GREATER MANCHESTER PENSION FUND MANAGEMENT PANEL

18 September 2020

Commenced:	**10.00am**	**Terminated:12.40pm**
Present:	**Councillor Warrington (Chair)** **Councillors: Cooney, Cunliffe (Wigan), Grimshaw (Bury), Jabbar (Oldham), Mitchell (Trafford), Patrick, Ricci, Sharif, M Smith, Taylor (Stockport), Ward and Ms Herbert** **Fund Observers:** **Councillor Pantall (Stockport)**	
Apologies for Absence:	**Councillors Andrews (Manchester), Barnes (Salford), Drennan, J Fitzpatrick, J Homer, Newton, O'Neill (Rochdale), Parkinson (Bolton), Wills**	

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 acc3essible 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 noted.

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

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 beneficiaries and/or tax payers.**

25. LOCAL PENSIONS BOARD

The Minutes of the proceedings of the meeting of the Local Pensions Board held on 30 July 2020 were considered.

RESOLVED
That the recommendations of the Pension Fund Advisory Panel on this matter be adopted

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

RESOLVED
That the recommendations of the Pension Fund Advisory Panel on this matter be adopted.

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

RESOLVED
That the recommendations of the Pension Fund Advisory Panel on this matter be adopted.

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

RESOLVED
That the recommendations of the Pension Fund Advisory Panel on this matter be adopted.

29. RESPONSIBLE INVESTMENT UPDATE Q3 2020

A report of the Assistant Director of Pensions Investments, was submitted.

RESOLVED
That the recommendations of the Pension Fund Advisory Panel on this matter be adopted

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.

RESOLVED
That the recommendations of the Pension Fund Advisory Panel on this matter be adopted.

31. CARBON FOOTPRINTING

A report of the Assistant Director of Pensions Investments, was submitted.

RESOLVED
That the recommendations of the Pension Fund Advisory Panel on this matter be adopted.

32. POOLING UPDATE

A report of the Assistant Director, Funding and Business Development, was submitted.

RESOLVED
That the recommendations of the Pension Fund Advisory Panel on this matter be adopted.

33. EXIT PAYMENT CAP

A report was submitted by the Assistant Director of Pensions Investments.

RESOLVED
That the recommendations of the Pension Fund Advisory Panel on this matter be adopted.

34. COVID 19 RISK MANAGEMENT AND BUSINESS PLANNING

A report of the Director of Pensions was submitted.

RESOLVED
That the recommendations of the Pension Fund Advisory Panel on this matter be adopted.

35. INVESTMENT MANAGEMENT ARRANGEMENTS

A report of the Assistant Director of Pensions Investments was submitted.

RESOLVED
That the recommendations of the Pension Fund Advisory Panel on this matter be adopted.

36. PERFORMANCE DASHBOARD

A report of the Assistant Director of Pensions Investments was submitted.

RESOLVED
That the recommendations of the Pension Fund Advisory Panel on this matter be adopted.

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.

RESOLVED
That the recommendations of the Pension Fund Advisory Panel on this matter be adopted.

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

A report of the Assistant Director of Pensions, Local Investments and Property was submitted.

RESOLVED
That the recommendations of the Pension Fund Advisory Panel on this matter be adopted.

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