

Minutes of IMWP held on 29 June 2021

Attendees

| Name | Initials | Organisation |
|---------------------------------------|----------|---------------------|
| Councillor Pat Cleary (Chair) | PC | WBC |
| Councillor Cherry Povall (Vice Chair) | CP | WBC |
| Councillor Brian Kenny | BC | WBC |
| Councillor Chris Carubia | CCa | WBC |
| Councillor Adrian Jones | AJ | WBC |
| Councillor Jayne Aston | JA | WBC |
| Councillor Jeff Green | JG | WBC |
| Paulette Lapin | PL | Sefton |
| Donna Ridland | DR | Pension Board |
| Councillor Martin Bond | MB | SHBC |
| Roger Bannister | RB | UNISON |
| Rohan Worrall | RW | Independent Adviser |
| Paul Watson | PWa | Independent Adviser |
| Jennifer O'Neill | JO | Aon |
| Lucinda Downing | LD | Aon |
| John Simmonds | JS | CEM |
| Rhijuta Dahal | RD | CEM |
| Peter Wallach | PW | MPF |
| Adil Manzoor | AM | MPF |
| Greg Campbell | GC | MPF |
| Allister Goulding | AG | MPF |
| Daniel Proudfoot | DP | MPF |
| Donna Smith | DS | MPF |
| Alan Robertson | AR | MPF |

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| Elizabeth Barlow | EB | MPF |
| Owen Thorne | OT | MPF |
| Susannah Friar | SF | MPF |
| Farbod Abarghouei Nejad | FN | MPF |
| Alex Abela-Stevenson | AAS | MPF |
| Neil Gill | NG | MPF |
| Dragos Serbanica | DS | MPF |
| Christopher Crawford | CC | MPF |
| Emma Jones | EJ | MPF |

1. Apologies

Cllr J Bird

2. Declarations of Interest

It has been agreed that Declarations of Interest are an annual declaration at the beginning of the Municipal year.

3. Minutes of IMWP held on 23 February 2021

Noted, no amendments

4. Presentation: CEM Benchmarking

John Simmonds (JS) presented the results of the independent assessment taken by CEM in providing a comparison of the costs and performance of MPF investment programme relative to that of other pension funds.

PC asked, in the context of MPF becoming more cost efficient in implementing its strategy due to its emphasis on internal management, whether CEM has observed other pension funds to adopt a similar approach with respect to internally managed funds and how common that approach is.

JS advised that the decision to implement an internally managed investment strategy is a function of the scale of the investment programme. When funds achieve a certain scale, over GBP 10-20 bn in AUM, the incidence of internally managed funds increased. JS added that internal management does not guarantee success. Over the long term however, the data has shown that internal management is superior to external management on a cost comparison basis.

RW asked, given that the returns of the hedge fund investments have been relatively low, what are the experiences of other pension funds that have also made investments in hedge funds.

JS commented that there is some scepticism in the market regarding the role of the hedge funds within the portfolios, leading to an increasing trend of disinvestment from hedge funds.

PW confirmed that MPF has also reduced its exposure to hedge funds.

RW asked whether CEM looks at equity style when comparing the performance of equities.

JS commented that CEM does not include equity style in the analysis, adopting a broad comparison of the asset class. JS mentioned that the source of MPF equity programme underperformance relative to peers lies with MPF's overweight position to UK equities.

PW asked whether CEM does any analysis on the currency exposure or on the currency hedging decisions and whether there are any plans of including carbon footprint as a component of future analysis.

JS mentioned that CEM does not look in detail at currency or hedging exposure, though it is trying to limit currency noise in the analysis. In terms of ESG, JS confirmed that CEM is starting to look at it as an organisation.

RW commented that it is worth focussing on the risk as well, highlighting that the risk relative to the liabilities has been well managed and controlled.

JS added that MPF has managed to achieve returns greater than its peers while at the same time having a relatively lower risk exposure.

5. Review

5.1. Investment Update

PW presented an update in terms of the allocation, performance, AUM, and funding position of the pension fund as of 31 March 2021 together with achievements recorded for the year as well as touching on the strategic goals for 2021/2022 and beyond.

JG asked what is meant by the term "discount rates" and what are the implications of it.

PW commented that a discount rate is used to provide a present value measure to a future stream of cash flows, acting like the reverse of the compound interest on a building society account.

5.2. Investment Update

RW gave an update on the market performance for Q1 2021, focussing on the themes that have driven investor sentiment in the market, drivers of equity market performance, fixed income, alternative asset classes, currencies, and gold performance as well as the outlook for future growth.

PC asked for feedback regarding the expectation of future inflationary pressures, given the media coverage regarding concerns of future inflation.

RW commented that he does not believe that we will be experiencing a hyperinflationary environment similar to the one that occurred in the 70s. In the aftermath of the Global Financial Crisis, the expansionary monetary policy pursued by central banks was balanced by contractionary fiscal policies, by lowering government expenditure and pursuing austerity programmes, therefore both policies cancelling each other out in terms of the inflationary impact. The unprecedented level of government intervention in the real economy in an effort to contain the consequences of the pandemic has the potential to put upward pressure on expected inflation in the short term.

PWa added that it is unlikely for the UK economy to experience a long-term systemic inflation.

5.3. Strategic Adviser Update

JO from AON's consulting team gave an update on the strategic overview, funding level and asset allocation as well as on the investment outlook.

JG asked about the outlook for interest rates in the context of heightened inflation expectations and what does it mean for the fund if interest rates do start to rise.

LD commented that there is strong relationship between interest rates, inflation, and economic growth. Typically, if inflation rises when growth rises, that represents a good thing for the economy. When inflation rises and it causes interest rates to rise without a strong economic growth in the mix, it generates a generally undesirable economic outlook. The expectation is for a period of higher inflation to persist over the short term with interest rates kept at low levels and growth rising at the same time.

JG commented that in terms of the impact of rising interest rates on the fund, if central banks decide to raise interest rates, that will translate in a higher level of expected return sought by investors in the market and in higher discount rates used in valuations.

5.4. Monitoring Report

PW gave an update on fund performance by asset classes and investment mandates for Q1 2021.

PWa asked for the drivers behind the outperformance of the internal UK equity mandate portfolio and what risk controls are set in place to manage that mandate.

AG commented that a large part of the outperformance comes from having a physical exposure to precious metals, gold, silver, palladium, platinum, and rhodium. During economic troughs, precious metals have outperformed other asset classes historically as well as acting a good inflation protection tool.

Monitoring report was noted.

6. Responsible Investments

4.1 LAPFF Quarterly Engagement Report

OT provided a summary of the LAPFF (Local Authority Pension Fund Forum) quarterly engagement report, detailing the engagement with HSBC and the shareholder resolution that was filed and ultimately withdrawn at HSBC's AGM in favour of a resolution tabled by the company itself. HSBC has strengthened its commitment to align to the Paris agreement. MPF was part of the original shareholder group that filed the initial resolution.

OT also advised on the progress made on engagements with companies that have activities in the Occupied Palestinian Territories. OT mentioned that the fund has received considerable interest from members of the public in regard to its investments in such companies.

4.2 Climate Risk and Climate Strategy

OT commented that the pension committee has approved last year the fund's strategic plan to put climate risk at the heart of the fund's investment strategy. OT gave an update on the progress made so far in terms of developing an implementation plan for the agreed strategy on climate change.