

ITEM NO: 3(a)

GREATER MANCHESTER PENSION FUND ADVISORY PANEL

21st November 2008

Commenced: 10.00am

Terminated: 12.25pm

Present: Councillor S R Oldham

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

Employee Representatives:

Mr Mulryan (AMICUS UNITE), Mr Rayner (UNISON)

Apologies for absence: Councillors: Fairweather (Manchester), Heffernan (Oldham), Morris (Bolton), Walton (Bury), Ms Baines (UNISON), Mr Llewellyn (UNITE), Mr Thompson (UCATT)

48. DECLARATIONS OF INTEREST

There were no declarations of interest.

49. MINUTES

The Minutes of the proceedings of the meeting of the Pension Fund Advisory Panel held on 12th September 2008, were signed as a correct record.

Further to Minute 27 – Elisabeth House update, the Director of Pensions informed Members that the appointed list of Directors for the Elisabeth House General Partner and nominee companies was

Councillor Whitley (who was originally nominated as an alternate director)
Peter Morris - Director of Pensions
Nick Whipp – GVA Grimley

The Minutes of the proceedings of the meeting of the Pension Fund Management Panel held on 12th September 2008, were signed as a correct record.

The Minutes of the proceedings of the meeting of the Annual General Meeting held on 12th September 2008, were signed as a correct record.

50. ELISABETH HOUSE UPDATE

The Director of Pensions informed Members that:-

- (i) all the legal processes had been concluded,
- (ii) the concept architect selection process has been concluded with Glen Howell selected as the preferred architect
- (iii) the consultation process with interested parties was due to commence in December, as part of the planning process.

51. 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 the 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, 10, 11	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.

52. ETHICS AND AUDIT WORKING GROUP

The Minutes of the proceedings of the meeting of the Ethics and Audit Working Group held on 24th October 2008 were considered.

RECOMMENDED

- (i) That the Minutes be received.**
- (ii) With regard to Minute 11, Investment Markets and Related Financial Issues, that information be circulated to all Scheme members giving appropriateness reassurances on the security of their pensions earned.**

53. INFORMATION SERVICES WORKING GROUP

The Minutes of the proceedings of the meeting of the Information Services Working Group held on 24th October 2008 were considered.

Councillor Wareing commented on the success of the Pensioner Forum and he advised the Panel that next year's event had been provisionally booked for Friday 9th October 2009. He also advised the Panel of the training day planned for 23rd January 2009.

RECOMMENDED

That the Minutes be received with the addition of Mr Rayner to the list of persons present.

54. 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 7th November 2008 were considered.

RECOMMENDED

- (i) That the report be noted.**
- (ii) With regard to Minute 13, Ventures North West, that in future, an annual report for the VNW Extended Fund be presented to the Working Group.**

55. PROPERTY WORKING GROUP

The Minutes of the proceedings of the meeting of the Property Working Group held on 7th November 2008 were considered.

RECOMMENDED

That the report be noted.

56. SUMMARY VALUATION OF THE PENSION FUND INVESTMENT PORTFOLIO AS AT 30th JUNE 2008 AND 30th SEPTEMBER 2008

A report of the Director of Pensions was submitted, detailing and comparing the market value of the Fund's investment portfolio as at 30th June 2008 and 30th September 2008.

RECOMMENDED

That the report be noted.

57. UNDERWRITING, STOCKLENDING AND COMMISSION RECAPTURE

The Director of Pensions reported that the Fund accepted sub-underwriting via UBS of three issues in the quarter ended 30th September 2008. Capital International did not participate in underwriting activity. Total underwriting commission received in the quarter was £624,172.

In two of the three sub-underwritings accepted via UBS in the quarter, shares had to be taken up (one of these was reported as a significant event at the last Panel Meeting). The Fund is a long term owner of equities and in both cases of 'take-up', the immediate overall impact of each of the participations was a notional net profit.

He also informed Members that stocklending income during the quarter was £139,859 and that commission 'recaptured' during the quarter was £17,414.

The value of securities on loan at the end of the quarter was £23.7m, against which collateral of £24.8m was held.

With effect from 19th September 2008, GMPF temporarily suspended its stocklending programme pending a return to less volatile market conditions.

RECOMMENDED

That the report be noted.

58. EXTERNAL MANAGERS PERFORMANCE

The 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 30th September 2008, Capital underperformed at -7.7% against their benchmark index of -7.1%. UBS had outperformed at -6.2% against their benchmark index of -8.3% and Legal and General succeeded in broadly tracking their benchmark.

Performance figures for the twelve months to 30th September 2008 were also detailed which showed that Capital International had underperformed their benchmark by 5.0%, UBS had also underperformed their benchmark by 2.3% and Legal and General had succeeded in broadly tracking the benchmark.

RECOMMENDED

That the report be noted.

59. FUNDING UPDATE

Mr Bowie, Actuary to the Fund gave a presentation which gave details of how the current economic turmoil implicated on the Fund valuation and reported how asset valuations were impacting on funding levels.

He reported the following positive news:

- The designated fund was protected from movements in the equity markets;
- GMPF has cash;
- Buying opportunities existed for the long term investor;
- Inflation was tumbling; and
- Bond yields were rising.

The progression of the average Metropolitan Borough Council contribution rate was outlined. Historically the Fund had built up a good track record regarding the relative stability of contribution rates. Looking forward, the aim was to maintain this approach.

The Director of Pensions advised the Panel that work had been commissioned from the Actuary to undertake some long term projections of future contribution rates. The projections will focus on assessing prudence, affordability, stability and stewardship. The Actuary will report back to the next meeting of the Panel with his findings. In addition, the Director advised that he will be updating employers on the Actuary's projections of contribution rate changes for medium term budget planning purposes.

Areas of concern were discussed, in particular the uncertainty of the duration of the current turmoil.

In summary, it was reported that the economic situation was serious and that GMPF's caution was justified. There were opportunities and risks, which would need careful management. Employer contribution rates were set until March 2011 and the Actuary would continue to strive for the right mix of prudence, stability and affordability in settling future rates taking account of the high credit worthiness of local authorities and associated employers.

60. MARKET TURMOIL – IMPLICATIONS FOR GMPF

The Director of Pensions gave a presentation which updated Members with regard to the current market situation, implications for the Fund and a review of the investment strategy.

The current market position was outlined as follows:

- At its lowest point in October, the FTSE 100 had fallen in value by 40% from its position at the start of the year, and the last 12 months world equity markets had halved in \$ terms;
- UK interest rates were at their lowest level since 1955, following the largest rate cut since 1981;
- UK unemployment figures had risen to 1.8m – the highest in 11 years. The Confederation of British Industry (CBI) was predicting that unemployment could reach 2.9m in 2010;
- Sterling had depreciated by 28% against the US Dollar and 15% against the Euro in the last 12 months;
- Consumer Price Index (CPI) inflation doubled in less than 12 months to 5.2%, October was 4.5%. The expectation was that inflation would fall below target;
- In the space of 12 months, the price of Brent crude oil rose from \$90 per barrel to over \$140 and had now fallen to less than \$60;
- Five companies (out of 647) account for 41% of all dividend payments in the FTSE All Share index (ex Banks, but including HSBC);
- The Eurozone and Japanese economies were officially in recession;
- The three largest European credit insurers had removed cover from the suppliers of Ford and GM.

The Fund's response was detailed as follows:

- Suspension of stocklending;
- Not progressed overseas property allocation;
- Tightened cash management terms of reference regarding duration;
- Communication with members and employers;
- Invested 2 x £100m in equity markets from cash;
- Commissioned work from HR on funding implications and opportunities for designated funds; and
- Visits to Fund Managers to review asset allocation and potential market opportunities.

With regard to asset allocation, the current approach was explained as follows:

- Aim – to determine the investment strategy that would deliver the long term aims of the Fund;
- Comprehensive report considered annually;
 - Results in strategic benchmark for the Fund
 - Defines scope for tactical positions by managers
 - Identified work programme for year
- Implementation of strategy;
 - Via specific individual benchmarks for managers

The relative attractiveness of assets which were considered to offer good long term value, and those expected to deliver low long term returns, were detailed and discussed, in light of recent valuation shifts.

With regard to equities, the balance between UK and overseas was discussed as follows:

- Trend was to move towards increasing overseas weighting;
- Currently 50:50 (at end of current switch);
- Consensus that equities offered good prospective returns for the long term investor;
- Mixed views on individual markets.

Deferring the implementation of an overseas property allocation, investing the Fund's cash and the case for hedging overseas investment were also considered.

61. 'FLEET OF FOOT' PROPOSALS

The Director of Pensions submitted a report and delivered a presentation which set out proposals for streamlining decision making in connection with implementing certain changes to Investment Strategy in order to be in a position to react to market events in a timely manner.

The potential uses of pre-agreed asset allocation triggers and the proposed trigger process along with the rationale for and features of a Special Opportunities Portfolio were detailed in the report and presentation.

The longstanding arrangements for strategic and tactical asset allocation would remain the cornerstone of the Fund's ongoing approach in this area. The trigger proposals detailed in the Report would enhance the Fund's decision-making process in turbulent times and the proposals for a Special Opportunities Portfolio offered the scope for increased diversification.

The Director also outlined proposals for a "Special Opportunities" portfolio, the key features of which included

- the portfolio will be developed over time, building on ideas recommended for consideration by the advisors and/or internal team
- investments are expected to be capable of generating returns in excess of inflation +5% and give diversification benefits
- investments will normally be undertaken by way of an externally managed pooled vehicle
- having received advisor support, any new types of investment will be considered by the Local Initiatives and Venture Capital Working Group with a view to seeking Panel approval of investments of that type
- an annual performance report will be considered by the Management Panel with on-going monitoring by the Local Initiatives and Venture Capital Working Group.

RECOMMENDED

That the Panel approve the inception/creation of:

- (i) **pre-agreed asset allocation triggers as envisaged at Sub-Sections 4.5 and 4.7 of the report, with initial triggers for considering the purchase of further equity at FTSE 3,800 and for the sale of equity at FTSE 5,000; such triggers to be reviewed in June 2009, and;**
- (ii) **a 'Special Opportunities Portfolio' with an allocation of 5% of Main Fund Assets (currently around £400 million) in line with the key features of the Portfolio as detailed at Sub-Section 5.4 of the report.**

62. ADVISER COMMENTS

Mr Moizer gave a detailed analysis of the current global economic situation. He agreed with the proposals and commented on the unprecedented volatility in the market at present, and the need for a long term view and approach. He added that the current situation could not be compared to any other recession and commented on the unbelievable level of personal and corporate borrowing. He reiterated that a long term strategy was needed.

Mr Hemingway concurred with Mr Moizer's comments and the recommendations above.

Mr Bowie made reference to risk and the importance of understanding what the risks to the Fund were. He also encouraged the Director of Pensions to ensure that the Fund was adequately resourced both internally and externally, given the additional requirements of the 'Fleet of Foot' proposals.

63. REPORTS OF THE MANAGERS

(a) Capital International

Mr Gosztory reported on a very disappointing and frustrating quarter and year as Capital had underperformed in each quarter. He continued by commenting on lifetime relative returns and the past five years of disappointing results. Mr Gosztory stressed that the core fundamentals were right and it was important that Capital take a long term view and stick to their convictions. He believed that their basic approach was correct, but that some changes had been required.

Mr Carlyle focussed on the equity portfolio by region and commented that, other than North America, the relative returns were good. He detailed the equity portfolio by sector with returns and contributions, making reference to the disappointing relative contribution of the Financials sector.

Key equity portfolio stock contributors for Q3 2008 were detailed and the top five detractors and top five contributors were discussed.

With regard to overseas developed equity, the portfolio's major financial sector holdings were compared between June 2007 and October 2008.

He commented on US retail sales growth, which was the slowest in at least 15 years, and noted that sales growth in Europe was slowing also. Japan's All Industries Index indicated a sharp slowdown in growth, but not as bad as the US and Europe.

With regard to valuation levels, Mr Carlyle stated that it was rare to see dividend yields close to/above bond yields in the UK, US and Germany.

In summary, it was reported that a defensive positioning was being maintained:

- Overweight in the Healthcare, Food and Beverage sectors
- Underweight in the Oil and Gas, Banks, Real Estate sectors

Recent activity was detailed as follows:

- Selective purchases in the Oil and Gas and Basic Materials sectors following weakness in Oil and Metals prices; and
- Sales of some defensive companies, e.g. food producers and some semiconductor companies.

The Advisers were then asked to comment:

Mr Hemingway sympathised with Capital's situation and hoped that their cathartic moment would be Fannie Mae and Freddie Mac.

Mr Moizer agreed and added that it was now time to get good stocks at good prices, with outperformance to follow.

Mr Bowie emphasised the need for both Fund Managers to perform well during this prolonged period of market turmoil.

(b) UBS Global Asset Management

Mr Powers began by summarising the current position as follows:

- Equity market falls reflected a poor outlook for company profits and low investor confidence;
- Large scale Government and Central Bank interventions aimed at preventing systematic meltdown;
- Shares are now statistically cheap across the world; and
- Valuation anomalies were extreme, presenting tremendous opportunities.

Mr Powers commented that UBS's improvement in relative performance had continued since the quarter end.

It was reported that normality was gradually returning to the banking sector, with government intervention becoming global.

Federal Reserve lending facilities were discussed and reference was made to consensus forecasts for 2009 which anticipated a continuation of the worsening of the growth outlook and a steadying of inflation.

Current asset allocation was outlined and key themes for 2008 were detailed as follows:

- Continue to favour 'mega' over mid/small cap;
- Favour beneficiaries of Sterling weakness;
- Position for unwinding of Emerging Markets 'de-coupling' theory; and
- Buy selective depressed cyclicals.

Mr Powers concluded by making reference to the valuation opportunity, and reported that valuation spreads this wide had in the past been indicators of good subsequent returns. He added that he was very positive for the future.

The Advisers were asked to comment.

Mr Moizer sought clarification of how well UBS were resourced in terms of research coverage. Mr Powers, in his response, assured Members that UBS were well resourced in this area.

64. 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.

Mr Bowie made reference to REITS trusts and commented that such investments could be a possibility for the future.

RECOMMENDED

That the report be noted.

65. PENSIONS INCREASE 2009

The Director of Pensions submitted a report which outlined the way in which LGPS pensions were increased each year in line with inflation, the increase expected to apply from April 2009 was 5% and he compared the 2009 increase with past increases and the expected future actuarial assumption on price inflation.

RECOMMENDED

That the report be noted.

66. MEMBERSHIP STATISTICS

A report of the Director of Pensions was submitted which provided information about the above regarding all categories of membership, following a request from Members at the Panel meeting of 12th September 2008 for further information about the membership of the Fund as a whole.

Mr Bowie commented that it may be helpful to provide details of those employers who do not have a local authority guarantee.

RECOMMENDED

- (i) That the report be noted.**
- (ii) That details of employers who do not have a local authority guarantee be provided to a future meeting of the Panel.**

67. CIPFA BENCHMARKING REPORTS

A report of the Director of Pensions was submitted which provided information about the cost of the fund's pensions administration service and compared those costs with other LGPS funds through the CIPFA Benchmarking Club. The report highlighted the Fund's very competitive unit cost.

RECOMMENDED

That the report be noted.

68. DATES OF FUTURE MEETINGS

The dates of future meetings for the 2008/09 municipal year were noted as follows:

6th March 2009

69. FUTURE TRAINING DATES

Future training dates were noted as follows:

3 rd , 4 th , 5 th December 2008	13 th Annual Local Authority Pension Fund Forum
4 th December 2008	Capital International Training Day
23 rd January 2009	General Member Training Day

CHAIR