

GREATER MANCHESTER PENSION FUND - INVESTMENT MONITORING AND ESG WORKING GROUP

31 July 2020

Commenced: 09:00

Terminated: 10:50

Present: Councillors Cooney (Chair), Andrews, Ricci, Newton, Mitchell, J Homer, M Smith, O'Neill,

Mrs Fulham Mr Drury and Mr Llewellyn

Fund Observer Councillor Pantall

In Attendance:

Sandra Stewart	Director of Pensions
Tom Harrington	Assistant Director of Pensions (Investments)
Paddy Dowdall	Assistant Director of Pensions (Local Investments and Property)
Steven Taylor	Assistant Director of Pensions (Special Projects)
Mushfiqur Rahman	Investments Manager
Richard Thomas	Investments Officer
Michael Ashworth	Senior Investments Manager
Kevin Etchells	Senior Investment Manager (Property)
Lorraine Peart	Investments Officer

Apologies for Absence: Councillors Ward, J Fitzpatrick, Parkinson, Jabbar, Taylor and Barnes

Mr Flatley.

Fund Observer Councillor Ryan

23. DECLARATIONS OF INTEREST

There were no declarations of interest.

24. MINUTES

The Minutes of the meeting of the Investment Monitoring and ESG Working group held on the 20 December 2019 were approved as a correct record.

25. UBS ESG UPDATE

The Working Group welcomed representatives from UBS, Malcolm Gordon, Managing Director, Head of UK Institutional, Francis Condon, Executive Director, Sustainable and Impact Investing Research Analyst and Steven Magill, Managing Director, Head of European Equity Value who attended to present a report on the Environmental, Social and Governance activity in the last 12 months and provide an update on energy stocks and share views on climate transition.

Members of the Working Group were presented with an overview of the proprietary UBS ESG Risk Dashboard. It was explained that this was an ESG integration tool utilised to identify and monitor ESG risks across four dimensions, encompassing sector-relative ESG risk and the identification of 'Outliers'. Members were informed that this methodology covered over 10,000 companies with a

consensus score built from internal and external sources resulting in one clear actionable signal leading to the prioritisation of research and company engagement.

It was reported that during 2019 UBS held over 1,400 meetings with prospective investee companies, of these 358 met the definition of engagement. They covered 231 companies across regions and sectors, and 13% of these engagements were collaborative with other investors.

With regards to the Energy Sector Steven Magill explained to the Group that UBS saw a positive role for Energy Companies in driving transition to a lower carbon energy mix, and that they have also reflected their assessment of Climate and Energy transition into their valuations of Energy Stocks.

RESOLVED

That the report be noted.

26. UBS: REPORT ON TRADING COSTS

Consideration was given to a report of the Director of Pensions / Assistant Director of Pensions for Investments, which facilitated Members' scrutiny of UBS's approach to, and practice with regard to trading costs.

Members of the Working group received UBS's current Best Execution and Order Handling Policy which was appended to the report. It was explained that there had been no significant changes to the policy previously reviewed by the Working Group in July 2019.

Malcolm Gordon of UBS presented the Working Group with a detailed report of trading costs for the 12 month period to 31 December 2019. The report had been received by officers of the Fund, and the questions arising from the review had been satisfactorily answered by UBS.

RESOLVED

That the report be noted.

27. NINETY ONE - ESG UPDATE

The Working Group welcomed representatives of Ninety One, Therese Niklasson, Global Head of ESG and Stephen Lee, Director, Head of Institutional Sales who attended to present a report on the Environmental, Social and Governance activity in the last 12 months.

Members of the Working Group received highlights for the last year regarding Ninety One's ESG Integration and Investments and Active Ownership. Therese Niklasson, explained that there were four ESG focus areas consisting of ESG in Investments, Advocacy, Clients and Communication, and Research and Learning.

The Working Group were provided with details of Ninety One's best practice assessment framework and the results of the active engagements which took place throughout the year. Therese Niklasson presented the 2019 Progress Report which included the focus for the year along with details of progress achieved. Recent developments and Transition Pathway Initiative crossover were also shared with the Group.

RESOVLED

That the report be noted.

28. NINETY ONE - REPORT ON TRADING COSTS

Consideration was given to a report of the Director of Pensions / Assistant Director of Pensions for Investments, which facilitated Members scrutiny of Ninety One's approach to, and practice which regards to trading costs.

Members of the Working Group received Ninety One's current 'Order Execution' policy, which was appended to the report. It was explained that there had been a small number of minor changes to the policy previously reviewed by the Working Group in March 2019, none were considered material by GMPF officers.

Stephen Lee of Ninety One presented the Working Group with a detailed report of trading costs for the 12 month period to 31 December 2019. The report had been received by officers of the Fund, and the questions arising from the review had been satisfactorily answered by Ninety One.

RESOLVED

That the report be noted.

29. HYMANS ASSET LIABILITY MODEL OF THE MAIN FUND AND CLIMATE CHANGE SCENARIOS

The Working Group welcomed a representative of Hymans Robertson, Elaine Torry, Partner and consideration was given to a report, which set out the results of the climate risk analysis that was carried out in conjunction with recent Asset Liability Modelling analysis for the Main Fund.

Three climate scenarios were explored with the Group along with the relating economic, financial and longevity impacts of each. Results, conclusions and observations from the climate modelling analysis were also explained.

RESOLVED

That the report be noted.

30. UK PROPERTY PERFORMANCE REPORT

Consideration was given to a report of the Director of Pensions / Assistant Director for Local Investments and Property, which sought to inform Members of the annual and longer-term performance of the UK Property portfolios.

The allocations to property investments and their current weightings as at December 2019 and June 2020 were outlined to Members.

It was reported that as of December 2019 LaSalle's portfolio was valued at £857 million across 42 direct assets. The internal property team replaced LaSalle as the administrators of the specialist in-directs from the 30 September 2019 and as of December 2019 these funds were valued at £105m.

In 2018, the Fund's total return for the LaSalle Managed Portfolio was 3.4% compared with the benchmark (IPD All-Property Universe) of 5.2%. This resulted in an overall ranking for GMPF in the 81st percentile of the All-Funds IPD Universe. The portfolio delivered a Total Return of -2.5% against the benchmark of 0.7%.

It was highlighted that the risk profile of the LaSalle portfolio was a concern. The strategic review concluded that enhanced monitoring of LaSalle was required.

It was reported that the UK Balanced Fund portfolio had delivered good performance over a 1, 3 and 5 year period. Officers would continue to explore routes to increase the expose where relevant.

The deadline for submission of tenders to the Northern LGPS Property Framework was on the 3 July. Hymans is currently reviewing all submissions, and will be reporting to the fund's respective directors in September with its findings.

RESOLVED

That the report be noted.

31. UPDATE ON ACTIVE PARTICIPATION IN CLASS ACTIONS

Consideration was given to a report of the Director of Pensions / Assistant Director of Pensions for Investments which provided Members with an update on litigation in which the Greater Manchester Pension Fund sought to actively recover losses in the value of its shareholdings in various companies as a result of actions taken by those companies.

The report included an update explaining active Class Actions and Antitrust Litigations which remained outstanding along with recent developments relating to each action.

RESOLVED

That the Fund adopts the approach to active participation in class actions as set out in the report.

32. UNDERWRITING, STOCKLENDING AND COMMISSION RECAPTURE

Consideration was given to a report of the Director of Pensions / Assistant Director of Pensions for Investments, which advised Members of the activity and income generated on Underwriting, Stocklending and Commission Recapture during the year ended March 2020.

It was reported that the Fund did not participate in any sub-underwriting via UBS during the year. Stocklending income during the year was £771,430 and compared with £712,065 in the year ending March 2019. The value of securities on loan as at 31 March 2020 was £313.8m (1.4% of GMPF assets) and collateral valued at £333.7m was held against these loans. Commission recaptured during the year was £11,977 and compared with £16,637 in the year ending March 2019.

The report outlined that income from these activities was opportunistic in nature and very sensitive to market conditions. The amounts generated were therefore expected to vary, potentially significantly from one year to another.

RESOLVED

That the report be noted.

CHAIR