

ITEM NO: 3(a)

GREATER MANCHESTER PENSION FUND ADVISORY PANEL

10 September 2010

Commenced: 10.00am

Terminated: 12.30pm

Present: Councillor K Quinn (Chair)

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

Employee Representatives

Mr Fraser (GMB), Mr Mulryan (AMICUS) and Mr Thompson (UCATT).

26. DECLARATIONS OF INTEREST

There were no declarations of interest.

27. CHAIR'S OPENING REMARKS

The Chair made reference to the death of Councillor S R Oldham CBE, former Chair of the Pension Fund and former Executive Leader of Tameside Council. He paid tribute to his long service and dedication to the Fund and explained that there had been plans to appoint Councillor Oldham as an adviser to the Fund, however, sadly, he had died before being able to take up the position. The Chair added Tameside Council were currently looking at ways to honour his service.

The meeting then stood for a few moments silence in memory of Councillor S R Oldham.

28. MINUTES

The Minutes of the proceedings of the meeting of the Pension Fund Advisory Panel held on 11 June 2010 were signed as a correct record.

The Minutes of the proceedings of the meeting of the Pension Fund Management Panel held on 11 June 2010 were signed as a correct record.

29. 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, 8, 9, 10, 11, 12	3&10, 3&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.

30. JOINT MEETING OF THE INFORMATION SERVICES AND ETHICS AND AUDIT WORKING GROUPS

The Minutes of the proceedings of the joint meeting of the Information Services and Ethics and Audit Working Groups held on 23 July 2010, were considered.

RECOMMENDED

- (i) That the minutes be received.
- (ii) That Councillor W Harrison's name be added to the list of persons submitting apologies.
- (iii) That the scope of the Information Services Working Group, as set out in the report submitted, be approved.
- (iv) That the promotion of the 'Club Together' pensioner affinity group be supported in the April newsletter to GMPF Pensioners.
- (v) With regard to the Independent Pension Commission:
 - (a) That the Executive Director of Pensions draft a response on behalf of the Panel reflecting the views of the Working Group; and
 - (b) That the Executive Director of Pensions consult with the Chairman of the Management Panel on the final submission.
- (vi) That the 'scope of interest'/remit of the Ethics and Audit Working Group, as set out in the report submitted, be approved.

31. LOCAL INITIATIVES AND VENTURE CAPITAL WORKING GROUP

The Minutes of the proceedings of the meeting of the Local Initiatives and Venture Capital Working Group held on 30 July 2010, were considered.

RECOMMENDED

- (i) That the Minutes be received.
- (ii) That the 'scope of interest'/remit of the Local Initiatives and Venture Capital Working Group be amended to include consideration of local investments, as appended to the minutes of the Working Group, and that the Working Group be retitled the Alternative Investments Working Group.
- (iii) With regard to the EU Directive on Alternative Investment Fund Managers (AIFM), that officers continue to monitor developments and liaise with industry/trade bodies regarding the draft AIFM Directive.

32. PROPERTY WORKING GROUP

The Minutes of the proceedings of the meeting of the Property Working Group held on 30 July 2010 were considered.

With regard to Elisabeth House, the Executive Director of Pensions explained that one of the General Partnership Board members, had been suffering ill health for some time and it was felt appropriate to have an alternative director. The Chair stated that details of an alternative director would be considered at a future meeting of the Panel.

RECOMMENDED

That the Minutes be received.

33. WORKING GROUP MEMBERSHIP

RECOMMENDED

That the following additional appointments to the Working Groups be agreed:

- (i) Councillors Ambler and White be appointed to the Ethics and Audit Working Group;**
- (ii) Councillors Gartside and Beeley and Mr Fraser be appointed to the Information Services Working Group;**
- (iii) Councillors Buckley, Gartside and Thompson be appointed to the Alternative Investments Working Group (formerly Local Initiatives and Venture Capital Working Group); and**
- (iv) Councillor Lane be appointed to the Property Working Group and be removed from the Information Services Working Group.**

34. SUMMARY VALUATION OF THE PENSION FUND INVESTMENT PORTFOLIO AS AT 31 MARCH 2010 AND 30 JUNE 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 31 March 2010 and 30 June 2010.

RECOMMENDED

That the report be noted.

35. 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 June 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 £14,024 and compared with £31,202 in the same quarter of 2009.

RECOMMENDED

That the report be noted.

36. 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 June 2010 Capital had tracked their benchmark index of -7.8%. UBS had underperformed by 2.1% against their benchmark index of -8.3% and Legal and General had succeeded in tracking their benchmark.

Performance figures for the twelve months to 30 June 2010 were also detailed which showed that Capital had outperformed their benchmark by 1.4%, UBS had underperformed their benchmark by 0.4% and Legal and General had succeeded in slightly exceeding their benchmark.

RECOMMENDED

That the report be noted.

37. ACTUARIAL VALUATION

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 have, 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.

Mr Wright explained that there had been a fall in funding levels since the 2007 valuation, however he added that over the last three years the fund had relatively good investment returns which helped maintain the average rate of employer contributions amongst the lowest of the local authority schemes.

The main reason for the fall in funding level compared to the 2007 valuation was that investment returns were less than the Actuary assumed, albeit the Fund's relatively good investment performance partially mitigated the scale of the fall.

The last report to the Panel in June 2010 (Meeting of 11 June 2010, Minute 13 refers) forecast a funding level of 82% as at March 2010. The changes in financial assumptions outlined in the report increased the funding level to approximately 92%.

The Executive Director of Pensions summarised that over the last 18 months the funding level and outlook for employer contributions had improved materially. He advised that employer contribution rates for local authority employers (and employers that were pooled with them) were expected to increase incrementally by 1% of payroll per annum over three years.

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 Executive Director of Pensions acknowledged that this was a very challenging environment for employers and raised complex matters for the Fund where issues of prudence, stewardship, affordability and stability would need to be considered. He added that individual employer results should be available for the December meeting of the Panel.

RECOMMENDED

- (i) That the content of the report and the presentation be noted;**
- (ii) That the Actuary's current estimated funding position of the Fund as a whole be noted; and**

- (iii) That officers have discussions with individual employers regarding their potential outcome as the Actuary assesses their positions with priority being given to employers without a local authority guarantor.

38. REPORTS OF THE MANAGERS

(a) UBS Global Asset Management

John Nestor, Head of UK, UBS Global Asset Management, commented on a volatile quarter for markets and a negative performance for the portfolio.

He made reference to positive economic momentum, but stated that markets were unsure looking forward, with valuation and stress indicators giving mixed signals.

It was reported that this was partly caused by Euro-zone concerns and the risk of default by some countries on their debt.

Asset allocation as at 1 September 2010 was outlined and it was stated that the portfolio was overweight UK equities.

Mark Powers, Head of UK Value Equities, UBS Global Asset Management, also commented on the areas that had contributed to under and over-performance in the last quarter.

He detailed UBS's response to price movements in the quarter to 30 June 2010 as follows:

- Switching between stocks in the oil sector,
- Added to consumer cyclicals and banks; and,
- Reduced defensive and capital goods stocks.

Mr Powers made particular reference to the Gulf of Mexico incident and the issues facing BP, including:

- Halting the spill;
- Clean up costs;
- Liabilities – compensation, fines, penalties;
- Ability to fund liabilities; and
- US business and reputation.

The Advisers were then asked to comment.

Mr Moizer commented that UBS had always been contrarian and that what they were doing made sense and had been the engine of the Fund's outperformance over the long term.

Mr Hemingway commented on BP and also sought the views of UBS regarding why real yields on bonds were so low. He stated that equities looked cheap but questioned what effect on equity markets an increase in bond yields would have. Mr Nestor commented that the demand for less risky assets was huge, people were trying to hedge against inflation and low real bond yields reflected the price that people were willing to pay to take risk 'off the table'.

(b) Capital International

Stephen Gosztony, President of Capital International Limited, began by commenting on a negative second quarter for market returns and the possibility of a 'double-dip' recession, however, he added that Capital's view was that this was not going to happen.

It was reported that equity results had been positive in relative terms for the quarter and the last 12 months, fixed income results were negative for the quarter but positive over the last 12 months and asset allocation was also negative for the quarter due the equity overweight.

Martyn Hole, Investment Specialist, Capital International, then explained the impact of Capital's decisions for GMPF regarding a variety of key themes including asset allocation, the portfolio weighting in the Emerging and Developed Markets and sector exposure. The Advisers were then asked to comment.

Mr Hemingway stated that he remained unconvinced with regard to Capital's views about the risk of a 'double-dip' recession and sought Capital's views with regard to the outlook for exports from developed countries, given the weak consumer spending data.

Mr Hole, in his response, predicted a period of subdued but not negative consumer spending and for US exports into Latin America and Asia to increase. He also made reference to the risk that the tax cuts of the Bush administration could be withdrawn, which would damage the outlook for US exports.

Mr Moizer commented on Capital's 'global portfolio' and congratulated them on their outperformance over the last 12 months and sought reassurance that this was repeatable. Mr Moizer also sought Capital's views with regard to what companies would do with their cash.

Mr Hole stated that, with regard to cash it was considered that investment, especially in IT, would be instigated soon and mergers and acquisitions activity was expected to increase.

39. EQUITY BENCHMARK ALLOCATION

The Executive Director of Pensions submitted a report which set out the background to the Fund's equity allocations and considered; increasing the allocation to Overseas Equity; adjusting the split of Overseas Equities; and the overall approach to currency exposure.

RECOMMENDED

- (i) That approval be given to:**
 - (a) Changing the UK:Overseas Equity mix from 50%:50% to 45%:55% and**
 - (b) Changing the regional allocations within Overseas Equity as detailed within the report.**
- (ii) That the timing and detailed implementation of the changes be settled by the Executive Director of Pensions following consultation with the Managers and Advisors.**
- (iii) That a future report be considered by the Panel on currency hedging and/or active currency management.**

40. PROPERTY INVESTMENTS UNIT – PROPERTY STRATEGIC REVIEW 2010

Consideration was given to a report and presentation from the Head of Property Investments which advised Members of the property portfolio 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.**

41. 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.

42. RESPONSE TO PENSION COMMISSION

Consideration was given to a report of the Executive Director of Pensions which explained that the joint meeting of the Information Services and Ethics and Audit Working Groups considered a report and presentation on a prospective response to the Commission. The report advised the Panel of the response submitted, which was appended to the report.

RECOMMENDED

That the report be noted.

43. RESTRICTIONS OF PENSIONS TAX RELIEF

A report of the Executive Director of Pensions was submitted which gave information regarding a consultation document published by HM Treasury; 'Restriction of Pensions Tax Relief'. The report summarised the key points of that document and provided a copy of the Chair's response to the Treasury.

RECOMMENDED

That the report be noted.

44. WATER COMPANY PENSION INCREASES RECHARGES

The Executive Director of Pensions submitted a report which explained that the Environment Agency currently pay GMPF approximately £95,000 per annum in respect of pensioners formerly employed by Water Act companies. The LGPS regulations had recently changed and they now permit, subject to the Fund's consent, the discharge of these liabilities by a one-off lump sum. The basis of calculating the lump sum due would be on a fair basis. A copy of the letter from the Environment Agency was attached that offered to discharge this liability by way of a single lump sum payment.

RECOMMENDED

- (i) That the discharge of the Environment Agency's liabilities by way of a single lump sum payment subject to the Executive Director of Pensions being satisfied that the basis of calculation was fair, be agreed.**
- (ii) That the delegations to the Executive Director of Pensions be extended to include the power to accept such payments in the future subject to the calculation being on an equitable basis.**

45. PENSION OFFICE ACCOMMODATION

Consideration was given to a report of the Executive Director of Pensions which informed Members 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 some office accommodation in the medium term. The alternative was to find a new base for staff.

The suitability of the Concord Suite for long term office use was outlined and the case for an alternative location detailed.

RECOMMENDED

That a further report be submitted to a future meeting of the Management Panel evaluating the feasibility of relocating in Droylsden.

46. DELEGATION SCHEME – PENSION BENEFITS AND CONTRIBUTIONS – REPORT FOR THE PERIOD 1 APRIL 2009 TO 31 MARCH 2010

The Executive Director of Pensions submitted a report which informed Members of necessary amendments to the Scheme of Delegation to Officers Relating to Pension Benefits and Contributions and what action has been taken by the Executive Director of Pensions under them during 2009 – 2010.

RECOMMENDED

That the report be noted.

47. INTERNAL DISPUTE RESOLUTION PROCEDURE (IDRP)

Consideration was given to a report of the Executive Director of Pensions which outlined the IDRP process and gave details of the number of Stage 1 and Stage 2 cases and their outcomes that had been received during the period April 2009 to June 2010.

RECOMMENDED

That the report be noted

48. ANNUAL GOVERNANCE REPORT

The Executive Director of Pensions informed Members that historically the Pension Fund's accounts had been treated as part of the Council's accounts for audit purposes. 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:

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

The District Auditor presented his Annual Governance report. 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 Director of Pensions sign the letter of representation on behalf of the Management Panel; and**
- (iii) **That the proposed action plan be agreed.**

49. ANNUAL REPORT AND ACCOUNTS

RECOMMENDED

That the Annual Report and Accounts be approved.

50. GMPF NEWSLETTER

A copy of the September 2010 issue of the above was circulated for Members information.

51. DATES OF FUTURE MEETINGS

The dates of future meetings for the 2010/11 municipal year were noted as follows:

3 December 2010

5 March 2011

CHAIR