GREATER MANCHESTER PENSION FUND ADVISORY PANEL

17 January 2020

Commenced:	**10.00am**	**Terminated: 12.35pm**
Present:	**Councillor Warrington (Chair)** **Councillors: Barnes (Salford), Grimshaw (Bury), O'Neill (Rochdale), Parkinson (Bolton) and Taylor (Stockport)** **Employee Representatives:** **Mr Drury (UNITE), Ms Fulham (UNISON), Mr McDonagh (UNISON) and Mr Thompson (UNITE)** **Fund Observers:** **Councillors Pantall and Ryan** **Local Pensions Board Members (in attendance as observers):** **Councillor Fairfoull** **Advisors:** **Mr Moizer, Mr Powers and Ms Brown**	
Apologies for absence:	**Councillors Halliwell (Wigan) and Mitchell (Trafford).** **Mr Flatley (GMB) and Mr Llewellyn (UNITE)**	

43. CHAIR'S OPENING REMARKS

The Chair welcomed everyone to the meeting and began by commenting on a very busy time for the Fund. Responsible Investment was dominating agendas and further changes were expected to the Employer Funding and Exit legislation and the Scheme Advisory Board's Good Governance Review continued to gather momentum.

As the Government worked towards a remedy for McCloud it seemed likely that the greatest burden of the work would fall to administrators. However, there would be a few actuarial issues to resolve also. English and Welsh funds including GMPF, had made allowance for possible McCloud impacts within valuations, however these allowances would need to be refined when the final remedy known.

It was likely that the impact would vary for different employers within funds. The remedy would have to be cost assessed at national level, fund level and employer level and funding plans adjusted where needed.

Members were advised that a great deal of work went into collecting and cleansing data for the purpose of the valuation. In order to derive the greatest benefit from the effort, there were two categories of follow-up activities that weren't always fitted into the valuation timetable. The first was ensuring that any data issues identified during the valuation were fixed at the source. The second was a detailed analysis of the information coming out of the valuation about the evolution of the Fund. This analysis was key to informing important decisions including the investment strategy, administration resourcing and risk management activities.

It was expected that Responsible Investment and Environmental Social and Governance would continue to be regular and high priority agenda items, going forward. One of the main developments in 2019 was the publication of the Financial Reporting Council's new UK Stewardship Code, which came into force on the 1 January, which increased the best practice standard for funds as asset owners.

The preparation of the Stewardship Report for March 2021 would commence in earnest and the work would be paired with the upcoming Scheme Advisory Board Responsible Investment guidance to further develop the Fund's ESG approach. Consultation on the first part of the draft guidance had taken place and case studies were submitted to the Scheme Advisory Board for their RI guidance. Further regulatory developments were expected over the coming year.

Work continued to be undertaken towards becoming carbon neutral if not negative and as a consequence of the LAPFF Climate Change survey the Fund contributed to before Christmas, it was agreed by LAPFF yesterday that they would use the survey findings to:

- Update the LAPFF climate change policy framework;
- Develop an approach to working with policy makers;
- Develop LAPFF's offer to members, including around training, making the case for engagement over divestment and showing impact of engagement; and
- Consider how LAPFF might further engage with asset managers.

Shareholder resolutions had also been co-filed in respect of a number of companies seeking more transparency as to whether their lobbying activities via trade association were consistent with their company's expressed climate related goals, and in the best interests of shareholders, together with a resolution to a large on-line retailer in relation to labour rights.

Work had commenced towards the Fund becoming Carbon Literate with the Director of Pensions attending a Carbon Literacy course in the near future, along with Assistant Director for Investments and the Chair advised that all Fund Members would be required to undergo some rigorous training over the coming year. The Fund was also working with the Department for Business, Energy and Industrial Strategy to draft and pilot the first Carbon Literacy course for pension funds.

Furthermore, Northern LGPS had officially joined the 30% Club, which sought to increase gender diversity on boards and senior management teams.

Strong asset returns in recent years made the results of the 2019 valuation largely positive for English and Welsh Funds, however, funding improvements needed to be balanced with the cost of accruing benefits given the lower growth outlook for many investment markets. To ensure the Fund's sustainability, the establishment of a balance between investment risk and contributions would be high on meeting agendas in 2020.

There were strong reminders in 2019 that effective governance was key to any Fund's success. For instance, the Competition and Markets Authority Order that came into force on 10 December set requirements for pension schemes to establish objectives for their investment consultants. There was a need to keep long-term goals at the heart of priorities and continuously reflect on whether decisions were suitably aligned with intended outcomes.

There would be continued reflection on what resource was required to establish adequate internal controls, evaluate risk and contributions, and most skilfully direct investment managers and consultants towards achieving the Funds objectives.

Members were further advised that the Scheme Advisory Board's Good Governance Review continued to gather momentum and the overall direction of travel was clear. The Scheme Advisory Board was seeking to work with MHCLG to put in place a clear statutory governance framework for the LGPS. Funds would be expected to demonstrate that the way they were set up and run promoted high standards of service delivery for scheme members.

For many LGPS administration teams, the 2018/19 tax year had been the most challenging due to the ever-increasing number of tax calculations and reporting required. As more and more members became subject to an annual allowance charge, the job of identifying who was affected and carrying out the necessary work had become a major administration task. Issues such as poor data, tapering, the impact of transfers and the use of 'voluntary scheme pays' could make the job more difficult. That's why work was underway to help improve processes and staff knowledge well

in advance of the next round of pension savings statements even before the tax payment year ended on 31 January.

The biggest administration challenge facing LGPS Funds in 2020 and beyond would be the outcome of the McCloud decision. Whatever form final redress takes, affected cohorts would need to be identified and liaison with employers would need to take place in order to obtain retrospective data, amend records, revisit calculations, uplift pensions in payment, communicate all of this with the employers whilst ensuring throughout that the project had the appropriate level of governance.

44. DECLARATIONS OF INTEREST

There were no new declarations of interest submitted by Members.

45. MINUTES

The Minutes of the proceedings of the meeting of the Pension Fund Advisory Panel held on 18 October 2019 were signed as a correct record.

The Minutes of the proceedings of the meeting of the Pension Fund Management Panel held on 18 October 2019 were signed as a correct record.

46. 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
7, 8, 9, 10, 11, 17, 18, 19, 20	**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.**

47. POLICY AND DEVELOPMENT WORKING GROUP

The Minutes of the proceedings of the meeting of the Policy and Development Working Group held on 19 December 2019 were considered.

The Chair of the Working Group, Councillor Warrington, advised that Fund Managers, Investec and Stone Harbor both attended the meeting and presented on their performance since inception, and in particular over the last 12 months. This gave Members and Advisors an opportunity to probe both managers' underlying process and philosophy.

RECOMMENDED
That the Minutes be received as a correct record;

48. INVESTMENT MONITORING AND ESG WORKING GROUP

The Minutes of the proceedings of the meeting of the Investment Monitoring and ESG Working Group held on 27 September 2019 were considered.

The Chair of the Working Group, Councillor Cooney, advised that Avison Young had attended the meeting and gave an informative update on their investment activity in the previous 12 months focusing on key investments at First Street and the residential sector. There was a strong pipeline of opportunities for 2020 including hotels and industrial developments.

He further informed Members of the Principles for Responsible Investment, which had 2,300 members overall, representing around £60 trillion of assets. An annual survey was required to be completed, on the fund's commitment to the principles. Officers reported the latest results, which showed that the Fund matched or outperformed the median scores in all areas, performing particularly well in those areas where it was able to draw on the work it did in collaboration with the Local Authority Pensions Fund Forum.

Members were also provided with an update from PIRC who presented a report entitled '*Do fund managers understand balance sheets?*', which provided an analysis of a variety of companies that had collapsed, and also looked at the role of Auditors, Banks and Regulators.

RECOMMENDED
That the Minutes be received as a correct record.

49. 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 27 September 2019 were considered.

The Chair of the Working Group, Councillor M Smith, advised that the Working Group had received an update on the work and projects being undertaken to improve GMPF's administration technologies. It was reported that officers had trialled the latest version of the pension fund's administration software and that they had helped support the insertion of a new efficient payroll module into GMPF's administration software.

The pensions tax support package provided to members to help them navigate the Annual Allowance and Lifetime Allowance, was also discussed. These taxes were usually considered to be difficult to comprehend. Thankfully, tax support was provided last November and December, and members were, on the whole, very grateful for the support provided by GMPF.

Routine administration updates, such as the list of new employers seeking to join the fund and progress in GMPF's administration KPI's, were also reviewed.

RECOMMENDED
That the Minutes be received as a correct record.

50. LGPS PERFORMANCE UPDATE

Neil Sellstrom, PIRC, attended before Members and gave a presentation in respect of LGPS performance.

He began by advising that, in respect of 2018/19, despite a difficult economic and political environment the average Local Authority fund produced a return of 6.6%. Asset class returns were tightly grouped with bonds, equities and alternatives returning 4%, 6% and 7% respectively for the year. Alternatives returned 10.3% driven by excellent returns from private equity. Most funds failed to outperform their benchmark.

Mr Sellstrom reported a strong performance from US equities, which meant that funds with high equity components tended to outperform last year.

Private equity continued to perform strongly as did Infrastructure. US equities continued their extended run of excellent performance, assisted by the ongoing strengthening of the US dollar. Ethical/Green/Environmental investment did well in garnering funds.

Emerging market equities, after being the best performing equity area in the previous year, fared particularly badly this year, failing to deliver a positive return. Absolute return funds performed relatively poorly across a variety of strategies and asset types. Equity protection, taken out by some funds as insurance against possible market falls was not required and the cost had a drag on performance for the year. Continued low interest rates meant holding any level of cash continued to have a negative impact on return.

To the year end March 2019, it was explained that, despite a difficult economic and political environment, the average Local Authority fund produced a return of 6.6%. The range of results was relatively tight with most funds returning between 5% and 8% for the year. GMPF had delivered 5.6% and ranked in the 71st percentile. Over 20 years, GMPF was ranked in the 6th percentile.

Fund performance was examined, including asset allocation, longer term asset performance and risk and return over the last 5 and 10 years.

Discussion ensued with regard to fund performance and Members commented on longer term performance and increasing exposure to alternatives. The importance of focusing on performance compared to the benchmark was also highlighted.

RECOMMENDED
That the content of the report be noted.

51. UPDATE ON INVESTMENT MANAGEMENT COST AND ADMINISTRATION BENCHMARKING

Consideration was given to a report of the Assistant Director of Pensions Investments and the Assistant Director of Pensions Administration, providing Members with an update on investment management cost benchmarking for the Fund and the Northern LGPS over 2018/19. In addition, CEM had, for the first time, provided a report analysing and benchmarking the Fund's administration costs and member services, an update on which was provided in the report. John Simmonds of CEM Benchmarking also delivered a presentation.

In respect of GMPF CEM Investment Cost Analysis 2018/19, it was reported that GMPF had generated underlying savings of 0.10% (£22 million) in 2018/19 and was 0.17% (£38 million) lower cost than the benchmark.

In terms of Northern LGPS CEM Investment Cost Analysis 2018/19, it was reported that Northern LGPS remained low cost and was in the lowest 25% of its peer group (which consisted of 21 global pension funds (inclusive of Northern LGPS) ranging from £11 billion to £68 billion). It was further reported that Northern LGPS had generated underlying savings of 0.09% (£42 million) in 2018/19 and was 0.01% (£5 million) lower cost than the benchmark.

With regard to GMPF CEM Administration costs and service score analysis 2018/19, it was reported that GMPF was a high service, low cost provider relative to its peers, with GMPF's total cost per member being £18.87, which was £15.25 below the peer average of £34.13.

RECOMMENDED
That the content of the report be noted.

52. 2019 ACTUARIAL VALUATION

The Assistant Director of Pensions, Funding and Business Development, submitted a report giving information in respect of the triennial valuation of the Fund, due as at 31 March 2019, with formal completion of the process required no later than 31 March 2020.

Members were informed that Regulation 58 of the LGPS Regulations 2013 required each administering authority to prepare and maintain a Funding Strategy Statement (FSS). As part of the process of producing a Funding Strategy Statement, GMPF was required to consult with its employers on the approach and assumptions set out in the Funding Strategy Statement.

Following consideration at the Administration, Employer Funding and Viability Working Group meeting in July 2019 and approval of the Working Group's recommendation at the July 2019 Management Panel meeting, the draft FSS was sent to employers on 31 July 2019 with a deadline for comments of 20 September 2019. Some comments were received outside of the advertised deadline.

Comments on the Funding Strategy Statement were received from a relatively small number of employers. The feedback largely centred on the actuarial assumptions and the GMPF Actuary's model used to calculate contribution rates. There were also requests for further detail in the Funding Strategy Statement regarding how the potential impact of the 'McCloud Judgement' would be allowed for in the valuation.

The comments received had led to some relatively minor updates being made to the Funding Strategy Statement. Updates had also been made to reflect statements made by the Government Actuary's Department regarding how it expected LGPS actuaries to incorporate the likely impact of the McCloud Judgement and the circumstances in which employer contribution rates could be reduced from their existing level. A link to the updated Funding Strategy Statement was provided within the report.

In respect of employer results; it was explained that GMPF's funding position had improved from 93% at the 2016 valuation to 102% at this valuation.

It was further explained that contribution rates had been issued to most employers outside of the local authority pools as of December 2019. There were a small number of employers where outstanding data queries needed to be resolved before final contribution rates could be confirmed.

RECOMMENDED
(i) That the content of the report, including the recent developments regarding the 2019 valuation be noted; and
(ii) That the Funding Strategy Statement be adopted.

53. 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 3 (2019) Performance Dashboard was summarised. Global economic growth had continued to decelerate amid the uncertainty associated with global trade and technology conflicts. The global trend towards populism continued to have implications for markets and more broadly, geopolitical risks remained elevated amidst a more uncertain economic backdrop. Global equity markets ended the quarter marginally higher. In US dollar terms, Japanese equities were the best performing regional equity market helped by retail-led boom as consumers looked to make purchases prior to a rise in consumption tax. Cyclical sectors such as basic materials, oil and gas and industrials underperformed the more defensive sectors on fears of an economic slowdown.

Sovereign bond yields continued to drift lower and credit spreads were little changed over the quarter. This meant that government bond markets enjoyed another strong quarter of returns and investment grade bonds produced notably positive returns as markets were bolstered by the underlying moves in interest and investors' hunt for yield.

Global high yield spreads were little changed over the quarter, though leveraged loan spreads had moved wider as interest rate cuts had made floating-rate assets less attractive to prospective investors. The lower duration and higher economic sensitivity of high yield bonds meant gains were more limited. Emerging market bonds also advanced, although the US dollar strength tended to weigh on hard currency debt in comparison to that issued in local currency.

Over the quarter total Main Fund assets increased by £474 million to £24.1 billion. Within the Main Fund, there was an overweight position in cash (of around 1.4% 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 £3.3 billion of additional assets. The Main Fund had outperformed its benchmark over the quarter. Although relative performance over 1 year was negative, the Main Fund remained ahead of its benchmark over longer time 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 3; over a 1 year period, all three active managers had underperformed their respective benchmarks. One manager continued to outperform over longer time periods.

RECOMMENDED
That the content of the report be noted.

54. RISK MANAGEMENT AND BUSINESS PLANNING

The Director of Pensions submitted a report advising Members that, for many years, the governance arrangements of GMPF had effectively managed risks via a variety of channels.

Given the increasing focus on risk management and recent changes to GMPF's governance arrangements, it was 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.

The report provided an update on the activities undertaken since the Autumn 2019 meetings and included an updated risk register for consideration plus drafts of risk and member development policies.

RECOMMENDED

(i) That the risks set out in the risk register and the effectiveness of the controls in place to manage these risks, be noted; and

(ii) That the draft risk and member development policies, as detailed in the report, be noted.

55. GMPF WEBSITE REDEVELOPMENT

A report was submitted and a presentation delivered by the Assistant Director of Pensions Administration providing an update on the progress being made to redesign the GMPF website.

Areas of focus for the design of the new website were outlined and it was explained that content for the web pages had been separated into four areas, based around the potential users of the website, as follows:

- About us;
- Pages for Members;
- Pages for employers; and
- Pages for Pension Fund Panel and Local Board Members.

Members were advised that, stakeholder testing would be carried out in January and February 2020 to test whether stakeholders could find and understand the information they were looking for. Once stakeholder testing had been successfully completed, the new website would be launched.

This was expected to be at the end of February 2020. Plans were then in place to continue the development of the new website for the following six months, known as phase two of the project. This work would include implementing revisions to the website based on the feedback received and would also include looking at introducing new functionality.

RECOMMENDED

That the content of the report be noted.

56. GMPF BUDGET 2020/21 AND FUTURE MEDIUM TERM FINANCIAL PLANNING

Consideration was given to a report of the Assistant Director of Pensions, Local Investments and Property, which sought approval of an expenditure budget for GMPF for 2020/21.

It was explained that the expenditure budget would exclude investment management fees at this time, as detailed in the report. Members were also asked to agree the underlying principles for a medium term financial plan to be produced following availability of all information. An updated version of the plan would subsequently be included in the Annual Report for 2019/20.

RECOMMENDED

(i) That the expenditure budget for 2020/21 be approved;

(ii) That the underlying principles for the Medium Term Financial Plan be agreed;

(iii) That the work being undertaken with regard to accounting and reporting of indirect investment costs from pooled vehicles, be noted; and

(iv) That the intention to review all budgets annually and undertake a zero based budget approach, be noted.

57. 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 activities; and
- Administration section performance.

RECOMMENDED
That the content of the report be noted.

58. FUTURE DEVELOPMENT OPPORTUNITIES

Trustee development opportunities were noted as follows:

LGE Annual Conference, York	**23 – 24 January 2020**
LGC Investments Seminar, Carden Park 2020	**27 - 28 February 2020**
PLSA Investment Conference, Edinburgh	**11 – 13 March 2020**
PLSA Local Authority Conference, Gloucestershire	**18 - 20 May 2020**
PLSA Annual Conference, ACC Liverpool	**14 – 16 October 2020**

59. DATES OF FUTURE MEETINGS

Management/Advisory Panel	**17 April 2020**
Local Pensions Board	**26 March 2020**
Policy and Development Working Group	**6 March 2020**
Investment Monitoring and ESG Working Group	**20 March 2020**
Administration and Employer Funding Viability Working Group	**20 March 2020**

CHAIR