

ITEM NO: 5(a)

GREATER MANCHESTER PENSION FUND

ETHICS AND AUDIT WORKING GROUP

23 October 2009

Commenced: 10.15am

Terminated: 12.10pm

Present: Councillor Middleton (Chair)

Councillor Harrison

Councillor Mitchell

Councillor Pantall

Councillor Sidebottom

J Harrison

Audit Commission

P Morris

Director of Pensions

S Taylor

Head of Pension Fund Investments

T Boyle

Head of Pension Fund Accountancy

G Dale

Head of Pensions Administration

S Budd

Pension Fund Administration Team

T Harrington

Pension Fund Investments Team

D Hobson

Pension Fund Investments Team

C Weston

Internal Audit

Apologies for absence: Councillor K Welsh

11. MINUTES

The Minutes of the proceedings of the meeting of the Ethics and Audit Working Group held on 24 July 2009 were approved as a correct record.

12. DECLARATIONS OF INTEREST

There were no declarations of interest submitted by Members of the Working Group.

13. RISK MANAGEMENT AND INTERNAL AUDIT SERVICES – UPDATE REPORT FOR THE QUARTER ENDING 30 SEPTEMBER 2009

Consideration was given to a report of the Borough Treasurer which summarised risk management and internal audit work carried out in the period April to September 2009. It also provided details of further reviews, investigations, checks and other Internal Audit activities up to the end of September 2009.

It was reported that 11 reports had been issued and finalised. The key issues arising from the final reports were detailed and discussed. A high proportion of work undertaken had been on visits to

contributing bodies which this year employers on the next tier down from the Local Authorities which were visited last year had been selected. The visits had concentrated on how employers had implemented the changes resulting from the new Pension Fund Regulations

The report detailed work in progress as follows:

- Custodian arrangements
- Visits to contributing bodies
- Pension benefits payable
- Security of Pension Fund data
- Advice on the new RBS online banking system

RECOMMENDED

That the report be noted.

14. GMPF ADMINISTRATION EXPENDITURE MONITORING STATEMENT FOR THE FIVE MONTHS TO AUGUST 2009

The Director of Pensions submitted a report which compared the administration expenses budget against the actual results for the five months to August 2009.

In the five months to 31 August 2009 there was an underspend of £676,000 against the budget of £6,037,000 for that period. The main reasons for the underspends related to issues concerning managers / professional fees and turnover and delay in the appointment of staff.

The details of a subjective analysis contained in the report were discussed.

The Head of Pensions Investments advised that the Fund was likely to resume stock lending during early 2010 after having suspended this activity in September 2008 following the collapse of Lehman Brothers.

RECOMMENDED

That the report be noted.

15. AGED DEBT MONITORING FOR 6 MONTHS TO 30 SEPTEMBER 2009

A report was submitted by the Director of Pensions which showed that the value of aged debt for the fund as at 30 September 2009 was £7.7 million, which was updated at the meeting to £2.7 million.

The challenging economic climate was discussed and a number of tenants had taken advantage of payment plans which were available to aid businesses during the difficult trading conditions. It was also explained that there were a number of tenants currently in liquidation / receivership / administration and therefore the 'write off' provision may be exceeded this year.

RECOMMENDED

That the report be noted.

16. CIPFA BENCHMARKING REPORTS

The Head of Pensions provided information relating to the costs of the Fund's pension administration services and compared those costs with other Local Government Pension scheme funds through the CIPFA benchmarking club. Reference was made to comparative statistics with all members of the benchmarking club and it was noted that the Fund had the third lowest annual

cost per member. The Fund also continued to have the lowest annual cost per member amongst larger funds, those with over 100,000 members. The administration costs were in line the lowest quartile target and met the local performance indicator set by the GMPF Management Panel.

On behalf of the Working Group, the Chair congratulated the Head of Pensions Administration on providing the most cost effective pensions administration for a large fund and the third most cost effective in the benchmarking club.

RECOMMENDED

That the report be noted.

17. CAPITAL INTERNATIONAL

(a) Corporate Governance Review

Ida Levine, Richard Carlyle and Rob Beale of Capital International attended the meeting and gave an overview of Corporate Governance activity over the last twelve months. The Capital approach to proxy voting and the voting statistics of Capital at company meetings worldwide for the 12 months to 30 September 2009 were detailed.

In light of recent changes to Capital's benchmark, whereby they no longer manage UK equities for the Fund, there was a non-UK focus on Corporate Governance issues. In particular, Corporate Governance in Latin America was discussed, with a focus on Brazil as a case study. Examples of Capital's engagement with companies were also provided.

RECOMMENDED

That the content of the presentation be noted.

(b) Report on Trading Costs

Representatives of Capital International reported on transaction costs. It was explained that the IMA Disclosure Code was developed in 2005 as an industry response to new FSA rules restricting 'soft commissions' and requiring transparency in relation to broker commissions. The IMA Code comprised of Level 1 and Level 2 reports and the details of Level 2 for 12 months to 30 September 2009 were given in Capital's report.

RECOMMENDED

That the report be noted.

18. 2009 INVESTOR STATEMENT ON A GLOBAL AGREEMENT ON CLIMATE CHANGE

The Director of Pensions submitted a report detailing the '2009 Investor Statement on a Global Agreement on Climate Change' which had been produced by a collection of bodies representing institutional investors from around the world, setting out their perspective on climate change and the key elements of a global agreement that would drive the financial flows necessary to address climate change.

It was reported that, following consultation with the Chair of the Working Group, GMPF, as members of the Institutional Investors Group on Climate Change, had signed up to the Statement, which had 181 signatories as at 16 September 2009. The Statement had been sent to policymakers globally and had gained widespread press coverage. It was designed to influence decision makers ahead of the United Nations Climate Conference in Copenhagen.

A copy of the Statement and list of signatories were appended to the report which would also be published on the GMPF website.

RECOMMENDED

That the report be noted.

19. ROUTINE PIRC UPDATE

Alan McDougal and Janice Hayward of PIRC Ltd attended the meeting and gave a presentation on a joint report by Railpen Investments and PIRC Limited entitled 'Say on Pay: Six Years On – Lessons from the UK Experience' which outlined the impact the advisory vote on remuneration had had in the UK and considerations going forward.

Details of the 14th Annual LAPFF Conference - Strengthening shareowner oversight post crisis - to be held on 2-4 December 2009 in Bournemouth were circulated.