

ITEM NO: 3(a)

GREATER MANCHESTER PENSION FUND ADVISORY PANEL

9 September 2011

Commenced: 9.45am

Terminated: 12.20pm

Present: Councillor K Quinn (Chair)

Councillors: Baldwin (Wigan), Grimshaw (Bury), Houle (Oldham), Pantall (Stockport), Pennington (Salford), Mitchell (Trafford), White (Bolton).

Employee Representatives

Mr Fraser (GMB) and Mr Thompson (UCATT).

Apologies for Mr Mulryan (AMICUS)

Absence:

31. CHAIR'S OPENING REMARKS

The Chair, Councillor Kieran Quinn welcomed Members to the meeting and explained that training sessions would be held twice a year at the Panel, before the general business of the Fund was considered.

32. MEMBER TRAINING

A mandatory training session was provided for Trustees of the Panel as follows:-

- Background to GMPF and its Governance Structure – Steven Taylor, Head of Pensions Investments; and
- Growing Old Gracefully – Alison Murray, Hymans Robertson.

Presentation slides were provided to all Members.

33. DECLARATIONS OF INTEREST

There were no declarations of interest.

34. MINUTES

The Minutes of the proceedings of the meeting of the Pension Fund Advisory Panel held on 1 July 2011 were signed as a correct record.

The Minutes of the proceedings of the meeting of the Pension Fund Management Panel held on 1 July 2011 were signed as a correct record.

35. 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>
6, 8, 11, 12 and 14	3&10, 1&10, 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.

36. PENSION FUND WORKING GROUPS

(a) Information Services Working Group

The Minutes of the proceedings of the meeting of the Information Services Working Group held on 22 July 2011 were considered.

RECOMMENDED

That the Minutes be received.

(b) Ethics and Audit Working Group

The Minutes of the proceedings of the meeting of the Ethics and Audit Working Group held on 22 July 2011 were considered.

RECOMMENDED

That the Minutes be received.

(c) Property Working Group

The Minutes of the proceedings of the meeting of the Property Working Group held on 29 July 2011 were considered.

RECOMMENDED

- (i) **That the Minutes be received.**
- (ii) **That Councillor Taylor be appointed Alternative Director to the Elisabeth House Board.**

(d) Business Development Working Group

The Minutes of the proceedings of the meeting of the Business Development Working Group held on 9 August 2011 were considered.

RECOMMENDED

That the Minutes be received.

37. REPORTS OF THE MANAGERS

(a) UBS Global Asset Management

Mark Powers, Head of UK Value Equities, UBS Global Asset Management, made reference to the economic recovery which had weakened, with the Philadelphia Fed Survey indicating that the US economy could be back in recession territory. He stated that this was the weakest post-war US recovery and that confidence was low with household saving increasing, despite the Fed cutting interest rates. Housing investment had frozen at its low levels.

Reasons for weak growth and low confidence were outlined as follows:-

- Weak employment/income growth;
- Too many savers and not enough spenders;
- Past excesses not fully purged; and
- A lack of new policy initiatives.

He further reported reasons to be cautiously optimistic as follows:-

- Corporate profits and balance sheets were strong;
- The shape of the bond yield curve;
- Real interest rates were negative;
- Jobless claims remained relatively muted; and
- Confidence among both the public and asset managers was low.

Whilst UBS had not yet implemented an asset allocation shift in response to market movements, he applauded the Fund's decision to invest £200m of cash into equities following recent stock market declines and concluded by outlining the portfolio asset allocation as at 1 September 2011.

(b) Capital International

Richard Carlyle, Vice President and Investment Specialist, Capital International Limited, commented that the path to recovery and growth had been slow and at times unsteady and that this was a familiar pattern for recoveries following financial crises.

He further added that the global economy was witnessing a moderation in growth and this renewed slowdown had a number of causes:-

- European sovereign debt crisis; and
- Persistently weak US housing market.

Whilst other causes were more short term in nature:-

- Supply bottlenecks due to Japan's natural disaster; and
- Oil price spike from political turmoil in the Middle East.

He stated that the recent negative economic data indicated a mid-cycle pause rather than a slide back into recession, however recovery was underway as:-

- US economy continued to expand;
- Strong growth in Germany;
- Japanese industrial production was rebounding; and

- Robust growth in many emerging markets.

He outlined index returns by region and sector for the 8 months to 31 August 2011 and provided Capital's updated views on the near term issues that were identified at the previous meeting of the Panel. He further explained that previous economic recoveries had taken longer following recessions caused by financial crises and that risks remained in the economy, particularly the credit exposure of major countries to Greece, Portugal, Ireland, Spain and Italy. The relative merits of the Emerging versus the Developed Markets were discussed.

Mr Carlyle concluded by outlining the portfolio investment results by asset class and the asset allocation breakdown as at 30 June 2011, stating that Capital, like GMPF, had subsequently allocated cash to equities.

Advisors comments were then invited.

Mr Hemmingway stated that he was happy to see Capital switching from government bonds to equities, but he did fear a 'double dip' recession. He suggested that the Fund's benchmark may need to be reviewed at some stage, but not until the Fund's overweight cash holding was reduced.

RECOMMENDED

That the content of presentations be noted.

38. PROPERTY INVESTMENT

(a) Property Investment Strategy

Consideration was given to a report and presentation from the Head of Property Investments which advised Members of the property investment portfolio's recent performance and the strategy which the Head of Property Investments would be following over the next twelve months.

He also summarised activity during the year and the current portfolio structure. Forecast returns for the period 2010/2014 and the portfolio strengths and weaknesses were also outlined.

Strategic recommendations were also outlined and discussed.

RECOMMENDED

(i) That the report be noted.

(ii) That the recommendations contained within the report be approved.

(b) Property Investment – 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.

39. ANNUAL REPORT AND ACCOUNTS

(a) Annual Governance Report

The Executive Director of Pensions informed Members that the Ethics and Audit Working Group had given detailed consideration to the accounts at its last meeting and, and as required by International Standards on Auditing (ISA 540), had reviewed the reasonableness of significant assumptions for estimates to be used in the accounts and approved the bases applied.

A copy of the Audit Progress Report as at July 2011 was attached at **Appendix 2** and it was reported that a letter (detailed at **Appendix 3**) had also been sent to the District Auditor by the Chair of the Working Group and Executive Director of Pensions setting out:-

- How those charged with Governance exercised oversight of management processes;
- How the Working Group oversaw processes to identify and respond to the risk of fraud; and
- How the Working Group gained assurance that all relevant laws had been complied with.

As a result of regulatory change and Audit Commission national guidance, the District Auditor issued two reports on the financial statements of the Fund, covering:

- The Fund's financial statements as covered in the Fund's Annual Report; and
- The Fund's financial statements included within the administering authority's accounts.

The District Auditor presented his Annual Governance report (detailed at **Appendix 4**). He envisaged an unqualified audit opinion and drew the Panel's attention to the Action Plan agreed with management.

RECOMMENDED

- (i) That the content of the reports be noted;**
- (ii) That the Chair of the Panel and Executive Director of Pensions sign the letter of representation on behalf of the Management Panel; and**
- (iii) That the proposed action plan be agreed.**

(b) Annual Report and Accounts

The Executive Director of Pensions stated that the Annual Report and Accounts were available at www.gmpf.org.uk and it was -

RECOMMENDED

That the Annual Report and Accounts be approved.

40. LGPS DEVELOPMENTS

Consideration was given to a report of the Executive Director of Pensions detailing information about recent developments regarding the Scheme, in particular the written Ministerial Statement (detailed at **Appendix 1**) which was published on 19 July 2011 by the Chief Secretary to the Treasury, Danny Alexander and the response of the DCLG as it applied to the LGPS (detailed at **Appendix 2**).

RECOMMENDED

- (i) That the Fund continued in its attempts to obtain the best possible LGPS for both members and employers, whilst recognising the conflicts that arose.**
- (ii) That a letter be sent to the Government recommending that the consultation planned for the autumn focused on delivering the required savings in 2012/13 (rather than the 3 year package).**

41. QUARTERLY REPORTS OF THE DIRECTOR OF PENSIONS

- (a) Summary Valuation of the Pension Fund Investment Portfolio as at 31 March 2011 and 30 June 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 March 2011 and 30 June 2011.

RECOMMENDED

That the report be noted.

(b) Underwriting, Stocklending and Commission Recapture

Consideration was given to a report of the Executive Director of Pensions detailing the activity and income generated on Underwriting, Stocklending and Commission Recapture during the quarter.

He reported that the Fund did not participate in any sub-underwriting via UBS in the quarter ended 30 June 2011. It was also reported that Capital International did not participate in underwriting activity.

Stocklending during the quarter was £8,043, compared with £nil in the same quarter of 2010.

Commission recaptured during the quarter was £16,835 and compared with £14,024 in the same quarter of 2010.

RECOMMENDED

That the report be noted.

(c) External Manager's 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 June 2011, Capital had underperformed by 0.8% their benchmark index of 1.0%. UBS had outperformed by 0.3% against their benchmark index of 1.8% and Legal and General had succeeded in tracking their benchmark.

Performance figures for the twelve months to 30 June 2011 were detailed which showed that Capital had outperformed their benchmark by 0.3%, UBS had outperformed their benchmark by 0.4% and Legal and General had succeeded in broadly tracking their benchmark.

RECOMMENDED

That the report be noted.

42. UPDATE ON INVESTMENT MARKETS

Consideration was given to a report of the Executive Director of Pensions detailing the Fund's response to recent market turbulence, including the injection of two tranches of £100 million each into equity markets.

The Head of Pensions Investments reminded Members that between October 2008 and March 2009, in the wake of the financial crisis and following significant falls on stock markets, the Fund invested £300 million into the equity markets and subsequently generated cash proceeds of £390 million.

He also stated that as part of the Investment Strategy 2011/12 process there had been a significant degree of discussion regarding the Fund's cash holding and where it could be best deployed.

It had been decided that there should be no immediate change to the overall benchmark allocation for cash, but that the 3% tactical component be kept under review for possible redeployment into other assets.

In conclusion it was envisaged that a further £100 million tranche of cash could be invested into indexed equity if the FTSE 100 level fell below 4,800. However, it was noted that much uncertainty remained in the economic outlook and world financial markets and there was a good chance that equities could well move sideways for a sustained period.

RECOMMENDED

That the report be noted.

43. ANNUAL REPORTS

(a) Annual Administration Report – Review of Delegated Actions

Consideration was given to a report of the Executive Director of Pensions detailing the Scheme of Delegation to officers relating to pension benefits and contributions and the action which had been taken by him during 2010-2011.

RECOMMENDED

That the report be noted.

(b) Internal Dispute Resolution Procedure

Consideration was given to a report of the Executive Director of Pensions detailing the IDR process and the number of Stage 1 and Stage 2 cases and their outcomes that had been received during the period July 2010 to June 2011.

RECOMMENDED

That the report be noted.

44. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC'S)

(a) Scheme AVC's

Consideration was given to a report of the Executive Director of Pensions detailing the annual report of the Prudential and their investment performance, the Fund's provider in relation to the Additional Voluntary Contributions.

RECOMMENDED

That the report be noted.

(b) Review of the Fund's Additional Voluntary Contributions

Consideration was given to a report of the Executive Director of Pensions detailing the review of Prudential which had been conducted by Hymans Robertson in August 2011. A report had been produced and was detailed at **Appendix 1**.

It was reported that Hymans Robertson had found that the Prudential:-

- Showed a strong commitment to the LGPS market;
- Offered excellent marketing of its AVC products to members;
- Offered various types of investments with a default fund of with-profits;
- Provided relatively good investment performance for a typical fee structure; and

- Found “.....no compelling reason to suggest a move away from using Prudential as the sole provider of in-house AVCs...”

RECOMMENDED

That Prudential continue to be the Fund's AVC provider.

45. DATES OF FUTURE MEETINGS

The dates of future meetings for the 2011/12 municipal year were noted as follows:

18 November 2011

2 March 2012

CHAIR