

# ITEM NO: 3(a)

## GREATER MANCHESTER PENSION FUND ADVISORY PANEL

3 December 2010

Commenced: 10.00am

Terminated: 12.35pm

Present: Councillor K Quinn (Chair)

Councillors: Baldwin (Wigan), Gartside (Rochdale), Pantall (Stockport), Pennington (Salford), Mitchell (Trafford).

Employee Representatives

Mr Mulryan (AMICUS)

Apologies for absence: Councillors: J Smith (Manchester), Thompson (Oldham) and White (Bolton), Councillor Walton (Bury), Mr Llewellyn (TGWU) and Mr Thompson (UCATT).

### 52. DECLARATIONS OF INTEREST

There were no declarations of interest.

### 53. MINUTES

The Minutes of the proceedings of the meeting of the Pension Fund Advisory Panel held on 10 September 2010 were signed as a correct record.

The Minutes of the proceedings of the meeting of the Pension Fund Management Panel held on 10 September 2010 were signed as a correct record.

The Minutes of the proceedings of the Annual General Meeting held on 10 September 2010 were signed as a correct record.

### 54. LOCAL GOVERNMENT ACCESS TO INFORMATION ACT 1985

#### (a) Urgent Items

The Executive Director of Pensions informed the Panel that First Choice Homes, Oldham (FCHO), Oldham Metropolitan Borough Council's Arms Length Management Organisation (ALMO) for their housing stock, was currently going through the process of switching to a Registered Social Landlord and Oldham MBC acted as guarantor for the new employer.

Oldham MBC had now confirmed that they were prepared to act as guarantor for transferring staff, but not new staff. FCHO required a separate agreement for new staff. Panel approval was required for an admission agreement without a guarantor.

The Executive Director of Pensions explained that he was considering the proposal and planned to move forward in consultation with the Chair of the Panel and the Solicitor to the Fund, when further information was available regarding the numbers involved and the requirements of FCHO.

## **RECOMMENDED**

That the Executive Director of Pensions proceed in consultation with the Chair of the Panel and the Solicitor to the Fund, to make an agreement with FCHO subject to being satisfied on the numbers concerned and the security available for those employees not guaranteed by Oldham.

### **(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:**

<b><u>Items</u></b>	<b><u>Paragraphs</u></b>	<b><u>Justification</u></b>
7, 12, 15	1&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.

## **55. INFORMATION SERVICES WORKING GROUP**

The Minutes of the proceedings of the Information Services Working Group held on 22 October 2010, were considered.

## **RECOMMENDED**

- (i) That the Minutes be received;**
- (ii) With regard to the Pensioners Forum, that the Forum be arranged for 2011 and the current format be continued, taking into account comments for improvements from the survey; and**
- (iii) In respect of Payslips, that the proposal of producing payslips only when the change in net monthly pension is £5 or more, be approved.**

## **56. ETHICS AND AUDIT WORKING GROUP**

The Minutes of the proceedings of the Ethics and Audit Working Group held on 22 October 2010 were considered.

## **RECOMMENDED**

- (i) That the Minutes be received;**
- (ii) With regard to understanding the risks faced by the Pension Fund, that the issues raised with regard to the 'Gap Analysis' be considered by the Working Group; and**
- (ii) That a further report be considered at the next meeting of the Working Group, which prioritises the work programme arising from the matters raised and advocated in Section 6 of the report submitted to the Working Group.**

## **57. ALTERNATIVE INVESTMENTS WORKING GROUP**

The Minutes of the proceedings of the Alternative Investments Working Group held on 29 October 2010 were considered.

### **RECOMMENDED**

- (i) That the Minutes be received; and**
- (ii) With regard to the M&G Companies Financing Fund, that the Working Group receive an update on the decision taken by the Executive Director of Pensions together with the rationale thereof.**

## **58. PROPERTY WORKING GROUP**

The Minutes of the proceedings of the Alternative Investments Working Group held on 29 October 2010 were considered.

The Chair of the Working Group, Councillor Taylor, made reference to a recent bid by the Property Venture Fund, for a large site on the fringes of Manchester City Centre. Although only in the preliminary stages, the bid increased the Fund's exposure to property beyond the agreed ceiling.

### **RECOMMENDED**

- (i) That the Minutes be received; and**
- (ii) Further information regarding the progress of the bid for a large site on the fringes of Manchester City Centre be reported to the next meeting of the Panel.**

## **59. PENSIONS INCREASE 2011**

The Executive Director of Pensions submitted a report which outlined the way in which LGPS pensions were increased each year in line with inflation, reports that an increase of 3.1% was expected to apply from April 2011 and compared this with past increases and past and future actuarial assumptions on the price inflation.

### **RECOMMENDED**

**That the report be noted.**

## **60. PROPERTY INVESTMENTS UNIT – QUARTERLY REPORT**

The Head of Property Investments presented his quarterly report on the property investment market together with a summary of recent management and investment activity.

### **RECOMMENDED**

**That the report be noted.**

## **61. CIPFA BENCHMARKING**

Consideration was given to a report of the Executive Director of Pensions which provided information about the costs of the Fund's pensions administration service, and compared those costs with other LGPS funds via the CIPFA Benchmarking Club.

The report concluded that the Fund's unit costs were the lowest of the large funds (and the second lowest in the Club). Member surveys revealed good levels of satisfaction from different categories of members. A number of awards had been won over the years for quality of service. Overall the

administration service was considered effective and low cost, and the need to continue to improve was recognised.

**RECOMMENDED**

**That the report be noted.**

**62. MANCHESTER CITY COUNCIL – RESOURCES AND GOVERNANCE OVERVIEW AND SCRUTINY COMMITTEE**

The Executive Director of Pensions submitted a report which had been considered by Manchester City Council's Resources and Governance Overview and Scrutiny Committee. The report provided a brief summary of current pension issues and the performance of GMPF with a slant towards Manchester's participation in the Fund.

In summary the report concluded that the next 3-5 years was likely to be an exceptionally challenging period for GMPF and the employers that participated in the Fund.

The Fund had an excellent long term investment track record and it benefited from economies of scale. This had led to the Fund being amongst the best funded LGPF schemes in the country with employer contribution rates at the bottom end of the range.

Manchester was the 'best funded' of the AGMA local authorities in 2007 and was expected to maintain its position in 2010.

Employer contributions were expected to increase with effect from April 2011.

The Executive Director of Pensions extended an invitation to other authorities, who may wish for a similar presentation, to inform him and he would make necessary arrangements.

**RECOMMENDED**

**That the report be noted.**

**63. PENSION OFFICE ACCOMMODATION**

A report was submitted by the Executive Director of Pensions which explained that the current accommodation for the Pensions Office's 90 staff (the Concord Suite, Droylsden) was in need of major refurbishment if it was to continue to be able to provide office accommodation in the medium term. The alternative was to find a new base for staff.

The various options for the suitability of the Concord Suite for long term office use, the relocation of the Pension Office staff within Droylsden and possibility of new build office accommodation for Pensions Office in Droylsden were detailed, and it was:

**RECOMMENDED**

- (i) That the relocation of the Pensions Office from the Concord Suite Droylsden to new office accommodation located in Droylsden be approved in principle;**
- (ii) That GVA Grimley, acting on behalf of GMPVF, undertake the necessary actions culminating in the production of a development financial appraisal for the new build project; and**
- (iii) That a further report be submitted to a future meeting of the Management Panel containing a development financial appraisal and seeking Management Panel approval to the GMPVF committing to site acquisition and to the new office development project.**

#### **64. SUMMARY VALUATION OF THE PENSION FUND INVESTMENT PORTFOLIO AS AT 30 JUNE 2010 AND 30 SEPTEMBER 2010**

A report of the Executive Director of Pensions was submitted, detailing and comparing the market value of the Fund's investment portfolio as at 30 June 2010 and 30 September 2010.

#### **RECOMMENDED**

**That the report be noted.**

#### **65. UNDERWRITING, STOCKLENDING AND COMMISSION RECAPTURE**

The Executive Director of Pensions reported that the Fund did not participate in any sub-underwriting via UBS in the quarter ended 30 September 2010. It was also reported that Capital International did not participate in underwriting activity.

Stocklending during the quarter was nil.

Commission recaptured during the quarter was £21,339 and compared with £23,997 in the same quarter of 2009.

#### **RECOMMENDED**

**That the report be noted.**

#### **66. 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 30 September 2010, Capital had outperformed at 8.4% against their benchmark index of 8.0%. UBS had outperformed at 11.0% against their benchmark index of 10.1% and Legal and General had broadly succeeded in tracking their benchmark.

Performance figures for the twelve months to 30 September 2010 were also detailed which showed that Capital had outperformed their benchmark by 1.3%, UBS had underperformed their benchmark by 1.8% and Legal and General had succeeded in tracking their benchmark.

#### **RECOMMENDED**

**That the report be noted.**

#### **67. VALUATION UPDATE**

Consideration was given to a report of the Executive Director of Pensions and a presentation from John Wright of Hymans Robertson, Actuary to the Fund, which commented on developments over the last 3 months which had, in aggregate, had a beneficial impact on the funding level; flagged material issues that the Actuary and Panel would need to consider as part of the valuation process and commented on the outlook for employer contributions.

It was reported at the last meeting that there had been a fall in funding levels since the 2007 valuation, however, over the last three years, the fund had relatively good investment returns which greatly helped in maintaining an average rate of employer contributions which was likely to be amongst the lowest of the local authority schemes.

It was explained that the strength of GMPF's funding position was driven by a variety of factors with long-term investment performance being most important, supported by a historically relatively prudent approach which in the long term had proved financially beneficial.

With regard to contribution rates, Members were informed that Local Authority employers had been advised to budget for an employer increase of 1% per annum from 1 April 2011 with further similar increases in subsequent years.

Issues facing less secure employers were detailed and discussed.

Mr Wright explained that the difficult task for the Actuary and Panel in this challenging environment was to balance the potentially conflicting aims of affordability, stability and prudence, balancing short term and longer term aspirations. In carrying out this task, transparency of process needed to be maintained.

In formulating its Funding Strategy Statement, which guided the Actuary in his valuation, the important decisions were highlighted as follows:

- The asset out-performance assumption;
- Deficit recovery/surplus spreading periods; and
- Phasing in of changes to contribution rates.

The report and presentation concluded that over the last 18 months the funding level and outlook for employer contributions had improved materially. Whilst very few valuations had reached a conclusion, the expectation was that GMPF would maintain its position amongst the best funded local authority schemes and its employers' average employer contribution rate would be amongst the lowest.

The current expectations for material reductions in public expenditure would affect most of the Fund's employers. Significant reductions in the public sector workforce were expected over the next 3 – 5 years. In part, this would be achieved by early retirements. Some employers would cease to be viable and some employers would be abolished. This was a very challenging environment for employers and as previously commented, raised complex matters for the Fund where issues of prudence, stewardship, affordability and stability would need to be considered on a case by case basis.

## **RECOMMENDED**

- (i) That the Actuary's use of assumptions as set out in Option 2 in the report, be supported;**
- (ii) That employers continued to be advised of their indicative outcomes;**
- (iii) Where there are very difficult cases, the Executive Director of Pensions take appropriate actuarial, financial and legal advice in implementing the valuation outcome in line with the Funding Strategy Statement; and**
- (iv) The Funding Strategy Statement be amended to reflect the proposals in the report with regard to:**
  - **Deficit recovery; and**
  - **The valuation method adopted by the Actuary be considered on a case by case basis.**

## **68. PENSION COMMISSION – PHASE II**

Consideration was given to a report and presentation of the Executive Director of Pensions and John Wright of Hymans Robertson, Actuary to the Fund, which made reference to an interim report of the Pension Commission which set out the landscape around public service pensions and considered the case for reform. The final report would look at options for structural reform. Lord

Hutton considered such reform was vital, given concerns around fairness, increases in longevity, management of risk and the need to reduce barriers to different ways of providing public services.

Details were given of the call for evidence issued by Lord Hutton on 1 November 2010, a copy of which was attached to the report. The deadline for responses was 17 December 2010.

Mr Wright set out some of the issues for consideration when forming GMPF's response to the call for evidence, including:

- Scheme design;
- Risk sharing;
- Adequacy;
- Employee understanding and choice;
- Pensions and plurality of provision of public services;
- Administration cost; and
- Transition issues.

The report and presentation concluded by outlining the key areas to form the basis of the response as follows:

- The retention of a funded scheme;
- The benefits of a Career Averaging Revalued Earning (CARE) approach to benefit design;
- Measures in place to manage volatility of cost to both employees and employers;
- Cost effective to deliver and offer good value to both employees and employers;
- LGPS should build on the foundation of state pension and savers should be rewarded; and
- Adequate planning time needed to be allowed for transition to any new scheme.

Discussion ensued with regard to the above and Members commented on the importance of a simple scheme, good governance, and maintaining a funded scheme. Concerns were also expressed with regard to the level of people opting out of the scheme should employee contributions increase.

## **RECOMMENDED**

- (i) That the content of the report and presentation be noted;**
- (ii) That the Executive Director of Pensions, in consultation with the Chair, Deputy Chair and Chairs of Working Groups, draft a response to Lord Hutton's call for evidence, ensuring all views expressed are reflected; and**
- (iii) That a copy of the final response be circulated to all Members.**

## **69. REPORTS OF THE MANAGERS**

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

Stephen Gosztony, President of Capital International Limited, began by commenting on a strong quarter for market returns and explained that fears of a 'double-dip' recession had receded.

He then made reference to the portfolio's overweighting in equities and added that this was deemed to be the right approach going forward.

Richard Carlyle, Vice President and Investment Specialist, Capital International Limited, informed Members of the views reflected in the portfolio as follows:

- Double-dip recession unlikely;
- Sustainable growth companies deliver results;
- Attractive valuations were selectively driving up cyclical exposure;

- Short term uncertainties created long-term investment opportunities; and
- Emerging middle class in developing countries was driving economic growth.

The Advisers were then asked to comment.

Mr Moizer congratulated Capital on their outperformance for the quarter and supported their strategy going forward.

**(b) UBS Global Asset Management**

John Nestor, Head of UK and Managing Director at UBS Global Asset Management commented on a good performance in the quarter and the overall very strong performance of equity markets.

He also made reference to the unlikely scenario of a 'double dip' recession.

Richard West, Senior Portfolio Manager, UK Value Equities and Managing Director, UBS Global Asset Management, outlined UK equity positions and sector and stock views as of 30 September 2010. He also gave an update on large portfolio positions.

The Advisers were then asked to comment.

Mr Hemingway made reference to asset allocation and agreed with UBS's stance on equities. He also raised concerns with regard to worsening government finances and difficult times ahead with the likelihood of volatile markets.

Richard West concurred with Mr Hemingway's views and John Nestor expressed caution with regard to government bonds.

**CHAIR**