GREATER MANCHESTER PENSION FUND - INVESTMENT MONITORING AND ESG WORKING GROUP

2 October 2020

Commenced: 09:00 **Terminated:** 10:40

Present:	Councillors Cooney (Chair), Andrews, Ward, Ricci, M Smith, Parkinson, O'Neill, Mitchell, Taylor, Mr Drury, Mr Llewellyn and Mr Flatley Fund Observer Councillor Pantall	
In Attendance:	Sandra Stewart	Director of Pensions
	Tom Harrington	Assistant Director of Investments
	Paddy Dowdall	Assistant Director of Local Investments and Property
	Neil Cooper	Head of Pension Investment (Private Markets)
	Michael Ashworth	Senior Investments Manager
	Kevin Etchells	Senior Investment Manager (Property)
	Andrew Hall	Investment Manager (Local Investments)
	Mushfiqur Rahman	Investments Manager
	Lorraine Peart	Investments Officer
	Richard Thomas	Investments Officer
Apologies for Absence:	Councillors J Fitzpatrick, Newton, J Homer, Jabbar, Barnes, Mrs Fulham Fund Observer: Councillor Ryan	

33. DECLARATIONS OF INTEREST

There were no declarations of interest.

34. MINUTES

The minutes of the meeting of the Investment Monitoring and ESG Working Group on the 31 July 2020 were accepted as a correct record.

35. RESPONSIBLE INVESTMENT UPDATE

Consideration was given to a report of the representatives of PIRC on the 2020 PIRC Consultation Pay for a New World.

Alan McDougall, Managing Director of PIRC stated that it was commonly accepted that the current approach to executive pay had been broken for many years. There had been a consistent theme that quantum of pay did not matter and that the directional effect of the method of pay schemes was what counted. It was stated that PIRC research in 2018 showed that companies that had spent the most on remuneration consultancy had amongst the highest levels of opposition to pay at annual general meetings.

It reported that PIRC believed that the alignment with shareholders needed to be retired. Not only did schemes not align but executives were employees of the company with duties to it. The duties included the new s172 duties should already set the alignment.

PIRC's proposed new pay policy was summarised to the Working Group, Alan MacDougal outlined the 5 principles for a new approach to pay policy.

1. A going rate true market salary not mark to model.
2. Director service contracts approved by a vote.
3. A single profit pool to be distributed company wide, to be voted on as to the amount of the pool and distribution method.
4. Exceptional bonuses only paid as a result of an event that had occurred worthy of a bonus and to be put to the vote.
5. No LTIPs.

It was highlighted that PIRC had concluded that the concept of alignment with shareholders for pay purposes was a fallacy because the risk and responsibilities were different.

It was reported that the Pay for a New World proposal had been sent to the FTSE 350 and PIRC's clients, responses were expected by the end of October.

Members of the Working Group discussed the importance of job descriptions, which detailed the responsibilities of the executives.

RECOMMENDED
That the report be noted.

37. PRINCIPLES FOR RESPONSIBLE INVESTMENT REPORTING FRAMEWORK

Consideration was given to a report of the Director of Pensions / Assistant Director of Pensions for Investments.

As a direct signatory to the PRI, the Fund was required to publicly report on its responsible investment activity through the PRI's 'Reporting Framework'. The Fund was required to report its responsible investment activity to the PRI for 2019 by 31 March 2020. This report set out the principles of responsible investment and summarised the feedback received on the responses to the PRI's 'Reporting Framework.

As at 31 March 2020, there were 3,038 PRI signatories representing $103.4 trillion of assets. The PRI described the six Principles as "voluntary and aspirational". For most signatories, the commitments were a work-in-progress and provided direction for their responsible investment efforts, rather than a checklist with which to comply.

It was reported that in July 2020, the Fund received feedback on its responses to the PRI's 'Reporting Framework' in relation to its responsible investment activity for 2019. The Fund received an 'Assessment Report'.

It was stated that the asset classes held by the Fund determine the sections of the PRI '*Reporting Framework*' that the Fund was required to report on, and consequently the sections where the Fund has been assessed. The Fund's Fixed Income - Securitised holdings were assessed for the first time this year.

The Fund exceeded the PRI median score in the Strategy and Governance and the Listed Equity - Active Ownership modules where the Fund draws heavily on the work undertaken with the Local Authority Pension Fund Forum. The Fund matched the PRI median score for the Listed Equity and government Fixed Income modules.

Whilst there was no change to the Fund's PRI score from the previous year, due to an improvement in the PRI median score the Fund scored a grade lower than the PRI median score for the corporate and securitised Fixed Income modules.

Analysing the breakdown of the scoring, the Fund scored lower than the PRI median score in the Selection, Appointment & Monitoring questions of the Fixed Income modules. The Fund's Investment Management arrangements involved a small number of deep relationships, with extremely low turnover of external managers. As no selection or appointment of a Fixed Income external manager had taken place for a number of years, it had not been possible to demonstrate improvements in the Fund's selection and appointment process from an ESG perspective.

The Fund had investigated potential enhancements to the monitoring of its Fixed Income investments in relation to ESG issues.

RECOMMENDED
That the report be noted.

36. AVISON YOUNG / GMPVF PRESENTATION

Consideration was given to a presentation of Avison Young, which detailed an overview of the position of the GMPVF portfolio.

Gareth Conroy Director of Avison Young outlined the financial performance of the GMPVF portfolio. The financial outlook over different risk categories Income Generating, Equity, Mezzanine and Senior Debt. The amount that could be spent over the different categories and the amounts committed to. Further, Members of the Working Group were presented with the investments against different property sectors including, Office, Suburban Residential and City Residential. Gareth Conroy presented the performance of the portfolio projected year by year.

Jonathan Stanlake, Director of Avison Young delivered a presentation on the Development Portfolio, which highlighted the progress of a number of different properties. The presentation covered properties, which were near completion, where significant progress was due to be made and the performance of income producing properties. It was highlighted that the impact of Covid-19 on the income producing portfolio would be seen in the rent collection figures which would be produced after 29 September 2020.

It was reported that the focus for the coming year would be on affordable housing and suburban housing and sustainability and zero carbon

Members of the Working Group were presented with affordable and suburban housing investments, which had been made as part of the GMPVF portfolio, which totalled 294 new homes and £24 million.

Jonathan Gibson, Director and Head of Sustainability, detailed the work that was being taken in the wider industry on achieving "zero carbon". Members of the Working Group were given a summary of the targets and timescales that the World Green Building Council global project were working to.

A case study was presented to the Working Group of a net zero office building. The building had been designed to reduce occupier energy use, including less dense occupation, cloud computing functions over in-house servers, mixed mode ventilation, air source heat pumps and increased energy efficiency through fabric design and material selection which had reduced embodied carbon as well. It was highlighted that the additional cost a net zero building was estimated to be 3.5%-5%, this was for a building that was on average 65% more efficient, this could result in a significant operational saving.

RECOMMENDED
That the report be noted.

38. MANCHESTER CITY CENTRE RESIDENTIAL MARKET

Consideration was given to a report of the Director of Pensions / Assistant Director of Pensions for Local Investments and Property.

Following an earlier report produced in 2018, the Fund had commissioned an updated report from Salford and Ulster Universities, to provide an independent view on the current Manchester City Centre Residential Market and expected future demand. Also provided, was the presentation delivered by the report authors to the Funds Investment Committee meeting 14 September 2020, on the report findings.

The Investment Manager for Local Investments stated that population growth over previous years had been concentrated in the city centre. Between 2006-2016 the population doubled in Manchester City Centre , the population was nearing 600,000 and was one of the fastest growing cities in Europe. Members were presented with a map of the areas, which had been experiencing large population growth between 2006-2016.

It was explained that previously Manchester had outperformed other English cities when compared to growth in the economy and growth in employment. However in recent years Manchester had not outperformed other cities but had still performed well.

The Investment Manager for Local Investments summarised the policy environment, it was stated that the Council had reaffirmed its commitment to deliver 50,000 affordable homes through to 2037. It was reported that prices of city centre apartments had risen steadily however over the last 12 months the rate of increase in prices had reduced.

It was reported that there was a glut of new stock in some sub markets, the new build price growth had slowed. Rental markets had performed well, rent had continued to rise over the last 2 years with a rental premium for the first 18 months.

The future pipeline supply was detailed to the Working Group, it was highlighted that the vast majority of the apartments under construction were scheduled to complete in 2020. It was explained that the residential growth had peaked. Future residential development would likely be affordable accommodation, which would be difficult to achieve in the city centre.

It was stated that going forward investors and developers would be required to diversify their future schemes and to explore opportunities beyond build to rent. The continued growth of the city as a driver of the regional economy provided opportunities for increased provision of quality office and leisure space.

RECOMMENDED
That the report be noted.

39. URGENT ITEMS

There were no urgent items.

CHAIR