

Core Belief Statement

Greater Manchester
Pension Fund

March 09



CORE BELIEF STATEMENT

This is the Core Belief Statement (“the Statement”) of the Greater Manchester Pension Fund (“the Fund” or “GMPF”), which is administered by Tameside MBC (“the Administering Authority”).

It has been prepared by the Administering Authority in collaboration with the Fund Actuary, Hymans Robertson LLP, and after consultation with the Fund’s investment Advisors and Managers.

The objective of the Statement is to set out the Fund’s key investment beliefs. These beliefs will form the foundation of discussions, and assist decisions, regarding the structure of the Fund, strategic asset allocation and the selection of investment managers.

1. Investment Governance

- 1.1 The Fund has the necessary skills, expertise and resources to internally manage some assets, such as property, private equity and cash.
- 1.2 Investment consultants, independent advisors and officers are a source of expertise and research to inform Management Panel decisions.
- 1.3 The Fund is developing its governance structure in order to implement tactical views more readily, but acknowledges that market timing is very difficult.
- 1.4 There can be a first mover advantage in many areas, but it is difficult to exploit and requires the Fund to be willing to take on ‘unconventional risks’.

2. Long Term Approach

- 2.1 The strength of the employers’ covenant allows a longer term deficit recovery period and for the Fund to take a long term view of investment strategy.
- 2.2 The most important aspect of risk is not the volatility of returns but the risk of absolute loss and of not meeting the objective of facilitating low, stable contribution rates for employers.
- 2.3 Illiquidity and volatility are shorter term risks which offer potential sources of additional compensation to the long term investor. Moreover, it is important to avoid being a forced seller in short term markets.
- 2.4 Participation in economic growth is a major source of long term equity return.
- 2.5 Over the long term, equities are expected to outperform other liquid assets, particularly government bonds.
- 2.6 Well governed companies that manage their business in a responsible manner will produce higher returns over the long term.

3. Appropriate Investments

- 3.1 Allocations to asset classes other than equities and government bonds (eg corporate bonds, private equity and property) offer the Fund other forms of risk premia (eg additional solvency risk/illiquidity risk).
- 3.2 Diversification across asset classes and asset types will tend to reduce the volatility of the overall Fund return.
- 3.3 In general, allocations to bonds are made to achieve additional diversification. However, for a number of those scheme employers with mature liabilities, the Fund does pursue a bond driven liability based strategy.

4. Management Strategies

- 4.1 Passive management provides low cost exposure to equities and bonds and is especially attractive in efficient markets.
- 4.2 Active managers can add value over the long-term, particularly in relatively inefficient markets and the Fund believes that by following a rigorous approach it is possible to identify managers who are likely to add value.
- 4.3 The Fund believes that the case for value investing is compelling, but that it may result in prolonged periods of over and underperformance in comparison to a style neutral approach.
- 4.4 Active managers are expensive and fees should be aligned to the interests of the Fund rather than performance of the market.
- 4.5 Active management performance should be monitored over multi-year rolling cycles and assessed to confirm that the original investment process on appointment is being delivered and that continued appointment is appropriate.
- 4.6 Employing a range of management styles can reduce the volatility of overall Fund returns but can also reduce overall outperformance.

Version 1.0

Adopted by the Pension Fund Management Panel for Tameside MBC as administering authority for the Greater Manchester Pension Fund : March 6, 2009

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