GREATER MANCHESTER PENSION FUND ADVISORY PANEL

18 September 2020

Commenced: 10.00am **Terminated: 12.40pm**

Present:	**Councillor Warrington (Chair)** **Councillors: Cunliffe (Wigan), Grimshaw (Bury), Jabbar (Oldham), Mitchell (Trafford), and Taylor (Stockport)** **Employee Representatives:** **Mr Drury (UNITE), Mr Flatley (GMB), Ms Fulham (UNISON)** **Fund Observers:** **Councillors Pantall** **Local Pensions Board Member (in attendance as observer):** **Councillor Fairfoull**
Advisors:	**Mr Bowie, Mr Moizer, Mr Powers and Ms Brown**
Apologies for absence:	**Councillors Andrews (Manchester), Barnes (Salford), O'Neill (Rochdale), Parkinson (Bolton), Messrs Llewellyn (UNITE), McDonagh (UNISON) and Thompson (UNITE)**

21. CHAIR'S OPENING REMARKS

The Chair welcomed everyone to the meeting and commented on the extreme turbulence experienced to date in 2020, both in everyone's day-to-day lives and financial markets. She explained that, throughout the period, the safety and welfare of employees had been paramount and investment and service delivery had been adapted to address the Pandemic, which continued to affect everyone. The Chair was pleased to report that both staff and the Fund were bearing up to challenges and the current value of the Fund was £24.5 billion.

Over recent months, work had been undertaken with managers to understand which opportunities were most likely to provide genuine, accessible investments for the Fund and the property market reaction to the situation would be reported later in the agenda.

Reference was made to Responsible Investment and that the consideration of a broad range of risks and opportunities beyond headline economic indicators was now accepted as standard good practice. However, the Chair highlighted that without radical change, the current and historic drain on the planet's resources and way we interact with each other, would lead to irreversible impacts for future generations.

In 2015, the 17 Sustainable Development Goals were the product of a global call to action from UN member states to improve the world, and the lives of people in it, by the year 2030. The issues requiring most attention included Goal 13: '*Take urgent action to combat climate change and its impacts'*, where we were 'far from target'. Global inaction meant that radical changes in policy and regulation would become more likely in future, creating greater uncertainty for companies and investors alike.

Institutional investors had significant leverage to influence change for good, with better standards being driven from companies in which the Fund invested and by relocating capital in favour of those wishing to make, or were contributing to, progress. This did not need to come at a financial cost. It was through inaction that institutional investors stood to suffer a long-term cost, ultimately impacting on their beneficiaries. Inaction from institutional investors would be subject to higher levels of public scrutiny in future, the plans to make reporting in line with the Taskforce for Climate-Related Financial Disclosures mandatory for the largest pension schemes.

The Chair advised that the DWP was consulting on the introduction of mandatory reporting and governance of climate risks for large UK occupational pension schemes. Whilst not in scope, the consultation noted that MHCLG *'will make provision for the Local Government Pension Scheme, in line with their responsibility for the investment and governance of the LGPS'*.

In line with the intention to decarbonise the Fund and the continuing approach to take steps to embed climate risk considerations into the Fund's governance arrangements, the Chair was pleased to advise that the Fund had been voluntarily publishing these disclosures for the last 4 years and the latest report was published on the website.

The Taskforce for Climate-Related Financial Disclosures, of which the Fund was a supporter, recommended the measurement and disclosure of a metric known as the weighted average carbon intensity (WACI). The WACI provided an indication of a portfolio's exposure to carbon intensive companies. Over the four years the Fund had measured this metric, the Fund's WACI had been significantly below the benchmark WACI, with both the benchmark and the Fund's WACI trending downwards since 2018. Currently the Fund's holding were 25% less carbon intensive than the market. In addition to this, the Fund was also the biggest LGPS investor in renewables. Members were informed that a representative of Trucost would be presenting later in the agenda, to provide an independent measure of the Fund's position and the second report on responsible investment activity during the quarter.

With regard to MHCLG regulations, the Chair informed the Panel that on 26 August the latest partial response to the May 2019 consultation, 'changes to the local valuation cycle and management of employer risk' had been published. The accompanying amendment regulations had also been made and were due to come in to force from 23 September 2020. The new regulations provided more flexibility to funds to manage employer risk in three key areas, via firstly, inter-valuation reviews of employer contributions, secondly spreading of exit debts and thirdly Deferred Debt Agreements. The regulations required funds to have policies in place around these new powers and MHCLG intended to develop guidance in collaboration with Scheme Advisory Board (SAB) and CIPFA. The speed at which the regulation had been drafted and put into force reflected the concern around administering authorities and employers being able to manage and mitigate risks arising from the COVID-19 pandemic.

The Chair further informed Members that the government first announced plans to cap exit payments in the public sector in 2015 and, on 10 April 2019, HM Treasury launched a consultation on draft regulations to implement the cap. HM Treasury published its response to the consultation on 21 July 2020. It was now understood that government intended to have the cap implemented before the end of the calendar year. The exit payment cap was set at a total of £95,000 and wo9uld apply to all public sector employers. Exit payments included redundancy payments, severance payments and pension strain costs, which arose when an LGPS pension was paid unreduced before a member's normal pension age. It appeared that Statutory Redundancy Payments were affected under the proposals also, and every person who was made redundant would be affected, rather than just the better paid, as originally suggested by the cap. Under the proposed new rules, anyone who was made redundant over 55 would have to choose between taking unreduced pension (and then losing their Statutory Redundancy entitlement) or take their statutory redundancy but have their pension either reduced or deferred. All this was regardless of the size of their exit package. The MHCLG consultation was not clear on this, and the impact on statutory redundancy had only become apparent.

This exit cap had implications not only for employees but also for the Fund. Currently the pension strain cost that an employer paid on redundancy of a member of the age of 55, was calculated at a local fund level using factors provided by the actuary, which reflected local funding assumptions and risks. The local approach to calculating the strain meant that members in different funds with the same accrued pension may have a different strain cost to take into account in the calculation of the exit payment limit. Therefore, MHCLG had asked the Government Actuary's Department (GAD) to produce standardised factors for use in these calculations in order to remove the inequality between members in different funds. However, this would lead to less accurate

assessments of the strain costs for the employers and could result in employers paying less in strain costs at the time of the exit. Any shortfalls would feed into an employer's position at the next triennial valuation and may result in contribution increases at that time.

The Chair explained that, although this policy was first announced back in 2015, there was now a very short timeframe for implementation and for the required changes to Regulations to be made. Any member leaving from an employer subject to the cap, after the end of the year, would have to have the employer strain cost calculated using the new standardised strain factors when available and members' pensions reduced subsequently. As a result, it would be difficult to provide redundancy cost estimates to employers over the next few months. There would also be two different processes for early retirements. Employers who were outside of the public sector exit cap had members who were still entitled to unreduced benefits on redundancy regardless of the strain cost, which the employer must meet in full. The Chair added that it was imperative to ensure that stakeholders were sighted on these changes and consultations as well as prepare for the work arising across the whole fund and for the Actuary.

22. DECLARATIONS OF INTEREST

There were no new declarations of interest submitted by Members.

23. MINUTES

The Minutes of the proceedings of the meeting of the Pension Fund Advisory Panel held on 17 July 2020 were signed as a correct record.

The Minutes of the proceedings of the meeting of the Pension Fund Management Panel held on 17 July 2020 were noted.

24. 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
8, 9, 10, 11, 12, 13, 14, 15, 16, 25, 26, 27, 28, 29, 30, 31	**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.**

25. LOCAL PENSIONS BOARD

The Chair of the Local Board Councillor Fairfoull advised that the Board had a very engaging meeting. The National Knowledge Assessment was discussed, which showed that GMPF had achieved the highest score out of all participating Funds. The Board did well answering questions about pensions accounting, financial markets and investment performance.

The Board also reflected on GMPF's cybersecurity arrangements and the new cybersecurity policy that was being developed. The Chair stressed the importance of safeguarding members' data and ensuring that the cybersecurity guidance, as set out by the Pensions Regulator, was complied with. The risks were heightened due to the increased level of remote working from GMPF and its employers.

Pension scams were also discussed. Unfortunately, these scams were reported to have been increasing across the UK. The Board discussed the steps GMPF takes to protect members from falling victim to such scams.

As usual, the Board also reviewed the monitoring of late payment of contributions or late submissions of data from employers. Given the current economic difficulties it was encouraging that there had been little evidence of more employers paying late.

RECOMMENDED
That the Minutes of the proceedings of the Local Pensions Board held on 30 July 2020 be noted.

26. INVESTMENT MONITORING AND ESG WORKING GROUP

The Minutes of the proceedings of the meeting of the Investment Monitoring and ESG Working Group held on 31 July 2020 were considered

The Chair of the Working Group, Councillor Cooney, explained that both UBS and Ninety One attended the meeting and gave informative updates on their Responsible Investment activity and trading costs over the last 12 months.

UBS made reference to the energy transition, outlining the positive role that energy companies could play in driving a transition to a lower carbon energy mix. UBS had considered the impact of "stranded assets" on valuations and saw this as relatively contained from a financial perspective.

Members were also provided with an update from Hymans who presented the outcome of their climate change scenario analysis for the Fund. The analysis concluded that a rapid and concentrated policy response, leading to positive adaptation to climate change, would have the most positive impact on the funding position. Hymans observed that the results supported the work that the Fund had been doing in integrating Responsible Investment best practice into the investment strategy.

RECOMMENDED
(i) That the minutes be received as a correct record; and
(ii) In respect of Update on Active Participation in Class Actions, that the Fund adopts the approach to active participation in class actions as set out in the report.

27. ADMINISTRATION AND EMPLOYER FUNDING VIABILITY WORKING GROUP

The Minutes of the proceedings of the meeting of the Administration and Employer Funding Viability Working Group held on 31 July 2020 were considered

The Chair of the Working Group, Councillor Smith, advised that a report was received on bespoke employer investment strategies and the merits of transitioning mature employers to more prudent investment strategies or adjusting current bespoke employer strategies, was discussed. The Asset-Liability Modelling produced by the Fund's actuary suggested that in the vast majority of cases the current investment strategies adopted were fit for purpose.

The consultation aiming to reform the Retail Prices Index measure of inflation (RPI) so that it aligned with the Consumer Prices Index (CPI) was also discussed. The Group were informed that if the proposed amendment to RPI went ahead as planned, this would have a number of impacts on pension schemes and pensioners and would reduce the expected returns on the inflation-linked Government bonds that GMPF owned.

GMPF's administration expenditure was reviewed, which was within the forecast budget for 2020/2021.

The administration strategic service update was also reviewed, including updates relating to member services, employer services, developments & technologies and communication and engagement. Of particular note were details of the new GMPF website launch and the efficiencies which had arisen from the introduction of monthly data collection from employers.

RECOMMENDED

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

(ii) In respect of the Administration Member Services Update, that the intention to change the leaver notification process be noted;

(iii) In respect of the Administration Developments & Technologies Update, that the new Developments & Technologies internal strategy and objectives be approved;

(iv) In respect of the Administration Communications & Engagement Update, that the Director of Pensions be authorised to procure new contact centre software within the available budget; and

(v) In respect of the Temporary Funding of Portfolios within the Designated Fund, that the following position be adopted:
'Ordinarily, the assets of the Main Fund should not be used to temporarily supplement the assets, or meet the cashflow needs, of any portfolio within the Designated Fund'.

28. POLICY AND DEVELOPMENT WORKING GROUP

The Minutes of the proceedings of the meeting of the Policy and Development Working Group held on 3 September 2020 were considered.

The Chair of the Working Group, Councillor Warrington, advised that UBS attended the Working Group to present their performance review for the year ending 30 June 2020, which was reported on in detail later in the agenda.

UBS provided a UK & European Equity Review and an Asset Allocation Review, which focused on the Value style of equity investing.

The Director of Pensions gave details of proposed enhancements to the reporting of performance for the internally managed portfolios by our officers of non-public market assets, which would build on the Performance Dashboard and leverage the capabilities of the Northern LGPS pool's common custodian.

The remainder of the meeting focused on the annual performance updates for the various internal portfolios and it was an opportunity to reflect on the great work that the officers had been undertaking for the last challenging 12 months.

Mr Powers made reference to a proposal he had made at the Policy and Development Working Group meeting held on 3 September 2020 in relation to the growing proportion of the Fund managed by the internal team, and how they add value. The benefits of the proposal would include, amongst other things, serving as a training aid and providing an audit trail. It was agreed that Officers would report back to future meetings on the proposal.

RECOMMENDED
That the Minutes be received as a correct record.

29. RESPONSIBLE INVESTMENT UPDATE Q3 2020

The Assistant Director of Pensions Investments, submitted a report providing Members with an update on the Fund's responsible investment activity during Q3 2020.

It was explained that the Fund was a signatory to the Principles for Responsible Investment (PRI). As a signatory to the PRI, the Fund was required to publicly report its responsible investment activity through the PRI's 'Reporting Framework'.

Upon becoming a PRI signatory, the Fund committed to the following six principles:

1. We will incorporate ESG issues into investment analysis and decision making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest.
4. We will promote acceptance and implementation of the Principles within the investment industry.
5. We will work together to enhance our effectiveness in implementing the Principles.
6. We will each report on our activities and progress towards implementing the Principles

A summary of the Fund's Responsible Investment activity for Q3 2020 against the six PRI principles was detailed in the report.

The Northern LGPS Stewardship Report and the LAPFF Quarterly Engagement Report for Q3 2020 were attached as appendices to the report.

Members were informed that officers of the Fund completed the annual carbon footprinting exercise of its listed equity and corporate bonds during the quarter. The backward-looking analysis took a snapshot of the holdings as at 31 March each year and the carbon footprint was measured using an external provider. The forward-looking measure evaluated holdings as at 31 December each year and companies were assessed on their alignment to a sub-2°C global temperature increase based on publicly available plans.

As referred to by the Chair in her opening remarks, the Taskforce for Climate-Related Financial Disclosures (TCFD), of which the Fund was a supporter, recommended the measurement and disclosure of a metric known as the weighted average carbon intensity (WACI). The WACI provided an indication of a portfolio's exposure to carbon intensive companies.

The Fund's WACI over time was displayed in a graph in the report. Over the four years the Fund had measured this metric, the Fund's WACI had been significantly below the benchmark WACI, with both the benchmark and the Fund's WACI trending downwards since 2018.

RECOMMENDED
That the content of the report be noted.

30. APPROACH TO CLIMATE RISK

David Feroce of Trucost presented before Members and explained the scope of the work commissioned by GMPF to conduct a carbon footprint analysis of specific portfolios.

Discussion ensued with regard to the content of the presentation and the Advisors and Members commented on the complex nature of investment decisions, whilst continuing to strive for an orderly and just transition to a net zero emissions economy.

The Chair thanked Mr Feroce for an informative presentation.

RECOMMENDED
That the content of the presentation be noted.

31. CARBON FOOTPRINTING

Consideration was given to a report of the Assistant Director of Pensions Investments, providing an update on the Fund's Carbon Footprinting Assessment of its active equity and corporate bond holdings. The report also provided a 'mapping' exercise of the Fund's holdings against analysis undertaken by the Transition Pathway Initiative, a global, asset-owner led initiative which assessed companies' preparedness for the transition to a low carbon economy.

The report concluded that Carbon footprinting techniques had improved over recent years, as the availability of data improved, and methodologies became standardized. However, many investors considered them to be a 'blunt' tool and disclosure of data remained open to improvement although disclosure had improved since last year. To further understand the environmental impact of the Fund there was a need to widen the range of asset classes and include Scope 3 emissions. This could be done as technologies improved and more data became available to be able to better measure emissions.

For the Fund, the findings of the annual carbon footprinting exercises represented a significant step in fulfilling the following aims:

- Understanding portfolio exposure to climate risk;
- Identifying and tracking companies for engagement; and
- Communicating both internally and externally, including engagement with companies and Fund Managers.

Taking the results of the carbon footprint along with the engagement via LAPFF, CA100+,TPI, IIGCC and PRI the Fund could take a holistic approach in tackling climate change with the aim of reducing carbon emissions.

RECOMMENDED
That the content of the report be noted.

32. POOLING UPDATE

The Assistant Director of Pensions, Funding and Business Development submitted a report providing an update on the activities of the Northern LGPS Pool and relevant national pooling developments.

It was reported that, on 3 January 2019 MHCLG released new draft statutory guidance on LGPS asset pooling for 'informal' consultation. Parties that were consulted included pools, administering authorities and local pension boards. The guidance was intended to replace previous pooling guidance, in particular the LGPS Investment Reform Criteria and Guidance issued in November 2015 ('the 2015 guidance').

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 has 6 sections covering; structure and scale, governance, transition of assets to the pool, making new investments outside the pool, infrastructure investment and reporting.
Government was yet to publish a response to the consultation, likely due in part to the court case described in the report; and the 2015 guidance therefore remained in force.

It was further reported that in September 2016, the Secretary of State for MHCLG issued guidance for Administering Authorities on preparing and maintaining an Investment Strategy Statement. The guidance was made under wide ranging powers granted by the Public Service Pensions Act 2013. The guidance stipulated that it was inappropriate to pursue boycotts, divestment and sanctions which were contrary to UK Government policy.

Shortly after the guidance was issued it was challenged by two claimants, including the Palestine Solidarity Campaign. They argued the Secretary of State did not have the power to impose such investment restrictions on administering authorities. The case was recently referred to the Supreme Court who ruled that the guidance was unlawful as MHCLG had gone beyond its original remit under the Public Service Pensions Act 2013 by establishing what LGPS funds could invest in, whereas the power in the 2013 Act only allowed MHCLG to set out how administering authorities should approach investment decisions.

The outcome of the case brought into question the ability of Government to introduce prescriptive pooling guidance, such as that issued for consultation in January 2019, without a change to primary legislation.

Updates on the progress of the main ongoing workstreams for the Northern LGPS were provided in the report.

It was explained that Government requested a progress update from each of the Pools, setting out the assets transferred to the pool as at 31 March 2020 and an estimate of costs savings achieved and those expected in future. The Northern LGPS progress update was appended to the report. As at 31 March 2020 the Northern LGPS Pool had generated net cost savings of over £40m.

Members were informed that each of the partner funds in the Northern LGPS Pool was currently in the process of producing 31 March 2020 year end accounts and an annual report. Guidance on preparing the annual report was provided by the accounting body CIPFA. At their July meeting the Northern LGPS Joint Committee agreed that a Pool Annual Report be produced, which funds would have the option of including in their respective annual reports. This would act to provide some of the information to satisfy CIPFA guidance and could be used by the funds in their communications with stakeholders to provide evidence of the Pool's progress against its objectives. The current draft of the Pool Annual Report was appended to the report. The Pool Joint Committee agreed that the Fund Directors liaise with their respective Committee members to finalise the report in conjunction with their fund annual reporting process.

Details of LGPS Pooling developments nationally were also provided in the report.

RECOMMENDED
That the content of the report be noted.

33. EXIT PAYMENT CAP

A report of the Assistant Director of Pensions, Funding and Business Development, was submitted summarising the latest developments regarding the proposed cap on exit payments for public sector employees leaving employment, as already referred to in the Chair's opening remarks.

It was explained that on 10 April 2019 HM Treasury opened a consultation on restricting exit payments in the public sector, including local government. The consultation subsequently closed on 3 July 2019. HM Treasury responded to the consultation's findings on 21 July 2020.

Government legislated for a cap of £95,000 on exit payments in the public sector in the Small Business Enterprise and Employment Act 2015 as amended by the Enterprise Act 2016. The 2015 act set out the duty to implement the cap through secondary legislation. Following HM Treasury's consultation response and the overall commitment to the £95K Exit Cap, the Ministry of Housing, Communities and Local Government ('MHCLG') published an LGPS specific consultation on how to introduce the exit cap measures in the LGPS. This consultation was released on 7 September 2020, with a deadline for responses of 9 November 2020. The exact date for the commencement of the £95K exit cap was still to be determined, but it was expected to be in force by the end of 2020 should there be no further complications.

The original consultation was formulated to stop large pay-outs to public sector workers, which Government considered to be unfair to tax payers. HM Treasury cited in its consultation that payments at and above £100,000 cost £0.2 billion in 2016-2017. The exit cap aimed to limit the total amount of exit payments made to a person, in respect of a relevant public sector exit, to £95,000. It had now been clarified that the cap would apply to the following exit payments:

- any payment on account of dismissal by reason of redundancy;
- any payment on voluntary exit;
- any payment to reduce or eliminate an actuarial reduction to a pension on early retirement or in respect of the cost to a pension scheme of such a reduction not being made;
- any severance payment or other ex gratia payment;
- any payment in respect of an outstanding entitlement;
- any payment of compensation under the terms of a contract;
- any payment in lieu of notice; and
- any payment in the form of shares or share options.

In HM Treasury's response it clarified that it would apply the exit cap to pensions despite several respondents suggesting that this would unfairly impact long-serving but modestly paid members. HM Treasury's reasoning for the decision was that pension strain costs were usually one of the biggest components to an employees' exit payment and therefore should be within the scope of the exit cap.

In the consultation response HM Treasury also provided other clarifications such as the intention to introduce the cap in one phase as opposed to several phases as was originally intended. Likewise, it provided some clarification on the order of payments when a public sector exit event occurred; the leaving employee must receive their statutory redundancy payment in precedence over other 'exit payments'. There was a waiver mechanism that allowed employers to waive the exit cap subject to compliance with the directions given by HM Treasury or the specific consent of HM Treasury.

Some of the proposed changes had already been published in earlier consultations, notably the overall Government Response in February 2016. Building on that, the consultation set out the following as the proposed approach for public sector employers within the LGPS:

A general reform of redundancy payments, to involve a maximum of three weeks' pay per year of service, an overall ceiling of 15 months' pay and a maximum salary of £80,000 p.a. which could be used in the calculation.

Under the existing LGPS Regulation S30(7); if a member after reaching the age of 55 was made redundant from their employment or employment was terminated by mutual consent on grounds of business efficiency then they were entitled to an immediate unreduced pension. This could lead to large early retirement "strain costs" for employers. The "strain cost" was effectively the difference in value between the cost of the unreduced pension and the cost of a reduced pension assuming the standard actuarial reduction to reflect early payment had been applied.

MHCLG was proposing that the LGPS Regulations be amended to incorporate the following provisions:

- That strain costs could not exceed the overall cap contained in the Exit Payment Regulations (£95k);
- Strain costs would be further reduced by the value of any Statutory Redundancy Payment required to be paid (which the employee would still receive as a cash payment);
- Where the employer paid any amount of strain cost in respect of an employee's exit, an employer may not grant an employee any discretionary redundancy payment;
- A further reduction would be made to reflect any voluntary payments made to cover grant of additional pension under regulation 31 of the LGPS Regulations 2013;
- Any reduction in the strain cost due to the above limitations may be made up by the worker from his own resources;
- The member would receive an actuarially adjusted pension benefit in line with the revised strain cost under these suggested provisions;
- Members could also opt for a standard actuarial reduction on early retirement to keep their other exit payments, or to become a deferred member of the Scheme with standard actuarial reductions applying at a future retirement date.

It was explained that the above would apply to different employers in different ways. In particular the reform of redundancy payments would apply to local authority employers in England and Wales. The £95,000 cap would apply to those employers which were the responsibility of the UK government and designated as "public sector" (the Scottish government, Welsh government and Northern Ireland Executive had some flexibility to determine policy for devolved employers). It was unclear from the consultation whether the reforms involving the strain costs would apply across the LGPS in England and Wales and would affect all employers in those Funds (i.e. not just public sector employers).

Whist the restrictions for workers breaching the £95,000 cap had been well-publicised, there was a more wide-ranging effect, which applied to all redundancies over age 55 and was unexpected. An example was given and it was explained how the proposals could materially affect any member.

The issues for LGPS funds and employers would be wide-ranging. They would affect governance arrangements, retirement processes, calculations, and communications with both employees and employers. The main areas for consideration were detailed and discussed.

With regard to next steps, it was proposed that the Director of Pensions would submit a consultation response on behalf of the GMPF Management Panel highlighting the issues set out in the report. Panel members were encouraged to share the views of their authority or trade union for incorporation into the response. The GMPF Local Pensions Board were meeting on 1 October and it may also wish to submit a response to the consultation or to provide its support to the Management Panel's response.

Further clarity would be sought from MHCLG regarding which employers were in scope for each of the proposed changes. Notification of the consultation and the proposed changes would be sent to employers and employers would be encouraged to submit their own response to the consultation.

Discussion ensued with regard to the information provided and Members and employee representatives commented on the worrying and complex nature of the issues raised in the report and the relatively brief timeframe to respond to the consultation.

RECOMMENDED
That the content of the report be noted, and the proposed next steps in developing a response to the consultation and communicating with employers, be supported.

34. COVID 19 RISK MANAGEMENT AND BUSINESS PLANNING

Consideration was given to a report of the Director of Pensions providing an update on the following key items:

- The Business Plan;
- The overarching risk register; and
- Key risks and plans relating to the ongoing management of business continuity due to Covid-19.

It was explained that each year, GMPF prepared an annual business plan to provide strategic direction and to assist with the planning and monitoring of performance. Details of the proposed Business Plan, including the strategic objectives of GMPF for the current year, were detailed in the report.

Evaluating risk and monitoring the effectiveness of controls was a vital part of good governance and ran alongside business planning activities. The Fund needed to be able to demonstrate its strength in this area to relevant external parties, such as the Pensions Regulator. The overarching risk register was reviewed and updated at least once each quarter and the latest version was included in the report.

Members were informed that business continuity arrangements remained essentially unchanged from those outlined at the last Management Panel meeting in July 2020. There were several key areas of risk that continued to be closely monitored. There were also areas where plans were being put in place to ensure work continued to be carried out effectively.

The health and wellbeing of colleagues continued to be a high priority and further work had been carried out recently to review and update all service level and individual risk assessments relating to the risk posed by Covid-19 and by the move to home-working. There continued to be a high level of emphasis on ensuring managers focused on enabling good communication with their teams and that all colleagues had access to any support they might need at this time. Plans to prioritise and implement additional technologies to support homeworking and strengthening business continuity arrangements were in place and work on this area would continue in the next quarter.

The Senior Management Team had continued to monitor communications issued by pension industry partners and linked organisations, and to attend webinars and similar online events in order to keep up to date with the latest news and thinking.

Each Assistant Director then addressed the Panel and gave an update with regard to the current situation in their area of the service as follows:

Administration – the Assistant Director of Pensions Administration reported that the day to day running of the section and the completion of tasks remained essentially unchanged. Most activities were being carried out as normal and completed within the usual timescales.

The number of notifications of deaths received had continued to reduce, with numbers being around expected levels for this time of year. Processing times for all payments are within internal targets, with more than 97% of all pension payment case types being processed within 10 working days. Waiting times for calls remained high, mainly due to the issue of annual benefit statements for contributors and calls relating to the address tracing exercise that was being carried out. Work had progressed on the assessment of new telephone software to provide greater functionality and reporting and a decision regarding this was expected to be made shortly.

Work on other key projects had also continued. There had been further enhancements to the new website, pension savings statements were being issued to those who exceeded the annual allowance and a program of online events for members was underway, with over 450 members having booked onto one of these so far.

The main areas of risk that continued to be closely and regularly monitored were around resource, staff wellbeing, system availability and cyber security. Colleagues had been encouraged to attend an online wellbeing course being delivered by HR, and they had also all been asked to revisit and update all risk assessments to ensure they are up to date. Reminders had been issued about the importance of remaining cyber aware and colleagues had been asked to refresh their knowledge on the relevant policies that applied to cyber security, data protection and working from home safely.

One of the main challenges going forward would be to maintain good communication and engagement among teams and colleagues. It would be important to ensure teams did not feel isolated or detached from their colleagues as home working continued and were able to maintain and build relationships across teams and sections. A further challenge will be to ensure effective planning for some of the large-scale changes and projects that were to be undertaken. These would be areas of focus for the team managers over the coming quarter.

Employer Funding – The Assistant Director of Pensions, Funding and Business Development, reported that, whilst many GMPF employers were likely being severely impacted by the ongoing economic restrictions, as yet there were no confirmed employer insolvencies. However, it remained likely that some GMPF employers would face insolvency over the next few months as Government support measures were unwound.

The impact of the ongoing economic restrictions would vary considerably between different sectors. Sectors expected to be severely impacted, or where considerable uncertainty remained included sport/leisure providers, bus companies and further and higher education.

There had been no noticeable change to the timeliness of contribution payments from employers and this continued to be regularly monitored and reported to the Local Pension Board.

Wherever possible, employer funding plans were tailored to the funding risk of the employer. Therefore, employers that were not tax-raising bodies or that did not have a guarantee from a tax-raising body tended to have a higher funding level and/or lower risk investment strategy. This reduced the risk of GMPF incurring material losses on unexpected employer cessation events.

Local authorities had been notified of the risks of acting as guarantor to GMPF admission bodies.

Investments – The Assistant Director of Pensions Investments provided provisional valuation and performance data for periods to 31 July 2020 and actual performance data for the quarter to 30 June 2020.

From a risk management perspective, a significant update provided since the position set out at the April 2020 meeting of the Management Panel related to cashflow. The Main Fund had a 3.2% strategic allocation to cash. The split was displayed in a table in the report along with the actual allocations as at 31 March 2020 and 31 July 2020.

The availability of actual cashflow data had allowed for experience to 31 July 2020 to be analysed. Although covering only a short period, officers had compared actual cashflow versus that estimated. The forecast of net cashflow requirements at an aggregate level had been broadly correct, albeit experience had shown that the forecast net cash requirements were slightly too high thus far.

There was an inherent difficulty in estimating private market cashflows and given current market conditions, there was likely to be a greater variance from month-to-month than had historically been the case. In addition, estimates of net cashflow would be very sensitive to the assumptions made and the use of alternative assumptions could lead to materially different estimates.

As a result of the experience to date and the ongoing heightened uncertainty, officers did not propose any revisions to the previously provided estimate nor the proposed course of action; that

was, no action was proposed in terms of raising additional cash or investing surplus cash and the tactical overweight to internal cash would be retained. This position would be kept under review at forthcoming meetings of the Policy and Development Working Group and the Panel.

Local Investments, Property and Direct Infrastructure/Accountancy and Legal – The Assistant Director of Pensions, Local Investments and Property, explained that for direct property, rental collections continued to be severely impacted by both the underlying economic effects of the crisis and government advice effectively suspending recovery action on rents. This is focused predominantly on the retail sector despite some resumption of activity. The restrictions on recovery action applied until 30 September 2020.

For development properties, construction was pretty much back at normal speed. The key issues remained working through effects on overall profitability. In the residential market, sales and rentals in suburban areas were very strong. Demand for rental property in city centres remained high but sales were weak.

There was no specific change for the impact of Covid 19 on GLIL or Impact portfolio and Policy & Development Working Group received reports on these portfolios at its meeting on 3 September 2020.

The delivery of Accountancy and Legal services remained consistent with Administration and was going well with very little service disruption as the measures put in to ensure resilience had proved effective. The focus was on anticipating issues ahead and ensuring that this continued, whilst maintaining longer term development of staff and processes.

The report concluded by giving details of the risk log for this specific business continuity event and the high level risk register, both of which were appended to the report.

The Chair thanked the Director and officers for a very informative and comprehensive report.

RECOMMENDED

(i) That the content of the report, including the risk register and the controls in place to mitigate each risk, be noted; and

(ii) That the Business Plan, as appended to the report, be approved.

35. INVESTMENT MANAGEMENT ARRANGEMENTS

The Assistant Director of Pensions Investments submitted a report, which considered the Fund's Investment Management arrangements and the appointments of the Fund's external active Securities Managers.

It was explained that the Investment Management arrangements of the Fund reflected a wide range of significant decisions concerning how the Fund chose to position itself in terms of the management of its assets. These significant decisions included, inter alia, a consideration of the choice of benchmark and the detail of any bespoke benchmark, and whether, for example, to adopt active versus passive management or specialist versus multi-asset management. A sequential approach to considering these matters was deemed to be beneficial.

The proposed areas that officers would focus on as part of the review of Investment Management arrangements were detailed and those which officers considered a higher priority, were identified. Progress against these ‘areas of focus’ would be reported to future Panel meetings.

The Advisors endorsed the areas of priority identified particularly in respect of the review of Value Investing and sought further clarification in respect of the negotiation of fee arrangements, going forward.

RECOMMENDED
That the content of the report be noted.

36. 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 2 (2020) Performance Dashboard was summarised. The current market environment was characterised by huge uncertainty and the potential for prolonged periods of high volatility. Financial markets continued to be driven by developments in the COVID-19 pandemic, and the economic effect of lockdown measures imposed around the world. Stock correlations and factor divergence remained high but well down on Q1 2020.

The second quarter witnessed a striking disconnect between the best performance by global equity markets in twenty years and the worst global economy in living memory due to the impact of the COVID-19 pandemic. Although economic data remained negative, it was a very strong quarter for equity and corporate bond markets as governments provided unprecedented levels of support, central banks implemented previously announced easing and economies began to re-open. Global equity indices rose 18.4% in local currency terms. Technology was again the best performing sector and, after a relatively resilient first quarter, defensive sectors, such as utilities, telecoms and healthcare, had lagged.

Sovereign bond yields changed little in the US and Germany but UK 10-year gilts had fallen a further 0.2%. Index-linked gilt yields had fallen further than conventional gilt yields, resulting in a slight rise in implied inflation. Corporate bond spreads spiked in the first quarter of the year, but the expansion of central bank support led to a substantial tightening of spreads. Global speculative-grade credit spreads fell from 9.2% p.a. to 6.4% p.a., further supported by the specific details of the Fed’s purchases and a rise in oil prices from $22 to $41 per barrel (energy companies comprise c.10% of the US high yield market)

Over the quarter total Main Fund assets increased by £2,200 million to £23.2 billion. Allocations to alternative assets, whilst increasing, remained below their long-term targets. Funding continued apace with allocations expected to increase further over the coming years. Following the review of Investment Strategy, further changes to the ‘realistic’ strategic allocations to alternatives would be made in Q3 2020. Within the Main Fund, there was an overweight position in cash (of around 1.6% versus target respectively). The property allocation continued to be underweight (by around 3.0%) versus its benchmark. This was more than offset by an overweight position in Alternatives.

On a cumulative basis, over the period since September 1987, the Main Fund had outperformed the average LGPS, equating to over £3.0 billion of additional assets.

The Main Fund underperformed its benchmark over Q2 2020. Relative performance over 1, 3 and 5 years was now negative. The Main Fund was broadly in line with its benchmark over 10 years and performance since inception remained strong.

Active risk of the Main Fund was broadly consistent at around 1% over 1, 3, 5 and 10 years. Risk in absolute terms (for both portfolio and benchmark) increased substantially over Q2 2020 and remains above that observed historically. This was largely a reflection of the significant volatility seen in markets due to the coronavirus pandemic. Whilst risk was expected to remain elevated, it had reduced over Q2 2020 and was expected to moderate over the coming months as the effects of the pandemic subsided.

As at the end of Quarter 2; the Fund’s active securities managers had underperformed their

respective benchmarks over a 1 year and 3 year period. The long-term performance of one Manager remained strong, however, performance over the past 2 years had been poor, resulting in negative relative performance over 1, 3 and 5 year periods. The performance history of the Factor Based Investing portfolio was extremely short (less than 1 year), so at this very early stage no conclusions could be drawn with regard to performance.

RECOMMENDED
That the content of the report be noted.

37. IPD PROPERTY FUND INDICES – WHAT IT ALL MEANS

Luke Pakes of MSCI attended before Members and gave a detailed presentation in respect of the performance of property as an asset class and the relative performance of GMPF portfolios.

The Chair thanked Mr Pakes for a very interesting and informative presentation.

RECOMMENDED
That the content of the presentation be noted.

38. GMPF STATEMENT OF ACCOUNTS AND ANNUAL REPORT 2019-2020

The Assistant Director of Pensions, Local Investments and Property, submitted a report, which provided an update on the progress of governance arrangements for the audit of GMPF Accounts 2019/20, following the last report to the Panel in July 2020.

It was reported that the auditors had been conducting their work on the GMPF Audit and IAS 19 assurance during July and August. At the present time there were no indications of material concerns. Letters of Assurance from the management of the Fund and those charged with governance would be provided to the auditors.

At completion of audit, a findings report would be agreed with management and would be presented to Tameside Audit Panel ahead of the statutory deadline of 30 November 2020. Following this, the Annual report would be published ahead of statutory deadline of 31 December 2020.

RECOMMENDED
That the content of the report be noted.

39. FUTURE DEVELOPMENT OPPORTUNITIES

Trustee development opportunities were noted as follows:

PLSA Annual Conference, ACC Liverpool	**14 – 16 October 2020**
Schroders Trustee Training, Leeds	**20 November 2020**
LAPFF Annual Conference, Bournemouth	**2 – 4 December 2020**

40. DATES OF FUTURE MEETINGS

Management/Advisory Panel	**11 Dec 2020** **19 Mar 2021** **16 July 2021** **17 Sept 2021** **10 Dec 2021** **18 Mar 2022**

Local Pensions Board	**1 Oct 2020 14 Jan 2021 8 April 2021 29 July 2021 30 Sept 2021 13 Jan 2022 7 April 2022**
Policy and Development Working Group	**26 Nov 2020 4 Mar 2021 24 June 2021 2 Sept 2021 25 Nov 2021 3 Mar 2022**
Investment Monitoring and ESG Working Group	**2 Oct 2020 22 Jan 2021 16 April 2021 30 July 2021 1 Oct 2021 21 Jan 2022 8 April 2022**
Administration and Employer Funding Viability Working Group	**2 Oct 2020 22 Jan 2021 16 April 2021 30 July 2021 1 Oct 2021 1 Jan 2022 8 April 2022**

CHAIR