

# Statement of Investment Principles

Greater Manchester  
Pension Fund

June 2010



*Statement of Investment  
Principles*

**(Version 2.0)**

**Adopted 11 June, 2010**

[www.gmpf.org.uk](http://www.gmpf.org.uk)

**For further information contact: [Steven.Taylor@gmpf.org.uk](mailto:Steven.Taylor@gmpf.org.uk)**

# TAMESIDE MBC

## ADMINISTERING AUTHORITY OF THE GREATER MANCHESTER PENSION FUND

### **STATEMENT OF INVESTMENT PRINCIPLES**

#### **1) Background**

- 1.1 This Statement has been prepared in accordance with the *Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009* ("the Regulations"). The Regulations require administering authorities to prepare, publish, and when appropriate revise, a written statement recording the investment policy of the pension fund; they also stipulate certain key issues which must be covered in the Statement.
- 1.2 The terms of appointments of any external fund managers are required to include a provision that the fund manager must take account of, and shall not contravene, this Statement in undertaking its management role.
- 1.3 The Local Government Pension Scheme ("the Scheme") was established by statute to provide death and retirement benefits for all eligible employees. The Scheme is a contributory, defined benefit occupational pension scheme.
- 1.4 Tameside MBC ("the Council") became the administering authority of the Greater Manchester Pension Fund ("the Pension Fund" or "the Fund") in 1987 after the abolition of the Greater Manchester County Council in 1986. The Fund covers all ten district councils of Greater Manchester and numerous other smaller employers.
- 1.5 The Statement outlines the broad investment principles governing the investment policy of the Pension Fund. In preparing the Statement, the Council has consulted those persons it considered appropriate.

#### **2) Organisation and Management Arrangements of the Fund**

- 2.1 The investment powers of the Council under the Scheme are given in the Regulations. Amongst other matters, the Regulations require the Council to have regard to both the suitability and diversification of its investments and to take proper advice in making decisions regarding the investment matters of the Fund.
- 2.2 The Council has delegated all its functions as administering authority of the Pension Fund to the Pension Fund Management Panel ("the Management Panel" or "the Panel") which routinely meets on a quarterly basis and whose Terms of Reference are detailed in the Council's "Constitution". Amongst other matters, the Panel decides on the investment policy most suitable to meet the liabilities under the Scheme and has ultimate responsibility for the investment strategy.

- 2.3 The Management Panel has in turn appointed a Pension Fund Advisory Panel and external professional Advisors, and has dedicated internal Officers of the Fund to advise it on the exercise of its delegated powers. There are also a small number of Working Groups which report quarterly to the Panel on specialist matters.
- 2.4 The Director of Pensions exercises certain delegated powers as specified in the Constitution and provides the link between the Panel, the external professional Advisors and the Fund's investment managers. Each year a Fund "Business Plan" is submitted by the Director of Pensions to the Management Panel for consideration.
- 2.5 A primary objective of the Council is to maintain a low and stable employer contribution rate. This is to be achieved by attempting to maximise the long-term investment return whilst not exceeding an acceptable degree of risk.
- 2.6 The assets of the Fund are separated into two distinct parts – a Main Fund and a Designated Fund. This separation has been made in order to reflect a major difference in liability profiles between most of the employers of the Fund and that of a small number of other employers of the Fund.
- 2.7 Having taken appropriate advice, the Management Panel has decided that a bespoke benchmark, which is biased towards equity is a suitable investment benchmark for the management of the Main Fund. Detail on the Main Fund's bespoke benchmark is included in the Fund's Annual Report and Accounts. This benchmark will be reviewed annually and when appropriate in response to significant changes in the investment environment. The Designated Fund has a bespoke benchmark which is heavily orientated towards UK index linked stock.
- 2.8 The Management Panel has delegated the management of the majority of the Main Fund's securities portfolio to regulated, external, professional fund managers whose activities are defined and constrained by detailed Fund Manager Agreements. The remainder of the Main Fund (including property, venture capital/private equity and elements of UK cash) and the Designated Fund are managed internally by Officers of the Fund. The 'Treasury Management' of all UK cash is undertaken by Officers of Tameside MBC.
- 2.9 The Main Fund is largely actively managed but has a significant element, which is passively managed on a pooled basis. The appointed external fund managers have been given individual differing active multi-asset (ex property) discretionary benchmarks reflecting their perceived skills and the relative efficiency of markets. These individual benchmarks are detailed in the Fund Manager Agreements and have been chosen so as to be consistent with the overall bespoke benchmark determined for the Main Fund.
- 2.10 Each of the Main Fund's external active fund managers has been set the target of achieving a rolling three year average performance which exceeds the average performance of their individual benchmark by 1% per annum. The Fund anticipates that in two years out of three the external active fund managers' annual performance will be within 4½% of the annual performance of their individual benchmark.

- 2.11 The fees of both of the external active fund managers consist of two elements: a fixed base fee together with a performance element which is capped at a prudent level of outperformance. The fees of the Main Fund's external passive fund manager consists of an ad-valorem base fee with no performance element.
- 2.12 The Designated Fund is passively managed on a segregated basis.
- 2.13 The investment returns of the Main Fund, its underlying component portfolios and the Designated Fund are calculated quarterly by an external, third party professional performance measurement company appointed directly by the Council.
- 2.14 The Management Panel monitors the performance of the appointed external fund managers at each of its quarterly meetings. The performance of the specialist portfolios managed internally by Officers of the Fund is monitored annually by the Panel.

### **3) The Types of Investments to be Held**

- 3.1 The Regulations require the Council to have regard to the suitability of investments and define the types of investments which the Fund is permitted to hold. The Fund operates with the lower limits on investments as defined by Regulation 14(2), except for “contributions to partnerships” where it has resolved to work to a limit of 10% under regulation 14(3). This decision was taken in order to facilitate the Fund implementing its strategic allocation to private equity, infrastructure, property and other investments where pooled vehicles offer the preferred access. This decision complies with the Regulations and will remain in place until revoked.
- 3.2 In addition to the Regulations, the Council has decided to further restrict the types of investment which the appointed external fund managers may hold and to restrict the type and extent of investment activity which they are permitted to undertake. These further detailed restrictions are extensive and are documented in a Schedule to each of the Fund Manager Agreements.
- 3.3 Fund assets currently include a UK and overseas spread of equity, fixed interest bonds (including those issued by Governments, companies and other entities), index linked bonds, venture capital/private equity and property. The Main Fund's external active fund managers are permitted limited use of certain derivatives. The Fund supplements its investment income by participating in a Commission Recapture program.

### **4) The Balance between different Types of Investments**

- 4.1 The Regulations require the Council to have regard to the diversification of its investments.
- 4.2 The overall bespoke benchmark of the Main Fund comprises a mix of different assets (broadly 75% real assets and 25% monetary assets) which is sufficient to provide adequate diversification for the Main Fund. The Fund's Annual Report and Accounts contains more detail on the overall Main Fund benchmark.
- 4.3 The strategic balance of investments takes account of the risk/return characteristics of each asset class and in particular the potential for enhanced long term returns from equity and the higher level of short term volatility associated with that asset

class. The overall bespoke benchmark provides a reasonable long-term balance appropriate to the liabilities relevant to the Main Fund and its funding position.

- 4.4 For the Main Fund, tactical asset allocation is delegated to the appointed external fund managers who must operate within asset class and country restrictions which are documented in a Schedule to the Fund Manager Agreements.
- 4.5 The bespoke benchmark of the Designated Fund has also been specifically chosen in the context of the relevant liabilities and funding position.

## **5) Risk : Measurement and Management**

5.1 The Management Panel recognises that risk is inherent in any investment activity. The overall approach is to seek to reduce risk to a minimum where it is possible to do so without compromising returns (eg in operational matters), and to limit risk to prudently acceptable levels otherwise (eg in investment matters).

5.2 Operational risk is minimised by :

- Having custody of the Fund's financial assets provided by a regulated, external, third party, professional custodian appointed directly by the Council with control and liability issues thoroughly addressed in a Custody Agreement;
- Having the deeds of direct property investments held securely by the Fund's Legal Section;
- Documenting control and liability issues relating to the relationships with the appointed external fund managers in the Fund Manager Agreements;
- Having an external, third party, accounting provider independently maintain complete accounting records relating to the investment activity of the appointed external fund managers and to the entitlements (eg income) arising from the Fund's securities portfolios;
- Officers of the Council's Internal Audit and of the Fund's Investments Group receiving reports on and reviewing the internal operating procedures of the appointed external custodian, fund managers and accounting provider; and
- Subjecting internal investment management activity to close Internal Audit scrutiny.

5.3 Investment risk is constrained by :

- Diversifying across investment managers;
- Diversifying across types of investment;
- Restricting external appointed fund manager investment activity as documented in a Schedule to the Fund Manager Agreements;
- Selecting appropriate investment benchmarks in order to control the risk that the assets will not be sufficient to meet the liabilities whilst also having a strong likelihood of achieving a good return;

- Taking appropriate internal and external professional advice on the investment activity of both the externally managed securities portfolios and of the internally managed portfolios;
  - Quarterly, formal, Management Panel monitoring of asset allocation against the investment benchmarks and asset class restrictions; and
  - Quarterly, formal, Management Panel monitoring of investment manager and overall Fund activity and performance.
- 5.4 Some risks lend themselves to being measured (eg using such concepts as 'Active Risk' and such techniques as 'Asset Liability Modelling') and where this is the case, the Fund employs the relevant approach to measurement. The Fund reviews new approaches to measurement as these continue to be developed.

## **6) The Expected Return on Investments**

- 6.1 There is a broad expectation that in the longer term the return on equity will be greater than on other assets.
- 6.2 The overall Main Fund return is expected to be broadly in line with the overall bespoke benchmark. Over the last twenty years this benchmark has averaged a return which is comfortably ahead of both price and earnings inflation over the same period. However over any shorter period, such as one or five years, actual Main Fund returns may vary significantly from the benchmark and indeed benchmark returns may vary significantly from their long-term averages.
- 6.3 Over the long term appropriate to the liabilities of the Scheme it is expected that the investment returns of both the Main Fund and the Designated Fund will be at least in line with the assumptions underlying the actuarial valuations.

## **7) The Realisation of Investments**

- 7.1 General investment principles require that issues of liquidity and marketability be considered in making any investment decision. Current employer and employee contributions are expected to broadly match or exceed pension payments. In addition the Fund also receives significant investment income. Thus it is not expected that there will be any material need to realise investments in the foreseeable future other than to seek higher returns.
- 7.2 The vast majority of the Pension Fund's assets are readily marketable. However some investments, such as property and more so venture capital/private equity, are less easy to realise in a timely manner. Such relative illiquidity is not considered to have any significant adverse consequences for the Fund.
- 7.3 The Council would inform the appointed external fund managers of any projected need to withdraw funds in order to enable the fund managers to plan an orderly realisation of assets if this proves necessary.

## **8) Socially Responsible Investment**

- 8.1 The Council holds a policy of not interfering in the day to day investment decisions of its investment managers and does not actively invest in nor disinvest from companies solely or largely for social or ethical or environmental reasons.
- 8.2 As a responsible investor, the Council wishes to promote corporate social responsibility, good practice and improved company performance amongst all companies in which it invests. On environmental issues, the Council wishes to promote and encourage compliance with its own "UK Environmental Investment Code". The Fund's appointed external fund managers are encouraged to operate a policy of constructive shareholder engagement with companies.
- 8.3 The Council endeavours to be a socially responsible investor wherever possible but does so within the duties placed upon it under statute and under general trust law principles to manage the Scheme in the best financial interests of the Scheme members and beneficiaries.
- 8.4 From time to time the Fund will pursue certain specific issues direct with investee companies, either individually or, more usually, collectively with other institutional investors via its membership of the 'Local Authority Pension Fund Forum' or the 'Institutional Investors Group on Climate Change', or by means of other ad-hoc groupings.

## **9) The Exercise of Investment Rights**

- 9.1 The exercise of rights which are not voting rights (eg dividend entitlements, rights issues etc) are delegated by the Council to the investment managers of the Pension Fund as part of their normal investment responsibilities.
- 9.2 The Council wishes to exercise the voting rights attaching to its investments to promote and support good corporate governance principles.
- 9.3 The Council requires the appointed external active fund managers to vote on behalf of the Fund at every opportunity in the UK and when reasonably practicable and commercially prudent overseas.
- 9.4 In casting the Fund's votes in the UK, the appointed external active fund managers are mandated to implement the Fund's bespoke "UK Voting Guidelines". Any overseas votes exercised must be cast in line with the spirit of the Guidelines.
- 9.5 The appointed external passive fund manager votes in respect of the Fund at every opportunity in the UK, routinely in respect of the largest 100 US companies and in exceptional circumstances elsewhere overseas.
- 9.6 In casting votes in respect of the Fund in the UK, the appointed external passive fund manager normally implements its own 'Voting Policy'. However the fund manager will vote in respect of the Fund according to the Fund's instructions on a case by case basis should the Fund so require.

## **10) Stocklending**

- 10.1 The Fund itself has participated in a prudently structured Stocklending program via its Custodian since March 2003.
- 10.2 The Fund does not lend UK and US Equities and does not take Cash as collateral. The maximum volumes of stock "on loan" are set at a lower level than the Regulations permit. All loans must be pre-collateralised and be subject to recall upon demand.
- 10.3 Certain pooled vehicles within which the Fund invests may undertake an amount of Stocklending on behalf of the pooled vehicle investors. Where this occurs, the extent of the activity is disclosed by the pooled vehicle. The Fund considers this aspect of the pooled vehicle when making investment decisions.

## **11) Compliance with the guidance given by the Secretary of State (Six CIPFA/Myners Principles)**

- 11.1 The Appendix hereto states the extent to which the Fund complies with the guidance given by the Secretary of State and the six principles of investment practice set out in the CIPFA document : " Investment Decision Making and Disclosure in the Local Government Pensions Scheme : A Guide to the Application of the Myners Principles" (2009).
- 11.2 The Appendix also gives reasons for not complying where the Fund does not do so.

### **Version 2.0**

**Adopted by the Pension Fund Management Panel for Tameside MBC as administering authority of the Greater Manchester Pension Fund : June 11, 2010**

SJT/PFIG  
June, 2010

**APPENDIX TO STATEMENT OF INVESTMENT PRINCIPLES**

**The Secretary of State guidance (Six CIPFA/Myners Principles for Investment Decision Making and Disclosure in the LGPS)**

<b>PRINCIPLE</b>	<b>COMPLIANCE</b>
<b>Effective Decision Making</b>	<b>The Fund considers that it is compliant with this principle.</b> See Section 2) [in particular 2.1 - 2.4]. The Management Panel has decided against a focused 'investment subcommittee' approach to investment decision-making in favour of maintaining the Fund's long-standing inclusive approach. The training needs of Panel members are periodically considered by the Panel and suitable training arrangements are made. The Fund is developing its approach to the CIPFA skills and knowledge framework for members of the Management Panel and to the adoption of training plans.
<b>Clear Objectives</b>	<b>The Fund considers that it is compliant with this principle.</b> See Sections 2) [in particular 2.5 - 2.12], 3), 4) and 5). The Management Panel is developing a performance measurement framework to measure the overall performance of its advisors.
<b>Risk and Liabilities</b>	<b>The Fund considers that it is compliant with this principle.</b> See Sections 2) [in particular 2.7], 3), 4) and 5). The Management Panel has an active risk management programme in place. The key risks and the measures to control them are detailed in the Fund's Funding Strategy Statement. The Fund is considering how to further develop its approach to assessing overall risk, mitigating unrewarded risk wherever possible, and identifying any residual risk.
<b>Performance Assessment</b>	<b>The Fund considers that it is not fully compliant with this principle.</b> See Sections 2) [in particular 2.10, 2.13, and 2.14] and 5.4. The Management Panel currently undertakes informal assessment of its own decisions and the advice of the advisors to, and officers of, the Fund and is developing its approach to formal assessment in these areas.
<b>Responsible Ownership</b>	<b>The Fund considers that it is not fully compliant with this principle.</b> See Sections 8) and 9). Each appointed external active fund manager reports on its policy and activity in this area to the Fund's specialist "Ethics and Audit Working Group" on an annual basis. The Fund is developing its approach to measuring the effectiveness of its strategy. The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) which promotes the investment interests of local authority pension funds and seeks to maximise their influence as shareholders while promoting corporate social responsibility and high standards of corporate governance among the companies in which they invest. The Fund is considering its position on the Institutional Shareholders Committee's Code on the Responsibilities of Institutional Investors.
<b>Transparency and Reporting</b>	<b>The Fund considers that it is fully compliant with this principle.</b> See Sections 2), 4) and, in particular, 6). The Fund's Statement of Investment Principles and Governance Compliance Statement are published on the Fund's website together with a full list of the Fund's holdings at year end. The results of monitoring the Fund's investments managers are contained in the Fund's Annual Report and Accounts which is also published on the website. All three documents are freely available in hardcopy to interested parties and their availability is publicised widely amongst scheme members.

**END OF APPENDIX (11/06/10)**

Greater Manchester Pension Fund  
Concord Suite, Manchester Road  
Droylsden, Tameside, M43 6SF

Members' helpline:  **0161 301 7000**

Employers' helpline:  **0161 301 7032**

Email:  **mail@gmpf.org.uk**

Website:  **www.gmpf.org.uk**