IMWP
18th September 2019
9.30am (for 10.00am start)
Queen Mary Suite, Cunard Building, Liverpool. L3 1JR.

Attendees

Name	Initials	Organisation
Councillor Pat Cleary (Chair)	PC	WBC
Roger Bannister	RB	UNISON
Councillor Ian Byrne	IB	LCC
Councillor Stuart Whittingham	SW	WBC
Councillor Cherry Povall	CP	WBC
Councillor George Davies	GD	WBC
Councillor Geoffrey Watt	GW	WBC
Councillor Brian Kenny	BK	WBC
Peter Wallach	PW	MPF
Linda Desforges	LD	MPF
Rohan Worrall	RW	Independent Advisor
Noel Mills	NM	Independent Advisor
Louis-Paul Hill	LPH	Aon Hewitt
Greg Campbell	GC	MPF
Allister Goulding	AG	MPF
Neil Gill	NG	MPF
Daniel Proudfoot	DP	MPF
Alan Robertson	AR	MPF
Elizabeth Barlow	EB	MPF
Owen Thorne	OT	MPF
Alex Abela-Stevenson	AAS	MPF

Apologies

Name	Initials	Organisation
Councillor Paulette Lappin	PL	SBC
Councillor Pat Hackett	PH	WBC
Councillor Tony Dennis	TD	LCC
Councillor Andrew Gardner	AGa	WBC
Councillor Tony Jones	TJ	WBC
Councillor Chris Carubia	CC	WBC

Declarations of Interest
None.

1. **Minutes of IMWP held on 6th June 2019**
   Noted- no amendments.

   Q2 2019

2. **Strategic adviser update**
   LPH (Aon) covered the strategic monitoring report. He described the funds level as healthy improving from 85% at end March 2016 to 101% at end June 2019, which was driven by strong asset performance, particularly in global equity markets and the devaluation of the pound assisting overseas assets valuation. He explained the global equity market performance was subsequent of central banks easing movements. LPH market outlook had initial concerns for equity due to weak fundamentals, however with central banks QE, equity markets are grinding out higher returns. The backdrop for the economic outlook overall is considered less positive because of a slowdown seen in the manufacturing sector and the ongoing trade disputes.

   In relation to the medium-term asset allocation positions and risk taken the fund had not much risk relative to the benchmark, with a slight underweight in equities. A continued underweight position in bonds had been considerably negative as bond prices rallied. LPH did confirm now was not the right time to be buying bonds due to low expected returns.

   SW highlighted the progression of assets and liabilities chart with the sharp drop in liabilities during 2016. LPH confirmed the decline in liabilities and stated it was due the actuary moving from discounting the liabilities based on gilts and their prices to CPI plus a margin. LPH clarified the next valuation is due in March 2019 and predicted there will be some movement, however he is not expecting such a movement as that seen in 2016.

In relation to the strategic review LPH described the 4-step process. The first being the beliefs of stakeholders, through a survey of committee members to which there had been 21 responses explaining what asset classes they believed in to assist in setting the investment strategy. LPH explained this was important to having stakeholders buy into any changes to the investment strategy. The survey results highlighted a desire to reduce investment risk if affordable, and to explore further alternative investments such as options, hedge funds and derivatives. The second process step was the objectives of the strategy within the fund; to which is the long-term aspect and ensuring the fund exists to pay pensions. Also, maintaining affordable contributions for the employers while balancing contributions with investment returns. Ultimately determining what investment is needed and how much prudence is required. The third process step was the building the asset allocation. LPH explained the two ways in which this is done. One being through a risk and return perspective, the other looking at this through different economic scenarios. The final step in the process is the analysis of the assets and liabilities in relation to climate risks. An analysis is done to test model asset allocations' resilience under various climate scenarios such as 2-4-degree temperature increases. LPH concluded the combination of these processes results in a long-term comfortable asset allocation to achieve the funds objectives.

PC requested that LPH clarify where the fund currently stands on all variables including the climate risk aspect, to which LPH stated this would be discussed further during a meeting following the IMWP [18.09.19] but they are currently working at the setting objectives stage, to which an update will come at the end of the year. PW added that they are currently finalising the actuarial valuation. He reiterated the substantial improvement in the funding position which should be considered reassuring to the employers within the fund. Each employer's valuation will vary according to the demographic profile of their workforce, but they will have seen a vast improvement over the last 3 years.

Action Points: *None.*

3. Presentation: UK equity portfolio – BlackRock

Luke Chappell (LC): Portfolio Manager UK Fundamental Equities
Andrew Tunningley (AT): Relationship Manager

LC led the presentation, the portfolio valuation as of 6th September 2019 stood at £306,303,024. The objective of the portfolio is to maximise total return by way of a concentrated portfolio without regard to the composition of a particular index. The portfolio is benchmarked against the FTSE All Share Index. He confirmed the inception of the mandate was March 2009 which assisted in the validity of the performance data. He presented the annualised performance figures, with 30/06/18 to 30/06/19 reaching 4%, outperforming the benchmark by +3.4%, on 4 of the 5 data points reported LC stated the portfolio has outperformed the benchmark. In terms of fund performance over 5 years p.a. the annualised returns were at 8.5% compared to the All Share index of 6.3% subsequently beating the benchmark by 2.2%. Further details were provided within an additional handout which covered MPF attribution 12 months to 30th June 2019. LC confirmed the portfolio's long-term outlook and preference of holding shares for at least 5 years.

LC confirmed there had been a huge amount of activity under the surface of the investments with significant changes in global markets. This stemmed from changes to economic expectations and other factors such as the US and China trade war, cuts to US interest rates after expectations of raises. LC stated the most extreme market reactions were seen during Q4 2018 when rate expectations changed considerably and this year with bond yields falling, led to a shift to quality names within markets. LC confirmed the style preferred within the portfolio are companies with a sustainable outlook and therefore competitive advantage which had done considerably well this year. The top contributors over the period were companies such as RELX PLC, Compass Group PLC and London Stock Exchange Group (LSE). Recent corporate transactions within companies such as LSE and their acquisition of Refinitiv demonstrating how the portfolio benefited from structural growth. The recent interest from Hong Kong Stock exchange in LSE, LC confirmed this highlighted growing interest in the UK from overseas investors despite recent economic uncertainty due to Brexit. This was reiterated with assets such as Greene King and Entertainment One who had seen bids from foreign investors.

LC continued to discuss the impacts and opportunities of economic influences such as Brexit and its effect on UK companies. Auto Trader was an example of a well-run business with a structural tailwind being its online presence, resulting in the company being able to survive during current levels of uncertainty in the market. Detractors over the period such as EasyJet PLC was provided as an example to which LC gave a long-term view in holding and there has been consolidation in the short haul market in Europe.

LC concluded the presentation highlighting the low turnover of companies in the 20-23 stock portfolio, with a discussion around the 2 sales within the 12-month period of Shire and Sky due to takeover activity. The redeployment of this cash led to buys in companies such as Smith and Nephew, with the new Chief Executive taking their operations further into medical technology. Additionally, SSP which had seen the retirement of their CEO creating market concern, which was an opportunity Black Rock had exploited. The purchase of Trainline after their recent IPO was as a result of market expectations and the shift towards paperless tickets. LC predicts the company will benefit from the holding of younger businesses operating in continental Europe. The position is currently under 1%, however the potential of the company captured everything management wanted in a business. LC final point reiterated requirement of a company's sustainable future in the holding criteria.

BK questioned the statement of Brexit being construed as an opportunity as, in his view uncertainty did not seem to be helping the country especially with the current court case ongoing. The summary seemed positive and he wanted to confirm if that was the correct view. LC confirmed he was biased towards the positive view. Data coming from Bank of America Merrill Lynch survey suggested global fund managers had reasons not to invest in the UK. The current valuation opportunity was being recognised by overseas bidders. LC confirmed UK equites are diverse with 70% of earnings from overseas. He stated some companies and sectors will win and others will lose from the current uncertainty. The portfolio's management identifies there is a wide range of outcomes and probabilities surrounding the uncertainty but believe the portfolio is positioned neutrally to large sterling movements overall and are finding said opportunities at an individual level. LC confirmed they would never commit MPF capital where they don't have efficient information and secured this with stress testing the portfolio.

SW also highlighted the growing uncertainty in the UK and its effects on Auto Trader, with used car sales and equally production declining there is a trade off in terms of positivity. LC confirmed this but stated Auto Traders stock turnover had increased in speed and efficiency. Therefore, even a fall expected in forecourts post Brexit, Auto Trader would still be able to turn more stock and quickly due to its online presence as seen within companies such as Rightmove. He confirmed the largest positions within the portfolio of 7-9% are robust in uncertain economic conditions.

RW highlighted that since the last Black Rock presentation LC had said the portfolio active risk would increase including a higher target. However, active risk remained [3.81%] and questioned if the risk would pick up. Meanwhile identifying LC stated the portfolio had a value bias which is not evident and questioned if this also remained the case. LC stated active risk correlates with market volatility. He had wrongly thought as economic data had become more volatile as would market volatility. He stated active risk had been higher particularly this year. With market moves in the last week of 7 standard deviations, confirming outsized movements. To guard against this, a well-diversified portfolio at stock level is essential. A greater increase in market volatility would see a rapid increase in active risk of the portfolio. He also apologised if he had previously misled value perception, as in the long term the portfolio is biased towards quality and growth.

LD questioned the portfolios exposure to the financial sector and if BR are happy to see an underweight in this sector. LC highlighted the sense of inertia within banking and stated disruption is evident, but its effects are slow. He also stated there were certain areas of financials that management don't fully understand, these being life assurance accounting and confirmed they would not invest in the sector (around 4-5% of the index). LC believed the uncertainty around Brexit had presented an opportunity in real assets and confirmed that through the recent interest in Greene King from a Hong Kong conglomerate reiterating his opportunistic view of recent uncertainty.

In terms of the market outlook LC highlighted GDP growth expectations being moderate and said their internal forecast of global growth had fallen. LC stated markets tend to react to news relating to the US and China trade war due to the influence of the US. He also believed that markets are going through a mid-cycle correction, driven in part by mid cycle rate adjustments in the US. LC does not see recession risk in 2019 given the upcoming US presidential election. He again finalised his views of the opportunities that had risen due to Brexit uncertainty. He stated that management meet with holding companies as often as they can.

LC gave a high-level picture of the portfolios influence on ESG issues. He highlighted the current carbon footprint of the mandate and how it is significantly lower than the index due to the lower holdings in the larger oil companies. LC stated how they have spoken with oil companies and questioned their operational validity over the next 5-10 years. LC finalised his review with highlighting the validity of ESG data, being that the metrics are subjective with each company score. They believe they are using the most reliable data and that these issues are becoming increasingly more significant both internally and externally.

PC requested confirmation on the metrics around the ESG data and if they are independently calculated, to which LC confirmed they are. PC also questioned as to what Black Rock are doing to actively reduce their carbon exposure. LC confirmed they are developing their own internal ESG measurement system that is a few years away. He also stated how the managers interact with companies on an individual level to improve operations through active carbon reduction. They engage and apply pressure to companies such as Shell and Rio Tinto to act. They also produced further detail within their Annual Report. PC then clarified that there are not specific targets set by Black Rock and that they have a reliance upon companies to adopt ESG actions. LC stated Black Rock only have a carbon footprint target to which AT added that they have had other clients request specific targets and is becoming a top priority.

OT enquired about whether the managers could envisage a scenario at which their carbon footprint would be higher, as such take an active position that had a higher carbon footprint, and how the management could justify this. LC confirmed that he does fully expect to have to do that as the key objective driving investment is performance. However, they would consider the longevity of the investment that would factor in its exposure to climate risks.

SW stressed a shareholder's ability to divest and use their position to influence change, with climate change is top of the political agenda; how MPF addresses issues through active portfolio management and conversation with management is key. SW questioned whether management see reinvestment into the UK manufacturing sector due in order to reduce emissions. LC pointed to the need to identify a businesses' global footprint given that they are incentivised to achieve a low-cost base via offshoring, he did state this may change in the future. SW stated there may be a skills issue with bringing manufacturing back to the UK.

OT questioned as to whether there are other sectors in the UK that are to be mindful of these climate focused transitions. LC identified opportunities within infrastructure and that the number of UK listed businesses with this opportunity is modest. One example however was SMS but stated it was a fraught business. AT identified Shell and their work within renewable energy. OT highlighted that Shell has set targets due to its management engaging with investors such as MPF, the recent criticism of Black Rock and its terms of its voting actions and position around being transparent and accountable in terms of specific engagements not being as aligned with the Climate action 100+ initiative. OT confirmed there is a concern for the lack of support from Black Rock on several key issues. LC gave the firm's overview and confirmed Black Rock engage on a neutral basis and engage with all clients equally and fairly to drive change. However, they do not make these engagements public, which is a source of debate, it is recorded within their annual report. He confirmed they vote in every vote they can, and these records are made public.

RW highlighted the active risk ESG rate and whether the rates reported are positive. LC stated the MSCI sustainable analytics data that underpins this is still within the early stages, however, is the only external source which Black Rock had found to be valid.

AR brought attention to the cumulative returns since inception figure, which is MPF gross of fees, and questioned whether managers could provide a corresponding net figure. LC confirmed they do not have the figures at the meeting but can provide them.

LD enquired about the reaction of oil majors in contact with Black Rock when they are questioned about the long-term business objective. LC stated companies can be shocked by the question but often base response around the security of supply. LC confirmed companies are thinking more about these issues and Black Rock themselves accept criticism that these questions are somewhat late in coming. AT confirmed US concern for social impact is developing.

OT highlighted that one of key asks through Climate Action 100+ is to report what companies do through a task force, and what targets and metrics are used to measure where their strategic thinking is and what then targets are set to measure progress. The message to Black Rock is to ask what they are doing to promote this including encouragement to be consistent with TCFD disclosure. AT in response drew attention to their annual report appendix which lists all industry affiliations. He confirmed Black Rock are not part of Climate Action 100+ but are present in other similar groups. They also prefer to engage with companies on an individual level with specific targets that are company and industry specific. He stated their current stewardship records would not show middle of engagement activities. LC confirmed the production of specific ESG report due for distribution next quarter. Black Rock welcome feedback and will additionally report specific actions taken within current holdings within the mandate.

Action Points: *Black Rock will report on their current ESG actions taken within companies held with the portfolio.*

4. Market commentary

NM gave the top down view of markets, referring to section 4 within the IMWP pack, stating that during Q2 and Q3 this year bonds and equities rallied simultaneously. This had been driven by changes in US monetary policy, namely the cut in interest rates by the US Federal Reserve which was within market expectations. This encouraged other central banks adopting a loosening of monetary policy, with the ECB starting a quantitative easing programme and Bank of Japan to follow. The change in policy was as a result of the growing trade war concerns and subsequent slowdown in growth seen this year. NM was less convinced of a mid-cycle correction and was more in favour of an end of cycle point. The reduction in interest rate expectations following the equity market correction in December 2018 had enabled market recovery. He stated the trade war led by the US was the cause of the slowdown in global economic growth. The Purchasing Manager's index has shown global manufacturing output fall below the 50 breakeven thresholds. The export orders index had also been negative to which NM confirmed was a response to the stifling of trade and capital investment. He confirmed Germany is in a technical recession as the trade war had a negative impact on growth outside of the US and China, however the policy response had been positive for equities year to date. Whether the Fed's policy response can extend the economic cycle more debateable.

Q3saw bond yields decline sharply across all major markets. With negative short rates, long rates have been declining and, in many countries, governments are being paid to borrow money over 10 years. In Germany is up to 30 years. NM stated what is needed is fiscal stimulus, logically during this stage it is expected governments would attempt to extend the economic cycle in order to reduce the threats attached to an economic downturn. This had been seen in the US last year with tax cuts and in France as a reaction to protests. However, with Germany in a technical recession and fiscal surplus they are least likely to implement this. NM stated he was more concerned about where the global economy was heading, with the US at full employment demonstrating little growth prospects and the recent oil price headwind. NM confirmed the risk of recession had been rising and had risen further since the last meeting. The US yield curve had been inverted for several months and historically it would take between 6-9months for a recession came along. Fortunately, the US does have the ability to reduce interest rates, but Europe and Japan would be in a more vulnerable position. NM predicted that over the next 18 months markets will see some form of a correction and low single digit equity returns over the subsequent 10 years should be factored in.

PC stated that during keynote conference speech at Celtic Manor, that some councillors attended, a large part of the thesis discussed was that wage growth was accelerating faster than inflation; requesting NM's view of the outlook for consumption. NM feeling is that consumption can continue, if there is a resolution to the current trade problem, as it is the factor holding it back. However, a reacceleration would see no interest rate cuts that have been the primary support for the market.

SW highlighted a comment made from Black Rock and requested clarity on whether NM agreed in terms of recession being unlikely due to the presidential election timetable. NM confirmed President Trump is doing his best to influence the Federal Reserve rates further to bolster his election chances. The Federal Reserve had been intent on increasing rates another 4 times last year but swiftly reversed course and have cut once and the market expects another 3 interest rate cuts. This is a 2-percentage point different on where markets thought rates would be. NM confirmed that the US President would want something to bring in front of the electorate next year. However, stated the greatest impact on markets would be a resolution to the ongoing trade dispute.

RW stated that there have been significant changes to the nature of the political debate over the last few years and that a mild recession would not necessarily deter Donald Trump voters. NM confirmed the US job market is strong which is what ultimately matters to voters. Job creation is also growing, albeit at a slowing pace and their real wages are not advancing as much as in the UK at 0.5%. Finalising that consumption is 70% of economic activity in most economies and that most economies inevitably would continue to grow.

Action Points: *None.*

5. Catalyst Fund

PW explained the background and use of the fund. MPF had notionally allocated 1% of the overall fund to the invest in MPF's local investment fund initiative. The fund is not looking to compete with commercial developers but provide finance to something that is commercially viable however is experiencing a funding gap. The fund is willing to lend at lower rates or alternatively adopt a slightly higher level of risk. PW confirmed these are generally real asset investments, with the asset backing as a form of security for the fund. This allowed the fund to invest and interact regionally. The Catalyst fund has three investments, Iliad Ropewalks, North Western and Peel Heat Networks. The preference for the fund is to lend as debt rather than equity as this is repaid more quickly, to then recycle funds and stimulate the local area further. The fund is keen to work with other local authorities and partners to support the development and refurbishment projects within the Merseyside area.

The first investment described was the Mersey Heat Network. The fund provided a £13.7million loan to finance a district heating project. The project is an energy efficient way of providing heating and energy. Providing heating to around 10,000 residential units and other commercial units. The project is being developed by Mersey Heat Ltd as a subsidiary of Peel Group. PW explained the Iliad Ropewalks area project (The Eight Building) is seen as a more traditional investment. The project consists of 120 residential units within the Ropewalks area of Liverpool, the development is 0.70-acre site that is centrally located. The objective of this project is to increase the supply of housing within the area. After an initial delay due to developer issues, a new contractor was appointed, and work is underway. The investment is expected to achieve a strong return over 24 months.

Action Points: *To report good local investments during the committee meeting.*

6. Responsible investment

6.1. Responsible investment update – Owen Thorne

OT brought two initiatives, to which the Fund is giving its public support, to the Councillors' attention, such support being consistent with MPF policy on the issues.

The first being an investor statement in relation to the ongoing deforestation and forest fires in the Amazon. Organised by the PRI, it was described as supportive of a call to action for the Brazilian Government to address an environmental catastrophe. The issue has been recognised by several governments and in particular the French government. The statement is addressed to a range of governments, companies and global investors to honour their commitments made previously in relation to limiting deforestation. It will be announced during an upcoming UN Climate Action Conference held in New York.

The second initiative was an open letter to EU leaders from the Institutional Investors Group on Climate Change. OT described the letter as being supportive of other initiatives focused on climate policy and is intended to be published in preparation for the upcoming European Council meeting in October; with the aim to impact policy frameworks and protocol with the climate emergency in mind.

RW queried why the IIGCC asked for members to sign the letter. OT explained that MPF are also a signatory to IIGCC's Global Investor Statement addressed to global governments engaged in the UNGCCC process; the message of which is re-emphasised in this letter. The objective of the letter is to call on the EU specifically as a policy making body, and with the commission changes implemented and new parliament sitting the timing is in response to this.

6.2. PIRC quarterly voting report

OT clarified that the PIRC quarterly voting reports demonstrate how the fund has voted. OT confirmed the fund has voted against company management recommendations in order to hold them to account on a range of issues. OT reiterated the criticism surrounding Black Rock and their tendency to support management through their considerable voting power, as a result have therefore failed to support certain shareholder resolutions for moving change forward on a range of concerns. The Fund is working with PIRC to analyse fund manager voting patterns, in particular those of its index manager SSGA, to better hold them to account.

6.3. LAPFF quarterly engagement report

OT explained the funds participation in LAPFF as a collective engagement initiative. He clarified that most of the fund's stewardship work is carried out through collaborative initiatives such as LAPFF. OT highlighted a particular response to issues within the global mining sector after a catastrophe involving a mine collapse in Brazil last year. This raised significant standards and safety questions within the companies responsible. The mining companies were brought to the table to discuss the issue and address mining safety standards, including community impacts. One significant outcome of this has been agreement by the mining companies to make significant provision for the surveying and remediation of potentially unsafe tailings dams. OT concluded stating actions of this nature would not take place without the input of action groups, LAPFF and their assurance that the local communities effected voices are heard.

PC identified the previous mentioning of LAPFF during other committee meetings and praised the positive engagement work. He requested advisers such as PIRC be invited to the IMWP meetings in the future to provide further detail.

7. Notes and discussion points

7.1. Noting items

None.

7.2. Recommendations

PC recommended MPF extend an invitation to PIRC to attend the next IMWP meeting.

Date of next meeting: 14th November 2019