ITEM NO 4(a)

GREATER MANCHESTER PENSION FUND ADVISORY PANEL

6 March 2009

Commenced: 10.00am **Terminated: 12.30pm**

Present: **Councillor Wareing (Deputy Chair in the Chair)**

Councillors: Baldwin (Wigan), Morris (Bolton), Heffernan (Oldham), Hobhouse (Rochdale), Mitchell (Trafford), Pennington (Salford)

Employee Representatives

Mr Mulryan (AMICUS UNITE), Mr Rayner (UNISON) Mr Fraser (GMB) Mr Thompson (UCATT), Mr Llewellyn (UNITE)

Apologies for absence: **Councillor: Fairweather (Manchester)**

70. CHAIRS ANNOUNCEMENTS

The Chair welcomed everyone to the meeting and announced that the Executive Leader, Councillor S R Oldham was out of hospital and recovering at home. On behalf of all Members he wished him a speedy recovery and return to work. He also informed Members that this would be the last meeting of the Chief Executive, Mrs Callender. He thanked her for all her hard work and support to all the Members.

Mrs Callender suitably responded.

71. DECLARATIONS OF INTEREST

There were no declarations of interest.

72. MINUTES

The Minutes of the proceedings of the meeting of the Pension Fund Advisory Panel held on 21 November 2008, were signed as a correct record.

The Minutes of the proceedings of the meeting of the Pension Fund Management Panel held on 21 November 2008, were signed as a correct record.

The Minutes of the proceedings of the Urgent Matters Panel held on 18 February 2009 were signed as a correct record.

73. LOCAL GOVERNMENT (ACCESS TO INFORMATION) ACT 1985

(a) Urgent Items

The Director of Pensions sought members approval to enter into an admission agreement with the Care Standards Commission, an organisation without a local authority guarantee.

In June 2002, an admission agreement was made with National Care Standards Commission, that was a statutory body and it covered staff transferring from the Greater Manchester authorities. In 2004, these staff transferred to CSCI, another statutory body, who again entered into an admission agreement. A further transfer is proposed in April 2009 to a new statutory body, the Care Standards Commission. This body is sponsored by the Department of Health and it will inherit the assets and liabilities at NCSC and CSCI.

RECOMMENDED
That approval be given to enter into an admission agreement with the Care Standards Commission.

(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:

Items	Paragraphs	Justification
6, 7, 8 11, 12, 13, 14	**3&10, 3&10, 3&10, 3&10, 1&10, 3&10, 3&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. ETHICS AND AUDIT WORKING GROUP

The Minutes of the proceedings of the meeting of the Ethics and Audit Working Group held on 23rd January 2009 were considered.

RECOMMENDED
(i) That the Minutes be received.

(ii) With regard to the GMPF Administration Expenditure Monitoring Statement for the eight months to November 2008, that the increased fee to LAPFF be approved.

75. INFORMATION SERVICES WORKING GROUP

The Minutes of the proceedings of the meeting of the Information Services Working Group held on 23rd January 2009 were considered.

RECOMMENDED
(i) That the Minutes be received.

(ii) With regard to Promoting LGPS and Good Pension Provision, that:-

- **Replies be sent to articles that have proposed the LGPS switch to a defined contribution regime;**
- **Other articles being sent that promote good pension provision and that highlight that the LGPS is funded (unlike most public sector pension schemes); and**
- **Press releases being prepared when there are noteworthy good news items.**

76. 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 January 2009 were considered.

RECOMMENDED
(i) That the Minutes be received.

(ii) With regard to New Initiatives Allocation: PFI and Infrastructure Fund Portfolio, that a further report be submitted to the Working Group on a possible extension to the allocation to PFI/Infrastructure Funds, to be considered as part of the Fund's wider investment strategy.

(iii) With regard to the Special Opportunities Portfolio: Approval of Investment Type, that approval be given to the making of investments from the 'Special Opportunities Portfolio' in the new type of investment as described in sub-section 4.1 of the report.

77. PROPERTY WORKING GROUP

The Minutes of the proceedings of the meeting of the Property Working Group held on 30th January 2009 were considered.

RECOMMENDED
That the minutes be received.

78. PROJECT GOLF

At this juncture, Peter Moizer, Adviser to the Fund, left the meeting, due to a conflict of interest as a member of the Competition Commission.

The Director of Pensions informed members of a proposed investment opportunity of a confidential nature, which had been presented to a meeting of the Urgent Matters Panel (Minute 72 refers).

He gave details of the investment opportunity, the Fund's partners, the potential scale of financial commitment by the Fund, target return from the investment, ongoing due diligence, the risks involved the tight time constraints of the bidding process, and the decision making processes that this would necessitate.

RECOMMENDED
That a further meeting of the Urgent Matters Panel be held to update the Panel on progress and determine the process for submitting a bid.

Peter Moizer rejoined the meeting at this juncture.

79. SUMMARY VALUATION OF THE PENSION FUND INVESTMENT PORTFOLIO AS AT 30th SEPTEMBER 2008 AND 31st DECEMBER 2008

A report of the Director of Pensions was submitted, detailing and comparing the market value of the Fund's investment portfolio as at 30 September 2008 and 31 December 2008.

Mr Taylor, Head of Pensions Investments also informed members that a new page had been included in the report representing a portfolio entitled 'Legal & General Tactical' – reflecting the recent tactical injection into equity.

RECOMMENDED
That the report be noted.

80. UNDERWRITING, STOCKLENDING AND COMMISSION RECAPTURE

The Director of Pensions reported that the Fund did not accept sub-underwriting via UBS of any issues in the quarter ended 31 December 2008. It was also reported that Capital did not participate in underwriting activity. Thus, no underwriting commission was due in respect of activity during the quarter.

Stocklending income during the quarter was £136,703 and compared with £107,792 in the same quarter of 2007. The value of securities on loan at the end of the quarter was nil.

The income received during the quarter was a one-off receipt consisting of additional tax credits from French stock arising from 2006.

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

Commission 'recaptured' during the quarter was £39,274 and compared with £11,673 in the same quarter of 2007.

RECOMMENDED
That the report be noted.

81. 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 31 December 2008, Capital outperformed by 0.3% against their benchmark index of 1.7%. UBS had also outperformed by 1.4% against their benchmark index of -3.2% and Legal and General succeeded in tracking their benchmark.

Performance figures for the twelve months to 31 December 2008 were also detailed which showed that Capital had underperformed their benchmark by 3.4%, UBS had outperformed their benchmark by 0.5% and Legal and General had succeeded in broadly tracking their benchmark.

RECOMMENDED
That the report be noted.

82. MAIN FUND – REVIEW OF FUNDING AND INVESTMENT STRATEGY

Consideration was given to a report of the Director of Pensions and a presentation of the Actuary which evaluated a number of different investment and contribution strategies to assess whether it was possible to introduce a formal stabilisation mechanism whereby, for example, increases in employer contributions following the 2010 valuation would be restricted to the Fund's preferred limit of 1% of pay per annum.

The results of the analysis were as follows:

- Without relying on the results of stochastic analysis which takes account of outcomes more favourable than the deterministic valuation assumptions, it seemed unlikely that that the Actuary would be able to restrict employer contribution increases to 1% of pay per annum following the 2010 valuation unless market conditions improved materially between now and then.
- However, by separating the measurement of the financial condition of the Fund from the management of employer contributions, and implementing an explicit stabilisation mechanism, it seemed to be possible to avoid the large scale changes to contributions which were implied by current market conditions.

It was explained that as stabilisation reduced volatility of outcomes, there were certain factors to be considered:-

- It increased the chance of employer contributions being above the affordability threshold of 20% of pay at the end of 18 years from 28% to 32% and produced a median contribution rate of 15% of pay after 18 years rather than 10% of pay;
- It increased the chance of having to rely on a return in excess of 2% over gilts from 0% to 20%; and
- It reduced the chance of being fully funded after 18 years from 62% to 56%.

Nevertheless, even if contribution rate changes were limited to +/- 1% of pay per annum:

- The median funding level is 107% after 18 years (rising to 112% after the end of a 21 year period), compared to around 72% as at 31st December 2008;
- There was still a better than even chance of being fully funded after 18 years; and
- There was still a less than a 1 in 3 chance of breaching the affordability threshold at the end of 18 years.

It was reported that the results for different investment strategies showed that within the current range of flexibility (60% to 80% in equities) the above conclusions still stand and that there was only a relatively minor difference in results. They also showed that a lower risk strategy at this stage (modelled using 40% equities) would struggle to generate sufficient return to achieve full funding over the 18 year period. Although it might be expected that investment strategy be lower risk in the future, at this stage the current high level approach remained appropriate.

It was also noted that it was not recommended that stabilisation be applied to short term or employers without a Government or local authority guarantor. The Administering Authority should consider what communication was necessary to those employers.

RECOMMENDED

(i) That the principle of stabilisation be supported whereby contribution rate changes are limited to +/- 1% of pay per annum.

(ii) That the principle of stabilisation be a key feature of the consultation process in reviewing the Funding Strategy Statement.

(iii) That a further report is submitted to the Panel on employers without a Government or local authority guarantor.

83. DESIGNATED FUNDS – REVIEW OF FUNDING AND INVESTMENT STRATEGY

Consideration was given to a report of Hymans Robertson, Actuary to the Fund, which reviewed the current funding levels within two of the Designated Funds (Residuary Body and PTE) and evaluated a number of different investment strategies for each of these employers in relation to their Designated Fund.

RECOMMENDED

(i) Residuary Body

(a) To use £55m of assets to better match the existing liabilities based upon the proposals of the Actuary and Director of Pensions;

(b) To invest the balance of assets in the Main Fund; and

(c) To advise Greater Manchester Treasurers of these changes.

(ii) GMPTE

(a) To consult with GMPTE and Greater Manchester Treasurers on the proposals of the Actuary and Director of Pensions; and

(b) To implement changes based upon the proposals if agreed by the GMPTE and Treasurers.

84. SPECIAL OPPORTUNITIES PORTFOLIO: APPROVAL OF INVESTMENT TYPE

The Director of Pensions submitted a report which had been presented to the meeting of the Local Initiatives and Venture Capital Working Group on 30 January 2009.

The report sought approval for a new type of investment for the Fund's newly constituted 'Special Opportunities Portfolio' and provided details on an example of a specific opportunity as an appendix to the report.

The aim of the specific opportunity was to provide secured loans to quoted, mid-cap companies which also offered the scope to participate in any future appreciation in value of investee companies. The indicative scale of investment by GMPF in the specific opportunity was £50 million - £70 million.

Key features of the 'Special Opportunities Portfolio' were detailed. Key features of the investment type, and the investment rationale were also explained. Members were assured that prior to any commitment being made to such an investment type appropriate due diligence would be undertaken.

RECOMMENDED

That approval be given to the making of investments from the 'Special Opportunities Portfolio' in the new type of investment as described in sub-section 4.1 of the report.

85. THE GMPF CORE BELIEF STATEMENT

Consideration was given to a report of the Director of Pensions which introduced and gave background details of the Core Belief Statement (CBS), which was appended to the report.

It was explained that the meeting of the Ethics and Audit Working Group on 23rd January 2009 had considered a draft Core Belief Statement and endorsed the proposed approach.

Some relatively minor clarifications suggested by the Fund's Actuary, Advisors and Managers had been incorporated into the Statement.

RECOMMENDED
That the Draft Final Core Belief Statement as appended to the report be adopted.

86. ADVISER COMMENTS

Mr Moizer commented on the economy, government policy and the continuing recession.

He made reference to the recent quantitative easing methods of the Bank of England, which had involved pumping money into the financial system (up to £75 billion) the effect of which was still unknown and not without risk.

Mr Moizer also commented on the US economy and the risks taken by President Obama.

Mr Hemingway concurred with Mr Moizer's comments. He added that equities were cheap and that current FTSE levels represented a good opportunity to buy.

Mr Hemingway added that he was supportive of an allocation of 80% or more to equities in current circumstances. He had no preference as to the purchasing of equities or corporate bonds first and stated that the funding for such purchases should come from cash or government bonds but not property.

Mr Bowie confirmed that he was happy for the Fund to purchase further equities at current FTSE levels and referred to his earlier presentation.

87. REPORTS OF THE MANAGERS

(a) UBS Global Asset Management

Mr Harrison began by outlining the outperformance in the quarter to 31 December 2008.

He made reference to the world recession and stated that the IMF was forecasting weaker global growth in 2009, and that despite this, the IMF forecast was optimistic.

Mr Harrison stated that he believed that all equity markets were underpriced.

Current asset allocation was detailed as was UK equities performance to 31 December 2008.

The outlook for 2009 was outlined as follows:

- UK equities are cheap, both on valuation and sentiment;
- The portfolio is well positioned across the 'value range';
- The very largest companies offer tremendous underpinning;
- Gradually move the portfolio towards cyclical stocks.

Mr West then gave further detail with regard to UK equity performance. He stated that valuation spreads of a similar order in the past had been precursors to better performance and that the portfolio was well placed to exploit these extreme valuation spreads.

He forecast that the very largest companies are set to beat the market, as they had done in 2007 and 2008 and that the portfolio was more concentrated than ever in the largest holdings.

Mr West explained that as the risk/reward of investing in cyclical companies was improving, the portfolio would gradually be switched out of 'defensive' stocks. He concluded with some sector and stock views as at 24 February 2009.

Councillor Hobhouse asked for UBS's response regarding the Swiss and U.S. alleged tax evasion and bank secrecy affair. Mr Harrison stated that UBS's argument was that it could not be expected to break Swiss law on bank secrecy. He added that the Swiss and U.S. governments would be required to resolve the issue. Mr West added that both the Chairman and the Chief Executive of UBS had lost their jobs.

(b) Capital International

Mr Gosztony commented on 2008 and that it had not been a good year for Capital. He was pleased to note the slight outperformance in the recent quarter.

Mr Gosztony summarised the recent benchmark transition and went on to outline equity performance by region, making particular reference to U.K. and U.S. equities which had been the weakest areas of the portfolio. He added that the equity market had fallen by about 20% in the quarter to 31 December 2008 but that this had been largely offset within the portfolio by currency gains.

Mr Gosztony also commented on recent changes within the structure of Capital and in particular with regard to the reduction in analysts and change of U.S. portfolio manager.

Mr Hole detailed the ten largest over/underweight equity holdings as at 31 December 2008 and commented on the defensive position of the portfolio.

He added that the portfolio was positioned to benefit from infrastructure and fiscal stimulus packages and to take advantage of bear market bargains.

88. PROPERTY INVESTMENTS 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.

89. BUSINESS PLAN INTRODUCTION AND PLAN FOR THE YEAR

Consideration was given to a report of the Director of Pensions which outlined the issues facing the Pension Fund, in particular the current financial environment and the expectations for the world economy and suggested some key tasks for 2009/10 and future years.

It was reported that the key challenge for the future continued to be determining when change was appropriate and when the status quo should be maintained. 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.

He also commented on the actions taken in response to the challenging economic and market conditions, together with progress made in the key tasks identified for 2008/09.

The main drivers of the continued success of the Fund's investment performance were detailed.

The legislative changes continued to be the main factor for administrative services to members and employers necessitating revisions to systems and procedures, staff and employer training and communication to Scheme members.

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

90. RECOVERY OF EU WITHHOLDING TAX

The Director of Pensions submitted a report which advised the Panel of the recent successful outcome of the Fund's attempt to recover Withholding Tax (WHT) deducted from dividends paid to GMPF in the Netherlands.

RECOMMENDED
That the report be noted.

91. GMPF ADMINISTRATION EXPENSES BUDGET 2009/2010

A report of the Director of Pensions was submitted which outlined the 2008/2009 revised estimate and the 2009/2010 original estimate for the Fund's cost of administration.

RECOMMENDED
That the budget for 2009/2010 at £13.9m be approved.

92. REGULATORY UPDATE AND FEEDBACK ON ILL-HEALTH CONFERENCE

Consideration was given to a report of the Director of Pensions which provided information about possible changes to the Scheme. He referred to two sets of regulations:

The Draft Local Government Pension Scheme (Miscellaneous) Regulations 2009; and The Draft Local Government Pension Scheme (Amendment) Regulations 2009 and detailed the proposed significant changes to each of these.

He also gave an update on the ill-health conference organised for Fund employers and doctors.

RECOMMENDED
That the report be noted.

CHAIR