

# SHAPING OUR PENSION FUND VALUES FOR THE FUTURE CONFERENCE

**GORTON MONASTERY**

**Thursday 19 October 2017**

12 to 6:30pm

MEMBERS' REPORT



## Introduction

Gorton Monastery was certainly an awe inspiring venue for this inaugural event. The day began with a chance for members to meet with both current and former colleagues, and chat to the investment experts from many of our external fund managers including UBS, Capital, Investec, and Legal & General.



## A warm welcome to our guests

The formal proceedings began with a warm welcome to our guests from Councillor **Kieran Quinn**, Chair, Greater Manchester Pension Fund. He told guests that this was the first time a local government fund had held an event like this - open to both current and former staff, employers, union reps - in fact any of our many stakeholders.



This was followed by a presentation by **Sandra Stewart**, Director of Pensions. She focused on the scale of GMPF's activities, explaining that we were the 12th largest pension fund of any type in the UK. She said the challenges facing the fund this year included pooling, and strengthening the Governance around the monitoring of our investment activities.

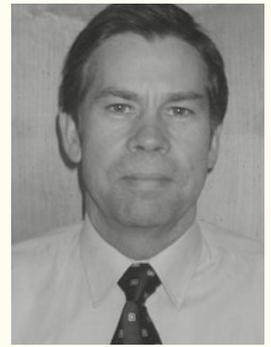


## Bob Holloway, LGE

Bob joined the pensions team at the Local Government Association in October 2016 after 42 years service with the Department for Local Government and Communities (and its various predecessors.) The DCLG is the Government department that writes the rules of the local government pension scheme. In his presentation Bob gave an overview of investment performance across all local government funds. He explained that over the last 30 years, the overall investment return was close to 9%, meaning that asset returns certainly weren't an issue across the LGPS. He also emphasised that the prime aim of any LGPS fund was to "pursue a financial return". But he said they may also take other non-financial

considerations into account provided that doing so would not involve significant risk, and where they have good reason to think that scheme members would support their decision.

GMPF very much follows this approach, by supporting its mainstream investment activities by investing in specialist funds which have a wider social remit, such as the Bridges fund, which we report on later.



## David Cullinan, PIRC

PIRC has become a globally recognised independent expert in corporate governance, helping pension funds and asset managers focus on capital stewardship for long term growth. They also provide both voting and engagement services to their clients to facilitate and support the exercise of their shareowner rights.



David Cullinan from PIRC looked at how funds are invested in the LGPS and why your money is safe with GMPF.

He explained that GMPF had better returns over all measurable time-periods (compared to other LGPS funds), it had low operating costs, it had conviction in its investment beliefs, it was truly a long-term investor, and it was at the forefront of LGPS funds' strategic thinking.

## From CEO to Whistleblower - Michael Woodford

We heard a fascinating talk from Michael Woodford - the man who went from CEO to whistleblower at one of Japan's biggest companies, Olympus. Whilst perhaps best known as a manufacturer of cameras, Olympus's core business is in the medical sector, with the production of equipment such as endoscopes.

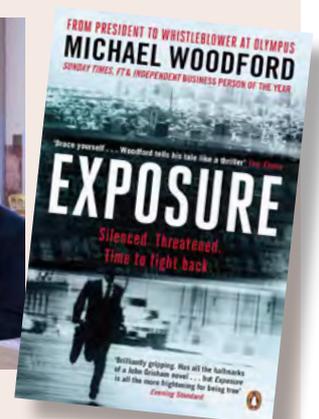
Michael explained how he had joined a British subsidiary of Olympus as a salesman in 1980, rising to become managing director of the division before he was 30. He went on to become head of Olympus in Europe before being called to the top job in Japan. But just weeks after taking over as chief executive, his dream job began to turn into a nightmare.

The trouble began when he learned about a series of bizarre mergers and acquisitions totaling \$1.7 billion - a scandal so huge that it threatened to bring down the entire company if exposed. He turned to his fellow executives for answers, including the chairman who had promoted him, Tsuyoshi Kikukawa. But instead of being heralded as a hero for trying to save the company, Michael was met with vague responses and hostility - a clear sign of a cover up. Ultimately he called a meeting of the whole Olympus board to discuss the crisis, but the agenda was changed at the last minute to *A vote on the dismissal of Michael Woodford as CEO.*

The vote was unanimous - "an eight-minute corporate execution" as Michael calls it.

Within hours he had given all the details to the police and the press, making him the first CEO of a global multinational to blow the whistle on his own company.

Michael has written a book about his experiences called *Exposure*, and some guests were lucky enough to get a signed copy.





## Professor Richard Murphy

Richard Murphy is a Professor of Practice in International Political Economy at City University, London. He is also one of the co-founders of the Tax Justice Network.

He explained that tax (or rather non payment of it) is clearly the number one issue of concern for the UK public when it comes to corporate conduct. He said that largely thanks to some clever investigative journalism, the tax affairs of companies like Starbucks and Amazon were now very much in the public eye.

He went on to cover recent changes in tax reporting by companies, brought in by the Finance Act 2016. But he explained that whilst on paper it looks like companies must now disclose far more, it is as he put it “an incredibly low bar to jump”.

The issue for pension funds and other investors is that it makes it difficult for them to examine in fine detail the tax affairs of the companies they invest in.

He said that the Fair Tax Mark, launched in 2014, was the alternative current best practice. He likened it to Fair Trade, which had launched in 1992, and had taken many years to reach the level of widespread recognition it now has.

To find out more about the Fair Tax Mark please visit: <https://fairtaxmark.net>



## Our external fund managers

Your pension fund holds approximately £24 billion worth of assets, with much of that being invested on our behalf by specialist external fund managers. So we asked some of the key players to speak at the event. These were Martyn Hole from Capital, Therese Niklasson from Investec, Sacha Sadan from Legal & General, and Paul Clark from UBS.

### **Therese Niklasson, Global Head of ESG\* Investec**

Therese talked about the importance of better ethnic and cultural diversity in the boardroom, and how it can promote diversity of thought and ideas on UK boards. She also highlighted how companies in the FTSE 350 seem to have ‘stuck’ at 16% for the number of women on boards. She is optimistic that targets set by regulators will improve the position.



### **Sacha Sadan, Director of Corporate Governance, Legal & General**

Sacha’s presentation looked at the importance of Cyber Security in protecting a company’s information assets. He explained how with the advent of the General Data Protection Regulation (GDPR) in May 2018, organisations need to be even more aware of the issues. GDPR will bring in a new range of fines for data breaches, which in extreme cases could cost 4% of total revenue.

### **Paul Clark, Head of Corporate Governance, UBS**

Paul explained how voting is an important part of the oversight process, and that in some cases the vote is the only voice an investor may have. To illustrate the scale of UBS’s voting on behalf of GMPF, he showed how they had voted at 290 company meetings, in 21 countries. But he stressed the importance of using engagement as a constructive dialogue with the companies we invest in, rather than as a form of confrontation.



*\* ESG stands for Environmental, Social and Governance. It is a set of standards for a company’s operations that socially conscious investors use to screen investments.*

## Paul Spedding, Carbon Tracker.

Paul Spedding retired from HSBC in 2013, after 33 years as a financial analyst. He is now Advisor to Carbon Tracker and Energy Transition Advisors. His key message was that we still need oil investment, but that investment levels will be much lower. He predicts that we will see falling oil production, but stable gas production, and that this could result in higher margins, less risk, higher dividends, and improved returns for shareholders.



## Tessa Younger & Tim Bush, from PIRC

Tessa Younger & Tim Bush discussed PIRC's role as a Research & Engagement Partner to the Local Authority Pension Fund Forum (LAPFF). They explained how PIRC is helping local authority funds with issues such as company engagement, member briefings, investor partnerships, policy guidance and trustee guides.

They gave examples of companies they have engaged with, including Barclays and BP [board composition], Lloyds Bank and M&S [employment standards] and Rolls-Royce [low carbon transition].

## Tom Powdrill, International Transport Workers Federation.

Tom Powdrill is the ITWF's Responsible Investment Coordinator. He told guests how employment practices can form part of a responsible investment strategy. He started by showing examples of companies such as Premier Inn, Tesla, Ryanair and Sports Direct which had been in the headlines over issues such as staff intimidation, refusal to union access, and other workers' rights. He said pension funds should, as equity owners, be responsible for the stewardship of the companies they invest in. He said that recognising the rights of employees and treating them with respect is in the shared interest of both companies and their investors, and that investee companies should uphold internationally recognised standards.



## Michele Giddens, Co founder & Partner, Bridges Fund Management



Michele explained how Bridges Fund Management offers a unique range of mission driven investments, which help deliver better life outcomes to vulnerable people in areas like children's services, education and homelessness.

She also explained how they invest in businesses that are responding to long-term trends and helping to solve pressing challenges in society. An example is The Gym Group, which promotes wellbeing by offering gym memberships at far more affordable rates than their mainstream gym competitors.

But the most surprising example was the story of World of Books - a pioneer in book recycling, founded by a group of book-loving people in 2002. They were horrified to learn that charity shops were being donated many more books than they could ever sell, and were actually paying waste companies to take them off their hands to send them to landfill. So they set up World of Books to gather these unwanted books, which are then sold on through their own website and others such as Amazon and eBay. The remainder are properly recycled into cardboard packaging. They also developed an app called Ziffit, enabling individuals to 'scan and send' unwanted books directly to them.

## Lance Mysyrowicz, Partner, BOOST & co.

Lance explained how BOOST offers an easy platform for innovative small & medium sized enterprises in Europe to borrow to expand. BOOST doesn't have a fixed lending model - every one of its loans is individually designed to fit the needs of the individual SME. BOOST has certain sectors that it likes lending to, such as software, internet, and cleantech.

Lance illustrated this with the example of Purple Wifi, a Manchester based IT company which offers guest wifi solutions to businesses and other venues such as shopping malls.





## Paddy Dowdall, Assistant Director, GMPF

Paddy Dowdall gave an interesting insight into some of the fund's local investments, which have the twin aim of generating commercial returns, whilst supporting the economy of the local area.

He gave several examples of property investments which meet this criteria including:

- First Street Manchester, a prosperous neighbourhood for the city, offering cultural, commercial and residential spaces.
- The Soapworks - the stunning transformation of the former Colgate Palmolive factory in Salford Quays into 1,000,000 square feet of Grade A office accommodation.
- Matrix Homes, offering local people quality housing to buy or rent at affordable prices.

## Northern Pool

And finally we heard from our Northern Pool partners, Ian Greenwood from West Yorkshire and Councillor Paul Doughty from Merseyside.

The Northern Pool is the vehicle we have set up to meet the Government's demand that Local Authority funds must pool a percentage of their investment assets, and at the time of going to press the value of assets held in the pool was over £40 million.



## Guest feedback

We asked guests to fill in a survey about their views on our investment activities, and a summary of the results is shown here:

To what extent do you agree with the Fund's:	% in support
<i>Policy statements represent a positive approach to ESG issues</i>	<b>83%</b>
<i>Approach to its voting policy</i>	<b>86%</b>
<i>Collaborative approach to engagement</i>	<b>90%</b>
<i>General approach to engage with companies rather than disinvest in them</i>	<b>76%</b>
<i>Approach to measuring climate change risk</i>	<b>85%</b>
<i>Approach to managing climate risk</i>	<b>85%</b>
<i>Approach to holding the Fund Managers to account for their implementation of the Fund's ESG policies</i>	<b>86%</b>
<i>Approach to being transparent on its ESG policies</i>	<b>91%</b>
<i>Broad approach to investing locally with the twin aims of making a positive ESG impact and achieving a commercial rate of return</i>	<b>92%</b>
<i>Approach to direct UK infrastructure investing</i>	<b>93%</b>
<i>Ambition to develop housing in the local area</i>	<b>90%</b>

## And finally...

Thank you so much to everyone who attended, including the guests, the presenters, and the various specialists who hosted information stands. If you weren't able to attend, but would like to find out more about our investments, you can visit the investments section of our website [here](#).

If you weren't able to attend or fill in the feedback form on the day but still want to let us know your views, then you can do so by sending us an e-mail with the subject line **Shaping our Values feedback**.

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