out actions required and timescales for making the strategic changes to the AVC arrangements outlined in the report.

9. PROPERTY WORKING GROUP

The Minutes of the proceedings of the Property Working Group held on 8 March 2019 were considered.

RECOMMENDED
That the Minutes be received as a correct record.

10. WORKING GROUP TERMS OF REFERENCE

Consideration was given to a report of the Director of Pensions, setting out the final implementation of the review agreed last year and in particular, the inclusion of property within the Investment Monitoring and ESG Working Group, which now included oversight of all investments. The Fund's success was routed in its simplicity and good and effective governance. There was a need to review to ensure fit for purpose and a further need to revise in the interim to address pooling and the need to comply with best practice re: governance as PASA accreditation is sought.

It was explained that the interim proposal allowed:

- Focus on risks and improve accountability;
- Ensure, in the short term, retained focus on property;
- Enable appropriate time to work with advisors on a way forward, that was long term and in line with the best global funds and academic research.

The Director of Pensions corrected a typo in Appendix D; Pension Fund Panel meeting dates, 10 April 2020 should read 17 April 2020.

RECOMMENDED

(i) That the governance depicted in Appendix A together with the revised terms of reference set out in Appendix B be noted;

(ii) That the revised Working Group membership at Appendix C be noted and approved subject to any minor changes to be agreed with the Deputy Vice Chair of the Fund; and

(iii) That the calendar of meetings at Appendix D agreed last year be noted, with a forward plan of meetings to be brought to the next meeting.

11. PRESENTATION ON CLIMATE CHANGE – INVESTING IN A JUST TRANSITION

The Assistant Director of Pensions, Investments, submitted a report and Nick Robins, Professor in Practice – Sustainable Finance, London School of Economics and Political Science delivered a presentation in respect of 'Investing in a Just Transition: connecting climate action with an inclusive economy'.

A summary of GMPF's key points in relation to climate risk was appended to the report.

Mr Moizer commented on a very informative presentation and was supportive of the approach outlined.

Discussion ensued with regard to the issues raised in the presentation and the need for a shift to a low carbon economy in a sustainable way that supported an inclusive economy, with a particular focus on workers and communities across the country.

The Chair thanked Mr Robins for a very interesting and thought provoking presentation.

RECOMMENDED
That the content of the presentation be noted.

12. 2019 ACTUARIAL VALUATION

A report was submitted by the Assistant Director of Pensions, Funding and Business Development, explaining that a triennial valuation of the fund was due as at 31 March 2019 with formal completion of the process required no later than 31 March 2020.

The Assistant Director further explained that GMPF's Actuary would shortly begin their calculations in order to produce valuation results for the Fund as a whole as well as funding level estimates and contribution rates for individual employers. Actuarial assumptions needed to be determined for the Actuary to use to produce draft results for discussion at future meetings of the Management Panel.

Steven Law, Hymans Robertson, Actuary to the Fund, then presented before Members and gave details of the valuation process and proposed actuarial assumptions for the purpose of calculating draft results. Potential outcomes were outlined with an expected funding level between 95 - 105%. It was further expected that contribution rates would remain stable.

It was further reported that, as part of the valuation process, GMPF was required to produce a Funding Strategy Statement, which set out the administering authorities' valuation approach and to consult on this with employers. An updated Funding Strategy Statement had been prepared reflecting the changes to the administration of GMPF since the last triennial valuation and ongoing LGPS consultations which were likely to be of relevance to GMPF's funding strategy. A draft Funding Strategy Statement was appended to the report.

Members were informed that it was intended for the Funding Strategy Statement to be issued to employers for consultation following this meeting. Employers would have around 2 months to provide any comments, which would be considered at the Panel's next meeting. The final version of the Funding Strategy Statement should be formally approved by the GMPF Management Panel at its March meeting. Key aspects of the Funding Strategy Statement would be highlighted to employers attending the Annual Employer Update Meeting, which was taking place later in the afternoon.

RECOMMENDED

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

(ii) That the proposed assumptions, as set out by the Fund's Actuary, be supported; and

(iii) That the draft Funding Strategy Statement, as appended to the report, be issued to employers for consultation.

13. INVESTMENT STRATEGY AND TACTICAL POSITIONING 2019/20

Consideration was given to a report and presentation of the Assistant Director of Pensions, Investments, which reviewed the benchmark asset allocations for the Main Fund and Investment Managers and to consider changes to the investment restrictions.

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 was 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 implemented suitable changes would be a critical determinant of its standing in 5 or 10 years' time.

The Advisors made reference to the long term nature of the Fund and were supportive of the recommendations.

RECOMMENDED
That:

(i). Any requirements for cash to be withdrawn from the securities managers to be taken from L&G.

(ii). Main Fund Overall Asset Allocation

(a) Adjust the Public Equity to take account of the changes in 'realistic benchmark' allocations to Private Debt, Private Equity, Infrastructure, Local

Investments and the Special Opportunities Portfolio *[see 6. (e) 7. (a) and 9. (b) below].*

(iii). Public Equity Allocation

(a) Maintain the Public Equity mix of 30% UK : 70% Overseas.

(b) Maintain the Overseas equity split at : North America 32.5%; Europe (ex UK) 27.5%; Japan 15%; Pacific 10% and Emerging Markets 15%.

(iv). Debt Related Investments (inc Bonds)/Cash Allocation

(a) Change the Fund's investment grade bond allocation so that it is split 50:25:25 corporate bonds / index-linked gilts / fixed interest gilts, with a consistent split of 50:50 UK / Overseas to be applied across all three asset classes. For simplicity, the same benchmark allocations are to be applied across both UBS and L&G. UBS are to retain their flexibility to take tactical allocation decisions around this strategic benchmark where appropriate.

(b) Consolidate "external cash" held across L&G's mandates. L&G's consolidated cash is to be split to include allocations to the LGIM Sterling Liquidity Fund (in which the Fund already invests), the LGIM Sterling Liquidity Plus Fund and LGIM Absolute Return Bond Fund (the latter two are new funds). The same benchmark allocations are to applied across the three L&G 'cash' funds (i.e. targeting a c0.5% allocation in each of the funds).

(c) No change to the 3.2% allocation to Strategic Cash.

(d) Continue to source the majority of the 2019/20 cash requirements from L&G.

(v) Environmental, Social and Governance Factors

(a) No changes proposed for the Fund's incorporation of ESG factors into the strategic benchmark and investment strategy.

(vi). Alternative Investments

(a) Private Equity : The recommendations of the Policy & Development Working Group be adopted (minute 4 refers).

(b) Infrastructure : The recommendations of the Policy & Development Working Group be adopted (minute 6 refers).

(c) Private Debt : The recommendations of the Policy & Development Working Group be adopted (minute 5 refers).

(d) Special Opportunities Portfolio : The recommendations of the Policy & Development Working Group be adopted (minute 17 refers).

(e) Change the realistic allocation to Private Equity from 4% to 5%, Infrastructure from 2.5% to 3.0% and Private Debt from 0.5% to 1.0%

(e) All increases in realistic allocations to Private Equity, Infrastructure and Private Debt to come entirely from Public Equities.

(vii). Direct UK Infrastructure

(a) Increase the realistic allocation to GLIL from 1.5% to 2.0%.

(b) The commitment to GLIL be maintained at £1bn, with the phasing of commitments above the current £650m being at the discretion of the Director of Pensions.

(viii). Property

(a) Maintain the overall strategic target exposure to property at 10% and maintain the phased increase in 'realistic benchmark' allocation over two years reflecting the forecast investment programmes, and moving to the 10% target.

(b) Continue to phase in 'realistic benchmark' allocations and movement towards the 10% target, as follows :

	2019/20 Realistic% Range% Cash flow	2020/21 Realistic% Range% Cash flow	2021/22 Realistic% Range% Cash flow
Main Portfolio External	**4.5 5-7 n/a**	**5 5-7 £150m**	**5.5 5-7 £150m**
Indirect	**2 0-2 n/a**	**2 0-2 n/a**	**2 0-2 n/a**
Overseas	**1.5 1-3 £100m**	**2 1-3 £100m**	**2 1-3 £100m**
Other	**0.5 0-1 £50m**	**0.5 0-1 £50m**	**0.5 0-1 £50m**
Total	**8.5 6-14 £50m-£150m**	**9.5 6-14 £250m-£350m**	**10 6-14 £250m-£300m**

(ix). Local Investment

(a) Maintain the overall limit on those assets which are locally invested at 5% of Main Fund as agreed at the July 2011 Panel.

(b) Continue to phase in 'realistic benchmark' allocations to reflect the movement towards the respective targets, as follows:

	2019/20 Realistic% Range% Cash flow	2020/21 Realistic% Range% Cash flow	2021/22 Realistic% Range% Cash flow
GMPVF and housing	**1.5 1-2 £100m**	**2 1-2 £100m**	**2.5 2-3 £100m**
Impact Portfolio and legacy I4G	**1 1-2 £80m**	**1.5 1-2 £80m**	**1.5 1-2 £80m**
Total	**2.5 2-4 £180m**	**3.5 2-4 £180m**	**4 3-5 £180m**

(x). Currency hedging

(a) Hedge the overseas currency exposure within the passive bond allocation (L&G mandate) back to Sterling as the default. This is to be implemented via investing in the GBP hedged versions of the pooled vehicles that the Fund currently invests in. No other changes are proposed to the management of currency exposure elsewhere within the Fund.

(xi). Rebalancing

(a) Continue to monitor the Main Fund formally once each year immediately following the review of Investment Strategy and rebalance back to the Main Fund benchmark allocation as necessary.

(b) Take account of aspirational targets for the split of assets managed actively versus index tracking at 2/3 active : 1/3 index tracking and the aspiration to retain the UBS' 'deep value' proposition wherever possible.

(xii). Risk Budgeting

(a) That further development work be undertaken in relation to risk budgeting and be reported back to a future Panel.

(xiii). Implementation

(a) The nature, timing and detailed implementation of any benchmark changes necessary to reflect the decisions of the Panel be settled by the Director of Pensions following consultation with the Advisors and/or managers where appropriate.

14. PERFORMANCE DASHBOARD

Consideration was given to a report of the Assistant Director of Pensions, Investments, providing high level, investment performance information, including the value of the Pension Fund Investment Portfolio, the performance of the Main Fund, and the over/under performance of the external Fund Managers against benchmark.

The key information from the Quarter 4 (2018) Performance Dashboard was summarised. The slowdown in global growth and continued absence of inflationary pressures had seen central banks adopt a more dovish stance. Uncertainty over the outcome of US/China trade, Brexit and geopolitics and meaningful revision down of expectations for corporate earnings growth this year remained ongoing concerns. In contrast to Q4 2018, investor focus in Q1 2019 was more about companies delivering profitability as opposed to sentiment around aspects of the economy (e.g. economic growth, geo politics and trade wars) resulting in more sanguine market conditions.

Against this backdrop, markets rallied in the first quarter as investors reacted to both the opportunities created by the weak markets of 2018 and also further declines in long-term bond yields. Q1 2019 was a strong quarter for returns on credit, as both interest rate expectations fell and spreads contracted. In an environment where investors were happy to take on risk, areas such as high yield debt tended to fare particularly well. Emerging market bonds in local currency also saw good returns over the quarter.

Over the quarter total Main Fund assets increased by just under £1.1 billion to £22.8 billion. Within the Main Fund, there was an overweight position in equities and cash (of around 0.8% and 2.2% versus target respectively). There was an underweight position in bonds (of around 2.5% versus target) and the property allocation continued to be underweight (by around 2%) versus its benchmark.

On a cumulative basis, over the period since September 1987, the Main Fund had outperformed the average LGPS fund, equating to over £3.0 billion of additional assets. The Main Fund underperformed its benchmark over the quarter and 1 year periods but remained ahead of its benchmark over longer time periods (3, 5 and 10 years), mainly due to stock selection. The active risk of the Main Fund was broadly consistent at around 1% over 1, 3, 5 and 10 years but risk in absolute terms (for both portfolio and benchmark) was lower than that observed historically. At the end of Quarter 1; over a 1 year period, two of the active managers had underperformed their respective benchmarks whilst one manager outperformed its benchmark. One manager continued to outperform over longer time periods.

RECOMMENDED
That the content of the report be noted.

15. LONG TERM PERFORMANCE REPORTS

(a) Long Term Performance 2018/19 – Main Fund and Active Managers

Consideration was given to a report of the Assistant Director of Pensions, Investments, which advised Members of the recent and longer term performance of the Main Fund as a whole and of the external Public Markets active Fund Managers. Detailed results covering periods up to 30 years were given.

It was reported that the Main Fund was in the top 10% of the Local Authority Pension Funds surveyed over 30 years and was the third best performing Local Authority Fund over 20, 25 and 30 year periods.

The performance of UBS over their time as a Manager for the Fund had been excellent. Short term only performance for Investec since their inception in 2015/16, was displayed.

RECOMMENDED
That the content of the report be noted.

(b) Cash Management

A report was submitted by the Assistant Director of Pensions, Investments, which explained that the Fund adopted a relatively prudent approach to its cash management. The report outlined the constraints in place to ensure an appropriate level of prudence, focusing primarily on capital preservation and secondly on higher returns. It also detailed the performance achieved last year and over the last three years.

The report concluded that the Pension Fund's cash had been generally well managed. Performance in 2018/19 exceeded market returns and total interest received was £4.2 million.

RECOMMENDED
That the content of the report be noted.

(c) Property Investment Performance Monitoring

Consideration was given to a report of the Assistant Director of Pensions, Local Investments and Property, updating Members on the 2018 performance of the main UK property portfolio managed by LaSalle Investment Management and the internally managed UK Balanced Funds.

It was reported that the performance of the LaSalle Portfolio remained disappointing, in particular the assets that had been acquired by LaSalle. Of further concern was the portfolio's current risk profile, which seemed to be at odds to the objectives of a defensive institutional portfolio.

The strategic review into GMPF's property allocation alongside the Advisors was close to its conclusion and recommendations would be made following this with respect to the LaSalle Managed Portfolio.

The UK Balanced Fund portfolio had delivered good performance over a 1 and 3 year period. Monitoring of this exposure would continue by the internal team, which may include a rationalisation programme alongside the detailed analysis of the wider market that had been conducted.

Discussion ensued with regard to the information contained in the report and, in particular the disappointing performance of the LaSalle Managed Portfolio. The Director of Pensions assured Members that a revised property strategy was currently being considered and further information would be submitted to the next Panel meeting.

RECOMMENDED
That the content of the report be noted, including the actions being taken to address performance.

16. GMPF STATEMENT OF ACCOUNTS AND ANNUAL REPORT

The Assistant Director of Pensions, Local Investments and Property, submitted a report for information, giving details of:

- Governance arrangements for the approval of the GMPF accounts;
- Audit Completion Report;
- Simplified summary of the accounts for this year; and
- Annual Report.

RECOMMENDED

(i) That the completion of governance arrangements for the approval of GMPF's accounts be noted;

(ii) That the Audit Completion Report from Mazars be noted; and

(iii) That the Annual Report be approved.

(iv) That the Management Panel's thanks and appreciation for the work undertaken by Mazars and Pension Fund staff be formally noted.

17. SCHEME ADDITIONAL VOLUNTARY CONTRIBUTIONS

Consideration was given to a report of the Assistant Director of Pensions, Funding and Business Development, explaining that the Additional voluntary Contributions (AVCs) allowed Scheme members to pay more to build up extra savings for their retirement. When members made AVCs they paid money into a separate AVC plan and built up a pot of money which was then used to provide additional benefits on retirement.

It was explained that a detailed review of GMPF's AVC arrangements was currently in progress. The report set out in detail the work undertaken and proposed next steps in respect of GMPF's AVC arrangements.

RECOMMENDED

That the content of the report be noted and the action plan, as set out in section 2.3 of the report, be supported.

18. NORTHERN LGPS UPDATE

The Assistant Director of Pensions, Funding and Business Development, provided an update on recent activity of the Northern LGPS and other relevant developments related to pooling assets across the LGPS in England and Wales.

It was explained that on 3 January 2019, MHCLG released new draft statutory guidance on LGPS asset pooling for 'informal' consultation, a copy of which was appended to the report. Parties that were being consulted included pools, administering authorities and local pension boards.

The guidance set out the requirements on administering authorities and was intended to replace previous pooling guidance, in particular the LGPS Investment Reform Criteria and Guidance issued in November 2015.

As per discussion at previous meetings, the draft statutory guidance had blurred the original four criteria in the 2015 guidance. In its place, the guidance had six sections covering: structure and scale, governance, transition of assets to the pool, making new investments outside the pool, infrastructure investment and reporting.

The Management Panel, alongside the GMPF Local Pension Board and Northern LGPS submitted responses in March 2019 to the pooling consultation. A link to the responses was provided in the report.

It was reported that Members of the Northern LGPS Shadow Joint Committee met the Minister on 3 April 2019 and discussed the Pool's key concerns with the draft guidance and potential amendments which could make the guidance more acceptable to the Northern LGPS. A further meeting between MHCLG Civil Servants and Northern LGPS officers was held on 16 May 2019. Discussions covered the Northern LGPS' response to the consultation, recent progress in developing performance and cost benchmarking in the pool and implementing next steps.

LGPS Pooling national developments were also detailed in the report.

RECOMMENDED
That the content of the report including developments since the previous meeting, be noted.

19. PENSIONS ADMINISTRATION UPDATE

Consideration was given to a report of the Assistant Director of Pensions, Administration, detailing key items of work affecting or being carried out by, the administration section over the last quarter:

- Business planning objectives;
- Other key projects and work areas;
- The Pensions Regulator and compliance;
- Administration section performance; and
- Anticipated future challenges.

RECOMMENDED
That the content of the report be noted.

20. FUTURE TRAINING DATES

Trustee Training Opportunities were noted as follows, with particular attention drawn to the UBS Trustee Training Session on 18 September 2019, which was considered as mandatory

LGC Investment & Pensions Summit, Celtic Manor	**5 – 6 September 2019**
UBS Trustee Training, Manchester	**18 September 2019**
CIPFA Introduction to the LGPS – hosted by Northern Trust, London	**25 September 2019**
PLSA Annual Conference Manchester	**16-18 October 2019**
LGE Fundamentals Training, Day 1, Leeds	**17 October 2019**
LGE Fundamentals Training, Day 2, Leeds	**14 November 2019**
Annual LAPFF Conference, Bournemouth	**4 – 6 December 2019**
LGE Fundamentals Training, Day 3, Leeds	**5 December 2019**
LGE Annual Conference, York	**23 – 24 January 2020**

21. DATES OF FUTURE MEETINGS

Management/Advisory Panel	**18 October 2019** **17 January 2020** **17 April 2020**

Local Pensions Board	**8 August 2019** **11 October 2019** **12 December 2019** **26 March 2020**
Policy and Development Working Group	**20 September 2019** **19 December 2019** **6 March 2020**
Investment Monitoring and ESG Working Group	**27 September 2019** **20 December 2019** **20 March 2020**
Administration and Employer Funding Viability Working Group	**27 September 2019** **20 December 2019** **20 March 2020**

CHAIR