

ITEM NO: 3(a)

GREATER MANCHESTER PENSION FUND ADVISORY PANEL

4 March 2011

Commenced: 10.00am

Terminated: 12.25pm

Present: Councillor K Quinn (Chair)

Councillors: Baldwin (Wigan), Lambert (Rochdale), Mitchell (Trafford), Pantall (Stockport), Pennington (Salford), Smith (Manchester), Thompson (Oldham), Walton (Bury), White (Bolton)

Employee Representatives

Ms Baines (UNISON), Mr Llewellyn (TGWU), Mr Mulryan (AMICUS), Mr Thompson (UCATT)

70. DECLARATIONS OF INTEREST

There were no declarations of interest.

71. CHAIR'S OPENING REMARKS

The Chair welcomed everyone to the meeting and introduced a new Member, Councillor Lambert representing Rochdale Council, who had replaced Councillor Gartside.

It was agreed that Councillor Lambert also replace Councillor Gartside on the Information Services and Alternative Investments Working Groups.

72. MINUTES

The Minutes of the proceedings of the meeting of the Pension Fund Advisory Panel held on 3 December 2010 were signed as a correct record.

The Minutes of the proceedings of the meeting of the Pension Fund Management Panel held on 3 December 2010 were signed as a correct record.

73. LOCAL GOVERNMENT ACCESS TO INFORMATION ACT 1985

(a) Urgent Items

- (i) The Executive Director of Pensions updated the Panel with regard to progress on Elisabeth House, 1 St Peter's Square, Manchester. He informed Members that the partner in this venture, Argent, had recently made a request to review the funding arrangements of the project.

The Executive Director of Pensions suggested that this be the subject of an Urgent Matters Panel, should a decision be required prior to the next meeting of the Panel on 1 July 2011.

RECOMMENDED

That funding arrangements for the above project be the subject of an Urgent Matters Panel, should a decision be required prior to the next meeting of the Panel.

- (ii) The Executive Director of Pensions also made reference to a report submitted to the last meeting of the Panel with regard to Pension Office accommodation (Meeting of 3 December 2010, Minute 63 refers) and informed Members that the options available were currently being evaluated and that should a decision with regard to this matter be required prior to the next meeting of the Panel, that this be the subject of an Urgent Matters Panel meeting.

RECOMMENDED

That Pension Office accommodation be the subject of an Urgent Matters Panel, should a decision be required prior to the next meeting of the Panel.

(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>
8, 10, 13, 14	3&10, 3&10, 3&10, 1&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.

74. INFORMATION SERVICES WORKING GROUP

The Minutes of the proceedings of the Information Services Working Group held on 21 January 2011, were considered.

RECOMMENDED

That the Minutes be received.

75. ETHICS AND AUDIT WORKING GROUP

The Minutes of the proceedings of the Ethics and Audit Working Group held on 21 January 2011 were considered.

The Executive Director of Pensions made reference to Minute 36; the proposed work programme to enhance the compliance management of the Fund which was also appended to the minutes. He informed Panel Members that there had been a large amount of recently published material

regarding pension scheme governance and that this was an extensive work programme with no specific timescale.

RECOMMENDED

- (i) That the Minutes be received, with the addition of Councillor W Harrison to the list of persons submitting apologies;**
- (ii) With regard to the proposed work programme to enhance the compliance management of the Fund, that the prioritised work programme set out in Appendix A to the Minutes, be endorsed by the Management Panel;**
- (iii) With regard to the GMPF Statement of Compliance with the UK Stewardship Code, that the draft Statement of Compliance with the UK Stewardship Code, as set out in Appendix B to the Minutes, be adopted by the Management Panel; and**
- (iv) With regard to the “Global Investor Statement on Climate Change: Reducing Risks, Seizing Opportunities and Closing the Climate Investment Gap”, that a copy of the latest Statement be published on the Greater Manchester Pension Fund’s website.**

76. ALTERNATIVE INVESTMENTS WORKING GROUP

The Minutes of the proceedings of the Alternative Investments Working Group held on 28 January 2011 were considered.

RECOMMENDED

- (i) That the Minutes be received, with the addition of Councillor Ricci to the list of persons present;**
- (ii) With regard to PFI and Infrastructure Portfolio: Annual Review, it was agreed that a further report be submitted to the April 2011 meeting of the Alternative Investments Working Group on the implementation of a strategy for PFI/Infrastructure Funds, including the associated staffing and resource issues arising from the increasing exposure; and**
- (iii) With regard to the Alternative Investment Fund Managers’ Directive: Update, that officers continue to monitor developments and liaise with industry/trade bodies regarding the implementation of the Directive.**

77. PROPERTY WORKING GROUP

The Minutes of the proceedings of the Property Working Group held on 28 January 2011 were considered.

With regard to the Property Venture Fund, the Executive Director of Pensions informed Members that the Fund was one of four bidders for a large site on the fringes of Manchester City Centre and further information with regard to the outcome of the bidding process was expected within the next two weeks.

RECOMMENDED

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

78. FUNDING STRATEGY STATEMENT

Further to reports of the Executive Director of Pensions to the July 2010 meeting of the Ethics and Audit Working Group and the December 2010 meeting of the Panel regarding the review of the Funding Strategy Statement, the Head of Pension Fund Investments explained that the Funding Strategy Statement was a document required by regulation, the key purpose of which was to

ensure the Fund's stability and solvency. A copy of the final draft of the Statement could be viewed at www.gmpf.org.uk/pdf/FSS_consultation_ver_12.pdf. A variety of tools set out within the Funding Strategy Statement, which enable the Fund to achieve this purpose, were outlined.

When reviewing the Funding Strategy Statement, the Fund had a duty to consult with interested parties, including employers, and this consultation period ran from August to September 2010. The Head of Pension Fund Investments commented on consultation responses received.

The Fund's Actuary had to have regard to the ongoing refinement of the Funding Strategy Statement as part of the fund valuation process.

RECOMMENDED

That the Funding Strategy Statement be approved.

79. ACTUARIAL VALUATION

The Executive Director of Pensions submitted a report and Mr Bowie and Mr McKay of Hymans Robertson, Actuary to the Fund, delivered a presentation, which gave details of the final stage of the 2010 valuation, which determined employers' contribution rates for the three year period commencing 1 April 2011 to 31 March 2014.

Members were informed that the financial assumptions approved by the Panel at its last meeting (Meeting of 3 December 2010, Minute 67 refers) had been applied and the outcome at the Whole Fund level in terms of funding levels and average employer contribution rate was as previously reported and detailed in the Executive Summary, appended to the report.

Mr McKay reported that the funding level had fallen from 100% at the previous valuation at 31 March 2007, to 96% at this valuation. As a result, the average employer contribution rate will increase from 13.9% to 15.3% (excluding early retirement costs).

Mr McKay gave details of a preliminary benchmarking exercise that Hymans Robertson had conducted in relation to their clients. He reported that the Fund had the highest 2007-2010 investment returns, was the best funded and had the lowest average contribution rates of any of their clients.

The deterioration of the funding position reflected the adverse conditions which the Fund had had to contend with since the previous valuation. In particular, investment returns for the three years to 31 March 2010 were poorer than anticipated at the previous valuation, that was only partially offset by good relative returns.

The outcome at individual employer level could result in very different contribution rates and rate of change. The factors influencing the outcome included:

- Different membership profiles (average age, sex, employee/pensioner mix etc);
- Different experience (pay increases, mortality, retirement experience, transfers);
- Previous contributions paid to recover the deficit;
- Security/guarantees;
- Deficit recovery period; and
- Cash flow.

It was reported that the outcome for employers had been materially better than that envisaged in April 2010. The changes in membership expected over the next 3 years will require increased monitoring of employers and regular updates on the funding implications of these changes and other factors will be reported to Panel.

With regard to investment returns, the Fund had achieved 10% over a 3 year period, which made it the highest performing of Hyman's LGPS clients, the average return being 5%. The target was 20%, but given the current economic climate, this was an excellent relative Fund performance.

Mr Bowie reiterated the excellent results and congratulated everyone involved. He outlined future risks to the Fund including the possibility of a legal challenge to the switch to the Consumer Prices Index, the discount rate, and mortality improvements. He also discussed the Treasury's proposal to increase employee contribution rates, and gave a reminder and timeline on Lord Hutton's review of public sector pension schemes.

RECOMMENDED

That the Valuation report be received.

80. CLG CONSULTATION OF HIGHER EMPLOYEE CONTRIBUTIONS

The Executive Director of Pensions made reference to a letter sent by the Chair to the Chancellor of the Exchequer, expressing concerns regarding the above proposals. A copy of the letter was appended to the report.

RECOMMENDED

That the content of the letter be noted.

81. THE DRAFT LGPS (BENEFITS, MEMBERSHIP AND CONTRIBUTIONS) (AMENDMENTS) REGULATIONS 2011

Consideration was given to a report of the Executive Director of Pensions which informed Members of a short set of draft regulations which had been circulated for comment in December, designed to make a small number of minor technical or clarifying amendments to ill-health related provisions in the Scheme.

RECOMMENDED

That the report be noted.

82. BUSINESS PLAN

Consideration was given to a report of the Executive Director of Pensions which outlined the issues facing the Pension Fund and suggested some key tasks for 2011/12 and future years.

It was reported that the key challenge for the future was dealing with the rapid acceleration of externally driven change, whilst delivering a good service to scheme members and employers.

The risks associated with pension fund investment strategies had been very clearly highlighted in recent years, whereby changes in the value of the Fund's assets did not in the short term at least, move in line with the value of its liabilities. This had been illustrated by the volatility in funding levels over the last decade, the impact on the costs of the Scheme and knock on impact on employers. The implications of material changes in membership and the change in risks that the Fund was exposed to needed to be understood and where applicable, measures introduced to mitigate such risks.

He also commented on the actions taken in response to the challenging economic and market conditions, together with progress made on the key tasks identified for 2010/11.

The main drivers of the continued success of the Fund's investment performance were detailed. The potential legislative changes continued to be the main factor in terms of providing administrative services to members and employers, necessitating revisions to systems and procedures, staff and employer training and communication to Scheme members.

He also reiterated the importance of maintaining and developing the day to day service for members and employers.

RECOMMENDED

That the proposed key tasks, as detailed in the report, be approved.

83. BOLTON AT HOME LIMITED - ADMISSION TO GREATER MANCHESTER PENSION FUND FOR NEW EMPLOYEES

The Executive Director of Pensions submitted a report which explained that an application for admission without a local authority guarantor or pooling arrangement had been made on behalf of Bolton at Home Limited to cover new employees.

The report outlined the financial risks and pros and cons of admission for new employees.

RECOMMENDED

That the admission agreement be supported subject to the conditions described in the report.

84. REPORTS OF THE MANAGERS

(a) UBS Global Asset Management

John Nestor, Head of UK, Managing Director at UBS Global Asset Management began by commenting on the investment framework within which UBS operated with a clear philosophy and a disciplined structure.

With regard to market background, returns to 31 December 2010 were detailed. Mr Nestor reported a strong finish to the quarter and the year and attributed this to equities and emerging markets. He also commented on market volatility, adding that the portfolio had lost some ground over the course of 2010, particularly in equity markets, however, UBS still believed that there was value in this area.

Consensus forecasts of GDP growth and CPI inflation for 2010 and 2011 were outlined and it was explained that the markets had got these pretty badly wrong. Import and energy prices remain a risk and could spur future inflation hikes.

He concluded by describing various economic scenarios and the impact these might have on the returns for various asset classes.

Mr Powers, Head of UK Value Equities, Managing Director, UBS Global Asset Management, made reference to the UK equity portfolio's modest outperformance of the last quarter in a challenging environment.

He stated that being contrarian had served the portfolio well over the long term, but that over the last three years, the backdrop to this investment style had been challenging. The relative performance of the portfolio over the last three financial years, along with associated major reasons thereof, was outlined.

Mr Powers stated that the very largest companies generally offered great value. He gave an update on one such large portfolio holding. With regard to equity markets, he commented on the positive effect of quantitative easing.

The Advisers were then asked to comment.

Mr Hemingway congratulated UBS on their long term performance. However, he raised concerns regarding overseas equity performance, which he felt had perhaps been a drag on the long term overall performance of the portfolio and questioned whether the value style of investing worked overseas. Mr Powers, in his response, acknowledged Mr Hemingway's concerns, explained why he felt value investing did work overseas and stressed the need for patience as overseas long term performance was good.

Mr Hemingway also made reference to long term bond yields and asked by how much yields needed to increase before they impacted on equity markets.

Mr Nestor responded that there would need to be a considerable shift in long term bond yields, before there was a move from equities to bonds.

Mr Moizer added his congratulations to UBS on being the backbone of the Fund's excellent long term performance. He concurred with the stance of UBS on corporate bonds and sought their views on the mining sector.

Mr Powers responded that there was a need to be at the defensive end of the spectrum in this sector.

Mr Bowie agreed that he was perfectly comfortable with UBS' positioning of the portfolio at the present time.

(b) Capital International

Mr Gosztony, President, Capital International Limited, began by commenting on a successful last two years for the portfolio with a good market environment, despite some volatility. He made reference to Capital's approach of looking for companies at reasonable valuations. With regard to the last quarter, he reported that the portfolio had performed particularly well. The key to the portfolio's outperformance was attributed to individual stock selection rather than asset allocation.

Mr Gosztony explained the gradual shift from a defensive stance at the start of 2010 to one with much more cyclical exposure going into 2011.

It was reported that the economic outlook was improving, but risks still remained. He made particular reference to emerging markets, where a lot of companies with sustainable earnings could be found.

Mr Carlyle, Vice President and Investment Specialist, Capital International Limited, commented further on the US economy which continued to expand, however there were risks present. The US property market was still depressed and unemployment was high.

He also made reference to adjusting the mix of holdings within the portfolio as risks changed, and gave examples of portfolio investments in the technology and energy sectors.

Mr Carlyle highlighted research visits to Japan and Australia in 2010 which had revealed contrasting fortunes in the Pacific region.

He reiterated that 2010 had been a strong year for emerging markets, but warned of challenges ahead.

The Advisers were then asked to comment.

Mr Hemingway congratulated Capital on their outperformance.

Mr Moizer commented on the reported profits of emerging market companies and the reliability of such accounting information. He further sought Capital's views on the currency risk of overseas holdings.

Mr Carlyle explained that depreciation rates were the most commonly manipulated accounting data but by analysing cashflows the effect of this was stripped out. He stated that most of the time, Capital were willing to bear the risk of foreign currency on overseas holdings, notwithstanding that this was a risk that Capital endeavoured to understand as best they could.

85. GMPF ADMINISTRATION EXPENSES BUDGET 2011/2012

A report of the Executive Director of Pensions was submitted which outlined the 2010/2011 revised estimate and the 2011/2012 original estimate for the Fund's cost of administration. Favourable comparisons were also made with costs at other local authority pension funds.

RECOMMENDED

That the budget for 2010/2011 at £12.9m be approved.

86. SUMMARY VALUATION OF THE PENSION FUND INVESTMENT PORTFOLIO AS AT 30 SEPTEMBER 2010 AND 31 DECEMBER 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 September 2010 and 31 December 2010.

RECOMMENDED

That the report be noted.

87. 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 31 December 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 £24,421 and compared with £11,490 in the same quarter of 2009.

RECOMMENDED

That the report be noted.

88. 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 December 2010, Capital had outperformed at 7.8% against their benchmark index of 6.9%. UBS had tracked their benchmark of 5.7% and Legal and General had broadly succeeded in tracking their benchmark.

Performance figures for the twelve months to 31 December 2010 were also detailed, which showed that Capital had outperformed their benchmark by 1.3%, UBS had underperformed their benchmark by 1.2% and Legal and General had succeeded in tracking their benchmark.

RECOMMENDED

That the report be noted.

89. PROPERTY INVESTMENTS UNIT – QUARTERLY REPORT

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

RECOMMENDED

That the report be noted.

90. PERFORMANCE STANDARDS IN THE PENSIONS OFFICE

Consideration was given to a report of the Executive Director of Pensions which advised Members of additions to the established performance standards for the Pensions Office, which had been in operation since 1995.

A complete list of the proposed standards was detailed in the report.

RECOMMENDED

That the performance standards detailed in the report be adopted.

91. LGPS COUNCILLORS PENSIONS

The Executive Director of Pensions submitted a report which gave a brief outline of the rules surrounding membership of the LGPS for Councillors and the benefits provided.

RECOMMENDED

That the report be noted.

CHAIR