

# ITEM NO: 3(a)

## GREATER MANCHESTER PENSION FUND ADVISORY PANEL

1 July 2011

Commenced: 10.15am

Terminated: 12.30pm

Present: Councillor K Quinn (Chair)

Councillors: Pantall (Stockport), Pennington (Salford), Houle (Oldham), Grimshaw (Bury).

Employee Representatives

Ms Baines (UNISON), Mr Rayner (UNISON), Mr Mulryan (AMICUS), Mr Thompson (UCATT)

Apologies for absence: Councillors Baldwin (Wigan), Lambert (Rochdale), Mitchell (Trafford), Lone (Manchester), White (Bolton), Mr Llewellyn.

### 1. DECLARATIONS OF INTEREST

There were no declarations of interest.

### 2. CHAIR'S OPENING REMARKS

The Chair welcomed everyone to the meeting and introduced new Members, Councillor Grimshaw representing Bury Council and Councillor Houle, representing Oldham Council.

### 3. MINUTES

The Minutes of the proceedings of the meeting of the Pension Fund Advisory Panel held on 4 March 2011 were signed as a correct record.

The Minutes of the proceedings of the meeting of the Pension Fund Management Panel held on 4 March 2011 were signed as a correct record.

### 4. 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:

<u>Items</u>	<u>Paragraphs</u>	<u>Justification</u>
7, 10, 11, 12, 14, 15, 16, 17, 18, 19, 21	3&10, 3&10, 3&10, 3&10, 3&10, 3&10, 3&10, 3&10, 3&10, 1&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.

## 5. INFORMATION SERVICES WORKING GROUP

The Minutes of the proceedings of the Information Services Working Group held on 8 April 2011 were considered.

### RECOMMENDED

- (i) That the Minutes be received;
- (ii) With regard to the Final Report from Lord Hutton on Public Sector Pensions, that the Executive Director of Pensions circulate to Members an analysis of salaries of GMPF employees, and that the Executive Director of Pensions, in consultation with the Chair of the Management Panel, write to CLG expressing Members concerns with regard to the different nature of a Local Authority Scheme and also the importance of minimising opt-out's and protection of the Scheme; and
- (iii) With regard to the Consultation on Fair Deal Policy, that the Executive Director of Pensions, on behalf of the Fund, respond to the consultation taking into account views of members with regard to the management of risk and the need to protect the Fund.

## 6. ETHICS AND AUDIT WORKING GROUP

The Minutes of the proceedings of the Ethics and Audit Working Group held on 8 April 2011 were considered.

### RECOMMENDED

- (i) That the Minutes be received;
- (ii) With regard to Unclaimed Balances, that unclaimed balances of less than £100 (revised each year in line with CPI), be held until they are claimed without any proactive attempts being made to find the potential claimant;
- (iii) With regard to the Review of Pension Pay Date for New Pensioners, that an arrears payroll be introduced during Quarter 4 of 2011/12 for new pensions; and
- (iv) With regard to the Stocklending Programme, that the imminent recommencement of the programme be noted.

## 7. ALTERNATIVE INVESTMENTS WORKING GROUP

The Minutes of the proceedings of the Alternative Investments Working Group held on 15 April 2011 were considered.

**RECOMMENDED**

(i) That the Minutes be received;

(ii) That:

- (a) the medium term strategic allocation for private equity (SVC and VNW) remains at 4% by value of the total Main Fund assets.
- (b) the scale of commitment to funds remains at £80m pa to work towards achievement of the strategy over the next 6 years or so.
- (c) the Fund continues to implement the revised SVC strategy via 3 year programmes as detailed below:

Geography	Large Buyout	Mid Market Buyout	Venture	Total Number of Funds
EUROPE, inc UK	3 - Direct	6 – Direct	1 - FoF	10
USA	3 – Direct/FoF	3 – Direct/FoF	2 - FoF	8
ASIA	3 FoF			3
				21

Geography	Large Buyout (£m)	Mid Market Buyout (£m)	Venture (£m)	Total (£m)
EUROPE, inc UK	39	76	8	123
USA	36	36	27	99
ASIA	18			18
				240

(d) the target geographical diversification of the SVC portfolio remains as follows:

Europe, inc UK	50% to 55%
USA	40% to 45%
Asia	5% to 10%

(e) the investment stage diversification of the SVC portfolio remains as follows:

Geography	Large Buyout	Mid Market Buyout	Venture
EUROPE, inc UK	30% to 35%	60% to 65%	5% to 10%
USA	35% to 40%	35% to 40%	25% to 30%
ASIA	45% to 50%	45% to 50%	0% to 10%

(f) it continues to be recognised that the portfolio may not fall within the target ranges at (d) and (e) above for a period of 5 – 10 years, because of transitioning from the previous target ranges.

(iii) With regard to PFI & Infrastructure Fund Portfolio – Strategy Report, that:

- (a) the medium term strategy allocation for PFI/Infrastructure funds remained at 3% by value of the Main Fund assets;
- (b) the scale of new fund commitments remained at between £40m-£80m pa and between 2 and 4 new funds pa;
- (c) a split of total portfolio commitments be as follows:-

Primary/Evergreen funds – Higher relative risk: 67%, and  
Secondary funds – Lower relative risk: 33%

(d) the 'range' of investment targeted to specific regions be as follows:

Europe 40 – 60%  
N America 30 – 40%  
Asia-Pacific/other 0 – 20%

(e) it continues to be recognised that the portfolio may not fall within the target ranges at (d) above for a period of years, because of transitioning from the current portfolio composition.

(iv) With regard to the Special Opportunities Portfolio: Approval of Investment Type, that the making of investments from the 'Special Opportunities Portfolio' in the new type of investment as described in the report submitted to the Working Group, be approved.

## **8. PROPERTY WORKING GROUP**

The Minutes of the proceedings of the Property Working Group held on 15 April 2011 were considered.

### **RECOMMENDED**

**That the Minutes be received.**

## **9. ADDITIONAL WORKING GROUP**

The Chair proposed that an additional Working Group be created in order to consider options for pursuing business development opportunities.

He suggested the composition of the Working Group as follows:

Councillor Quinn (Chair), Councillor Smith, Councillor Middleton, Councillor Harrison, Councillor Cooney, Councillor Taylor, Councillor Pantall and a Union/Employee Representative.

### **RECOMMENDED**

**That an additional Working Group be created with membership as detailed above.**

## **10. 1 ST PETER'S SQUARE – ADDITIONAL INVESTMENT**

The Executive Director of Pensions submitted a report which asked the Panel to give consideration to providing additional funding to finance the above development.

The Executive Director explained the background with regard to the project and the terms of the agreement. He further explained that the Fund had been asked to consider providing supplementary funding to meet the shortfall.

The Executive Director outlined the options available and also supplied an analysis of the supplementary funding proposal.

Discussion ensued with regard to the above and Members raised various issues regarding the impact on the Fund and its partner in respect of the risks going forward.

The Executive Director commented on the security of the supplementary funding and reaffirmed his belief that the partner was committed to the scheme, he also commented on the risks involved, particularly with regard to the current economic climate and also the advantages of progressing the development at this stage in the cycle.

**RECOMMENDED**

**That supplementary funding of a maximum of £30m (which includes a £3m contingency) be undertaken and a total investment of £57m in the 1 St Peter’s Square development be made on the terms reported at the meeting.**

**11. APPOINTMENTS**

**RECOMMENDED**

**That membership of the Greater Manchester Pension Fund Working Groups for the Municipal Year 2011/12 be as follows:**

<u>Working Group</u>	<u>Membership</u>
<b>Ethics and Audit</b>	<b>Councillors: Middleton (Chair), Ambler, Lone, Mitchell, Pantall, Grimshaw, Harrison, Sullivan, White, Messrs: Llewellyn, and Mulryan</b>
<b>Information Services</b>	<b>Councillors: P Harrison (Chair), Grimshaw, Lone, Middleton, Pantall, Lambert, White, Messrs: Fraser and Rayner</b>
<b>Alternative Investments</b>	<b>Councillors: Cooney (Chair), Baldwin, Pennington, Ricci, Lambert, Houle, Buckley, Ms Baines and Mr Mulryan</b>
<b>Property</b>	<b>Councillors: Taylor (Chair), Baldwin, Lane, Pennington, J Fitzpatrick, M Smith, Sweeton, Whitley, Messrs Mulryan and Thompson</b>

**12. THE INDEPENDENT PUBLIC SERVICE PENSION COMMISSION’S FINAL REPORT (THE HUTTON REPORT)**

Consideration was given to a report of the Executive Director of Pensions which provided a summary of the Pension Commission’s Final Report, focussing on the recommendations. A briefing note detailing all the Commission’s recommendations, plus comments thereon, was attached to the report. The Head of Pensions Administration gave a presentation which highlighted specific recommendations.

The report also provided an update on the Treasury/CLG’s proposals for phased increases in employee contributions with effect from April 2012.

The report described how the Panel had long been a supporter of Pension Build Up (Career Average) as its preferred pension design (with final salary retained for those who were willing to meet the cost).

Until the Government decided the final cost ceiling, and the resultant benefit package that flowed from it, it is difficult for employers and employees to determine a view on the proposals. However, the potential outcomes adopting the Commission’s recommendations were:

- Later retirement;
- Higher employee contributions (or a change in the mix of employee : employer contributions); and
- A lower cost benefit package than the current scheme.

Looking forward, developing and maintaining the fixed cost ceiling would be a challenge, as had been the experience with the current cap and share proposals.

At previous meetings the “perfect storm” scenario for the administration of the Fund had been discussed, with the impact of public expenditure reductions on scheme membership and the impact on viability of some employers. Lord Hutton had been very concerned regarding the prospect of an increasing number of members opting out as a result of these changes and in particular the increase in employee contributions. This was a serious concern for administering authorities and employers with the impact of reducing membership being an increase in volatility of cost to employers and a significant increase in the maturity of the liabilities. The exclusion of scheme members transferring to “outsourced employers” would add to the “sustainability” problem. The Fund had supported the continuation of “Fair Deal” in its response to the Treasury.

There were challenging times ahead for an administering authority and an important role was to keep scheme members and employers aware of the changes. It was particularly important that members of the scheme had a thorough understanding of the issues if they were considering their ongoing membership in the scheme.

A significant number of the recommendations related to governance issues. The aim was to develop best practice, encourage co-operation and joint working between funds, reduce costs and improve effectiveness. If this did not occur, the implication was that the Government should look to other means of intervention. The Panel had started to examine its practices on some of those matters raised in the recommendations.

#### **RECOMMENDED**

- (i) **That the content of the report be noted; and**
- (ii) **That the Information Services Working Group review the communication strategy for the next 12 months.**

### **13. TREASURY CONSULTATION – FAIR DEAL POLICY**

The Executive Director of Pensions submitted a report which explained that consideration was given to the Treasury consultation document on Fair Deal at the last meeting of the Information Services Working Group (meeting of 8 April 2011 refers). A copy of the consultation document could be found [http://www.hmtreasury.gov.uk/consult\\_fair\\_deal\\_policy\\_pensions\\_publicsector.htm](http://www.hmtreasury.gov.uk/consult_fair_deal_policy_pensions_publicsector.htm). A copy of the draft response was circulated to Members of the Panel for comment and the submission was made on 2 June 2011. The response had also been published on the Fund’s website.

#### **RECOMMENDED**

**That the content of the response be noted.**

### **14. 2010 ACTUARIAL VALUATION**

The Executive Director of Pensions submitted a report which informed Members that the 2010 Actuarial Valuation had been finalised in March 2011. The valuation results were being analysed and this report highlighted three cases to illustrate the issues facing some of the Fund’s employers.

The report summarised that the Fund, with a funding level of 96.4%, would be amongst the best funded of the English and Welsh LGPS funds and similarly its employers would have, on average, contribution rates at the lower end of the range. If financial markets delivered long term historical

returns and/or longer term interest rates returned to more normal levels, the funding level would improve and potentially significantly.

The Executive Director of Pensions highlighted the following issues faced by the Fund going forward:

- The 'developed' world was generally struggling with the aftermath of the banking crisis;
- Major imbalances in the world economies;
- The LGPS had started to experience major demographic changes, significant reductions were being experienced in employee members with increases in deferreds and pensioners, this rapid increase in maturity was expected to continue;
- The Fund's employers were generally under severe financial pressure;
- The Fund was likely to see a continued increase in the number of its employers that would have an impact on the existing employers; and
- The design of the LGPS and the sharing of its cost between employee and employer was being reviewed.

The valuation generally assumed an on-going situation. The funding level and deficit would become dramatically worse should the employer cease to participate in the Fund, because the Actuary assumed a 'risk free' investment strategy in determining the investment return assumption for a cessation valuation.

Having concluded the valuation and having the data that flowed from the valuation, it was important to start to identify employer (and guarantor) issues and look at possible solutions. It was possible, for some employers that an inter-valuation review would be required that could lead to an increase in their contribution rate.

Work would also be undertaken with the Actuary to develop an early warning system of potential problems. However, whilst recognising a potential problem and ensuring the employer also understood the issues was important, delivering solutions was unlikely to be easy.

The preparations for helping deal with the employer issues that may arise remained at an early stage. The issues that arose had an impact across the service with accounting, administration, investment and legal matters needing to be dealt with. The priority at the moment was to deal with current workload issues. In the future, further resources may need to be allocated to employer issues.

In response to a query from Members, Mr Bowie, Actuary to the Fund, explained that issues with regard to falling membership and the effect of this on the Fund needed to be anticipated and a structured programme set up to identify a way forward. He suggested that consideration be given to the creation of a further Working Group to deal with such issues.

## **RECOMMENDED**

**That:**

- (i) the successful conclusion of the 2010 valuation be noted;**
- (ii) the pooling arrangement for academies already in the pool be maintained and further discussions be held with academies on the appropriate arrangements going forward;**
- (iii) as an interim measure, prospective academies be advised to assume an employer contribution rate in line with that of the local authority that they are leaving;**
- (iv) in determining the opening valuation position for academies, to adopt a share of deficit basis that takes account of deferred and pensioner members, subject to being in line with any guidance issued by Government;**
- (v) the undertaking of a case study to review the investment strategy options for GMWDA be noted;**
- (vi) the undertaking of a case study reviewing the operation of the small admitted body pool and potential risks for employers within the pool, be noted.**

## **15. REPORTS OF THE MANAGERS**

### **(a) Capital International**

Mr Hole, Senior Vice President of Capital International Limited began by reiterating the overall objective of the Fund and the Investment Objective; to achieve a real return of 3.0% to 3.5% per annum. He added that, with the exception of Gilts, returns for the year to 31 March 2011 were very close to Capital's long term assumptions.

He provided a breakdown of long term expected returns as at 31 March 2011 for Global ex UK equity, Emerging Markets equity and UK Gilts.

Mr Hole also outlined a summary of Capital's Investment Strategy recommendations as follows:

- Maintain significant equity weighting;
- Broaden Emerging Markets exposure, outside quoted equities, to include for example, bond, currencies and private equity; and
- Continue to lower UK equity exposure in favour of overseas.

Near term and long term issues and considerations were outlined and discussed.

The growing significance of index linked and corporate bonds within the Emerging Markets debt landscape was outlined. It was also explained that listed equity was not a proxy for the full investment opportunity in the Emerging Markets as some sectors are under-represented in the Emerging Markets index relative to the World index.

An analysis of the FTSE All Share dividends was provided which showed that 11 companies paid 50% of the total dividends. A significant proportion of these companies paid their dividends in US Dollars which meant that UK equity exposure no longer matched UK pension fund liabilities as much as it had in the past.

Members raised concerns with regard to difficulties in uncertain economies and sought clarification of the perceived suggestion that risk was lower in Emerging Markets than in Europe.

Mr Hole, in his response, explained that when compared to ten years ago, risk was much lower in Emerging Market economies and that there was a much more stable background in many of these countries. Contrast this with the current instability within Europe.

Mr Moizer, Advisor to the Fund, made reference to a 'two speed' Europe and sought Capital's views on how this could be sustained with a single currency.

Mr Hole stated that as long as European politicians wanted to maintain the Euro currency, the answer to the 'two speed' issue was large fiscal transfers between the various European countries.

### **(b) UBS Global Asset Management**

Mr Nestor, Head of UK and Managing Director at UBS Global Asset Management began by making reference to the extremely volatile period to the end of March 2011. However, he reported a strong finish to the fiscal year with very good returns for the 12 months to 31 March 2011.

He explained that although UBS' performance was below the benchmark for the quarter, there had been a long term, consistent outperformance over 3 and 10 year periods.

With regard to asset allocation, cumulative returns on US asset classes in nominal terms, 1990 – 2010 were outlined and discussed.

It was reported that equities were resilient to inflation over the long term and clear real returns were demonstrated. It was further reported that equity markets had responded positively to quantitative easing.

Mr Powers, Head of UK Value Equities and Managing Director, UBS Global Asset Management made reference to equity performance. However, he raised concern with regard to the level of risk in current market conditions and outlined UK equity sector and stock positions.

Mr Powers also commented on the necessity of quantitative easing but also cautioned regarding the vulnerability of equity markets to its inevitable removal.

The Advisors were then asked to comment.

Mr Hemingway expressed surprise that given UBS' stated preference for equities and with inflation running at significant levels, the UBS portfolio was only broadly in line with the benchmark allocations of equities and bonds.

Mr Nestor, in his response, explained that UBS were looking to take up opportunities in equity markets. He further explained that UK and overseas non-government bonds were favoured.

## **RECOMMENDED**

**That the content of the presentations be noted.**

## **16. INVESTMENT STRATEGY**

The Executive Director of Pensions submitted a report that reviewed the benchmark asset allocations for the Main Fund and Fund Managers and considered changes to the investment restrictions.

To help consider the issues, each of the external Fund Managers had submitted a strategy paper focussing on a number of issues/questions, including;

- The UK and international economic outlook for 2010/11 and the medium term;
- The prospects for the various markets over the medium term (5-10 years);
- Is the Fund's overall 'realistic' benchmark asset allocation of 62% public equity; 4½% alternatives; 23½% bonds and cash and 10% property likely to be able to deliver a real rate of return in excess of 3% pa (ie 3% - 3.5% pa plus RPI inflation) ?; and
- Were there any other investment opportunities which offered better risk reward characteristics than those currently permitted?

Copies of the Managers' papers were appended to the report.

It was reported that the current decade through to March had produced absolute returns for the average Local Authority fund of 5.4% pa. GMPF's relative investment performance had been strong over the last five and ten years with returns in excess of the LA peer group average of 0.6% pa and 0.9% pa respectively to end March 2010.

The report also covered the following:

- Background;
- Allocation of Assets to Managers;
- Active Risk;
- Required Rate of Return;
- Asset Allocation Targets;
- Historic Market Returns;
- Future Returns;

- Asset Allocation within the LA Pension Fund Industry;
- Whether the current 62% Public Equity allocation is broadly appropriate; and
- Whether there is a case for revising other more detailed asset allocations;
- A number of other matters (ie local investment, hedge funds, currency, credit default and interest rate swaps and fundamental or optimised indices).

Mr Hemingway congratulated the Executive Director on a comprehensive and excellent report. He made reference to the vulnerability of sterling and the need for this situation to be monitored.

Mr Moizer concurred with Mr Hemingway in praising the report and added that the British economy was very weak. The Fund needed to have a clear, structured approach to the possible use of the cash holding.

Mr Bowie commended the thorough process undertaken and concurred with both Mr Hemingway and Mr Moizer.

## **RECOMMENDED**

**That:**

- (i) **Hymans Robertson be commissioned to undertake an Asset Liability Modelling exercise, together with any necessary associated work, to explore in more detail the medium term impact on the Fund's investment strategy of the likely changes to the Main Fund's liability profile over the coming years.**
- (ii) **Any new requirements for cash to be withdrawn from the securities Managers be taken from UBS.**
- (iii) **Main Fund Overall Asset Allocation:**  
  
**To maintain the existing allocations to Public Equities at 62%, to Bonds/Cash at 23.5%, to Alternative Investments (on a realistic basis) at 4.5% and to Property at 10%.**
- (iv) **Public Equity Allocation:**
  - (a) **The Public Equity split be changed from 45% UK and 55% Overseas to 40% UK and 60% Overseas; and**
  - (b) **The Overseas Equity split be maintained at: North America 32.5%, Europe (ex UK) 27.5%, Japan 15%, Pacific 10% and Emerging Markets 15%.**
- (v) **Bonds/Cash Allocation:**
  - (a) **No change to current individual bond benchmark allocations, but permitted active Manager deviations be increased to allow wider freedom to actively invest; and**
  - (b) **No change to current 6.2% allocation to cash (3.2% strategic component and 3% tactical component), but the 3% tactical component be kept under review for possible redeployment into other assets.**
- (vi) **Alternative Investments:**
  - (a) **Private Equity: The recommendations of the Alternative Investments Working Group of 15 April 2011, (Minute 24 refers), be adopted;**
  - (b) **Infrastructure: The recommendations of the Alternative Investments Working Group of 15 April 2011 (Minute 25 refers), be adopted; and**
  - (c) **Special Opportunities Portfolio: No change to the current 5% target allocation nor to the key features of the portfolio.**
- (vii) **Property:**
  - (a) **The long term target allocation to property remains at 10% of total Main Fund assets; and**

- (b) The allocation for property be sub-divided to broaden the range of approaches to obtaining the target 10% exposure as follows:

	Proposed Range %
<b>In-house Managed (Direct and Indirect)</b>	<b>4-8</b>
<b>Indirect</b>	<b>0-2</b>
<b>GMPVF</b>	<b>0-2</b>
<b>Overseas</b>	<b>0-2</b>
<b>Other</b>	<b>0-1</b>
<b>Total</b>	<b>6-14</b>

(viii) **Local Investment**

The overall limit on those assets which are locally invested be increased from the current level of 3% of Main Fund assets to 5%. (It is likely that the bulk of these local investments will consist of property or property related assets).

(ix) **Implementation**

The nature, timing and detailed implementation of any benchmark changes necessary to reflect the decisions of the Panel be settled by the Executive Director of Pensions following consultation with the Advisors and/or Managers where appropriate.

(x) **Further reports:**

The Management Panel consider further reports covering:

- (a) establishing broad based benchmarks for the allocation to bonds;
- (b) a review of the active risk limit on the Capital portfolio in the light of benchmark changes actioned in 2008;
- (c) the case for investing in overseas property and how this should be achieved; and
- (d) the Fund's overall approach to currency exposure.

## 17. LOCAL INVESTMENT

Consideration was given to a report of the Executive Director of Pensions which examined the case for increasing the local investment limit and if approved, considering the process of broadening the types of investment made within the local investment classification.

The report outlined the following areas:

- History of local investment;
- Greater Manchester Property Venture Fund (GMPVF)
- Evaluation of experience, including: Venture Capital/Private Equity and GMPVF;
- Scale of exposure to local investment; and
- Resource implications.

The report summarised that:

- The private and public sectors faced a potentially challenging economic environment;
- Available funding for investment in some sectors was scarce;
- The banking sector was likely to be looking to reduce its exposure on its property debts in the short to medium term;
- Economic regeneration was a very high priority for GM authorities;
- There was a desire to see a large increase in the number of homes being built;

- The Fund was seeking long term returns in line with or better than the Actuary's investment return assumption;
- In considering local investment opportunities, the need to deliver commercial returns was essential to the long term continuation of the programme;
- The report recommends increasing the maximum limit on local investment from 3% to 5% in line with the private sector limit on self investment;
- If the Panel approved this recommendation and supported broadening the type of investment, a proposed approach was set out for approving new types of investment and subsequent investments; and
- The advisors had been consulted and supported the increase in allocation to 5% of Fund value because of the potential investment opportunities and they reiterated the importance of investments satisfying the twin aims.

## **RECOMMENDED**

**That:**

- (i) The maximum limit for local investments be increased from 3% to 5%;**
- (ii) the approach set out in para 7.9 of the report for the Working Group and Panel to approve new types of investment and subsequent investment be approved; and**
- (iii) a team of 3 be initially established to focus on local investments together with a budget for other costs to review and develop investment opportunities.**

## **18. PENSION OFFICE ACCOMMODATION**

The Executive Director of Pensions submitted a report which explained that the Concord Suite was a 1960's building in Droylsden Town Centre that provided accommodation for the Pension Office's 90 staff. The building was in need of major refurbishment if it was to continue to be able to provide office accommodation in the medium term. The report looked at the options for alternative accommodation in Droylsden in line with the Panel decision of 3 December 2010 (minute 63 refers).

## **RECOMMENDED**

- (i) That Option 2 be approved as follows: 'Office building providing approximately 30,000 square feet over 3 floors with 35 car parking spaces at lower ground level. This option would provide 20,000 square feet of office space on the first and second floors with retail or other uses possible on the ground floor;**
- (ii) That a project group be constituted to oversee the project and to agree design matters and detailed costs. The project group to include the Chair of the Property Working Group and appropriate officers; and**
- (iii) That progress reports be submitted to the Property Working Group.**

## **19. EXTENSION OF ACTUARY'S CONTRACT**

***Mr Bowie, Actuary to the Fund, left the room during the consideration of this item.***

A report was submitted by the Executive Director of Pensions which informed Members that Hymans Robertson were appointed as the Fund's Actuary and investment advisor on a five year contract with an option for a two year extension in 2006. The five year period ended on 23 November 2011. The Actuary had been asked to review their price levels and they had responded with proposals for fee reductions on standard work (e.g. actuarial valuation and accounting reports).

The extension of the contract was recommended because:

- The revised price levels were considered to be competitive;
- The quality of service had been in line with expectations; and
- The competing pressures arising from other issues.

**RECOMMENDED**

**That the contract with Hymans Robertson be extended for a further two years from 23 November 2011 in line with the option in the existing contract.**

*Mr Bowie rejoined the meeting at this juncture.*

**20. SPECIAL OPPORTUNITIES PORTFOLIO: APPROVAL OF INVESTMENT TYPE**

Consideration was given to a report of the Executive Director of Pensions which had been presented to the meeting of the Alternative Investments Working Group on 15 April 2011. The Working Group was informed that each of the three Advisors had supported the recommendation contained within the report. In turn the recommendation was supported by the Working Group (Minute 26 refers).

**RECOMMENDED**

**That approval be given to the making of an investment from the 'Special Opportunities Portfolio' in the new type of investment as described in sub-section 4.1 of the report.**

**21. SUMMARY VALUATION OF THE PENSION FUND INVESTMENT PORTFOLIO AS AT 31 DECEMBER 2010 AND 31 MARCH 2011**

A report of the Executive Director of Pensions was submitted, detailing and comparing the market value of the Fund's investment portfolio as at 31 December 2010 and 31 March 2011.

**RECOMMENDED**

**That the report be noted.**

**22. UNDERWRITING, STOCKLENDING AND COMMISSION RECAPTURE**

The Executive Director of Pensions reported that Capital International did not participate in underwriting activity. He also reported that the Fund accepted sub-underwriting via UBS of one issue in the quarter ended 31 March 2011. Total underwriting commission received during the quarter was £173,378.

With effect from 19 September 2008, GMPF temporarily suspended its stocklending programme pending a return to less volatile market conditions. GMPF lifted the suspension of the programme on 19 May 2011 and lending was due to recommence around mid-June after JPMorgan had completed certain internal formalities.

Commission 'recaptured' during the quarter was £14,155 and compared with £15,379 in the same quarter of 2010.

**RECOMMENDED**

**That the report be noted.**

**23. EXTERNAL MANAGERS' PERFORMANCE**

The Executive Director of Pensions submitted a report which advised Members of the recent performance of the external Fund Managers.

It was noted that in the quarter to 31 March 2011, Capital had underperformed at 0.4% against their benchmark index of 0.6%. UBS had also underperformed at 0.1% against their benchmark index of 0.9%. Legal and General had succeeded in tracking their benchmark.

Performance figures for the twelve months to 31 March 2011 were also detailed, which showed that Capital had outperformed their benchmark by 1.1%, UBS had underperformed their benchmark by 2.3% and Legal and General had succeeded in broadly tracking their benchmark.

**RECOMMENDED**

**That the report be noted.**

**24. MAIN FUND AND LONG TERM PERFORMANCE (WM REVIEW 2010)**

Consideration was given to a report of the Executive Director of Pensions which advised Members of the excellent long term results for UBS and the Main Fund as a whole, as measured in the WM Annual Review 2010. Detailed results covering periods up to 25 years were given.

The Main Fund was in the top 25% of the Local Authority pension funds surveyed by WM over 3 and 5 years, was in the top 5% over 10, 15 and 20 years and was the best performing Local Authority fund over the 25 year period.

The long term performance of UBS over their time as a Manager for the Fund had been excellent. However, Capital International had underperformed their benchmark over 3 and 5 years.

**RECOMMENDED**

**That the report be noted.**

**25. LONG TERM PROPERTY PERFORMANCE (IPD REVIEW 2010 ETC)**

The Executive Director of Pensions submitted a report, which advised Members of the recent and longer term investment performance of the Direct Property Portfolio (managed by the internal Property Investments Unit) and of the 'Balanced Property Pooled Vehicle Portfolio' (managed by the Executive Director of Pensions).

Performance in 2010 was 3.1% points below the IPD Universe average and 1.8% points below the Pension Fund average.

Over the three and five year periods, performance was below the IPD average, whilst performance over 10 and 20 years outperformed the IPD average.

In considering the whole period of 21 years from the date that the GMPF Management Panel formally set the current performance target of 'median or better', which came into force on the 1 January 1990, the portfolio had beaten the target 11 times and had outperformed the annualised IPD average over the whole period by 0.6% per annum (8.1% per annum versus 7.5% per annum).

The Fund had a relatively strong income base but a relatively low occupancy rate. Its income growth projections (at current market rental values) were on a par with the market.

An important factor in the Fund's disappointing performance was the number of tenants that chose not to renew their leases and to a lesser extent, the number of tenants that ceased to trade. During the next three years there remained a significant number of lease renewals due (albeit at lower levels than during 2010). Securing tenants at an appropriate rent (and incentive package) on these renewals and finding tenants for the current vacant properties would be critical to improving the Fund's relative performance.

It was reported that the Head of Property Investments would comment on performance, focussing in particular on the approaches he was adopting to securing tenants and his investment strategy for the 12 months ahead at the Panel meeting in September.

Investments in the Balanced Property Pooled Vehicle Portfolio were also detailed.

Some of the indirect property holdings were generalist balanced pooled vehicles which had been selected by the Executive Director of Pensions in order to increase the overall exposure of the Fund to property. The investments held as part of the balanced property pooled vehicle portfolio at the end of March 2011 were detailed in the report together with details of their performance which had again broadly met the objective of matching the average UK property returns.

**RECOMMENDED**

**That the report be noted.**

**26. CASH MANAGEMENT**

A report was submitted by the Executive Director of Pensions, which explained that the Fund adopted a relatively prudent approach to its cash management. The report outlined the constraints in place to ensure an appropriate level of prudence, focussing primarily on capital preservation and secondly on higher returns. It also detailed the performance achieved last year and over the last three years.

The report concluded that the Pension Fund's cash had been generally well managed. Performance in 2010/11 exceeded market returns and total interest received was £5.1 million.

**RECOMMENDED**

**That the content of the report be noted.**

**27. PROPERTY INVESTMENTS UNIT – QUARTERLY REPORT**

The Head of Property Investments presented his quarterly report on the property investment market together with an analysis of the portfolio's structure, and a summary of investment activity.

**RECOMMENDED**

**That the report be noted.**

**28. A DIGEST OF STATISTICS**

Consideration was given to a report of the Executive Director of Pensions which informed Members of the current exceptional speed and scale of change in the public sector. The report provided some statistics on the impact of these changes on the Fund's membership.

**RECOMMENDED**

- (i) That the content of the report be noted; and**
- (ii) That periodic updates be submitted to the Panel of the statistics provided and the cash flow implications of such changes.**

**29. ACCOUNTING FOR PENSION COSTS – FRS 17/IAS 19**

The Executive Director of Pensions submitted a report which detailed the outcomes of this year's local authority accounting reports and showed the increase in funding levels assessed in accordance with the accounting standards FRS17/IAS 19 that the local authority employers of the Fund would be reporting as at 31 March 2011.

The report summarised that most employers had a deficit on an FRS 17/IAS 19 basis of calculation but the scale of deficit had decreased materially for most employers as highlighted in the report. However, FRS 17/IAS 19 valuations do not determine the contributions that employers need to pay into the fund which were now set until 31 March 2014.

**RECOMMENDED**

**That the report be noted.**

**30. MEMBER TRAINING**

It was noted that the next meeting of the Management/Advisory Panel on 9 September 2011 would be preceded by a mandatory training session for all Members.

The Executive Director of Pensions would advise Members of external training events.

**CHAIR**