



## Local Government Pension Scheme (England and Wales): Fit for the future consultation

Set out below is the response of the Northern LGPS ('NLGPS') pool to the Consultation published on 14 November 2024.

### The Northern LGPS Pool

The NLGPS is a partnership between three of the largest funds in the LGPS in England & Wales - the Greater Manchester Pension Fund ("GMPF"), the Merseyside Pension Fund ("MPF") and the West Yorkshire Pension Fund ("WYPF"). As of 31 March 2024, the combined assets of these funds totalled £61.4 billion, which are invested for over 870,000 members and 1,250 contributing employers. WYPF also hosts a shared service pension administration function for three other LGPS funds and 24 regional fire authorities, providing LGPS administration to c. 200,000 other scheme members.

The current NLGPS governance model reflects the scale of the individual underlying partner funds and the sizeable and experienced internal investment teams at each of the funds. The Pool shares the combined resources of the funds to research and monitor investments, whilst investing collectively in asset classes where there is clear overlap using pool vehicles such as **GLIL** (a c£4bn open ended fund investing in direct UK infrastructure, which has been developed collaboratively with the LPP pool) and NPEP – a company created by NLGPS to make collective private equity investments, including lower-cost co-investment.

The scale of the funds mean that they have a long history of in-house investment across both private and public markets; as at 31 March 2024 these teams managed more than £18bn in listed equity, bonds and cash, and nearly £17bn in unlisted assets (including property, local investments, private equity, private credit and alternatives). They also retain a sizeable proportion of their assets (currently c43% - i.e. £26+ billion) invested in the UK.

This response is made in the context of what the Northern LGPS has achieved to date to meet the aims of Government policy and guidance and in particular:

- **Scale:** at over £59bn of Pool assets held in pooled vehicles or under pool management as at 31 March 2024 (all partner fund assets other than cash), we have achieved significant scale to invest efficiently.
- **Investment in the UK:** with over £26bn held in UK investments across our three partner funds, we are more than 43% invested in the UK, which we understand is higher than any other Pool.

- **Value for money:** our publicly available cost benchmarking (provided by CEM) shows a total investment cost of 38.4bps, competitive by international standards and meaning our per member costs at a fund level are amongst the lowest in the LGPS.
- **Net savings** of over £216m since our inception in 2017.
- **Internal investment** capabilities with c. £18bn in internally managed equity, bonds and cash, and internal oversight of a further c. £16.5bn of private markets investments (including property and alternatives).
- **Strong investment performance:** outperformed our composite benchmark by 0.9% over three years to 31 March 2024 (equivalent to over £500m of value added).
- **Local investment expertise:** including over £1.5bn to local investments that aim to positively benefit the North West and Yorkshire locality.
- **Cross-pool Collaboration:** we work with LPP to invest at scale and low cost in infrastructure via GLIL.
- **Innovative investments:** which benefit the partner funds in the pool and also the wider UK, including:
  - supporting new businesses emerging from our world class universities through our investments in Northern Gritstone
  - helping solve the housing crisis through residential housing investments and working with the Greater Manchester Combined Authority, Number 10, Treasury and MHCLG to develop a 'patient equity' financing solution to unlock unviable brownfield housing developments, which is 80% more efficient than grant funding; and
  - investing in nature-as-a-service through our work with Rebalance Earth.
- **Staying true to our roots:** with skilled investment jobs in Bradford, Tameside and Merseyside.

## Our response to the Consultation

We are pleased to provide NLGPS's views on the questions raised in the Consultation. We are supportive of Government's general aims and of many of the specific proposals set out, in particular in relation to the outcomes of the 'Good Governance' review.

There are however a number of areas where we think the proposals outlined in the consultation document could be improved, and lead to better outcomes for LGPS funds, including those in the NLGPS Pool, participating employers and taxpayers. Clearly, Northern Pool will always comply with its legal duties and obligations. We have significant concern regarding the short deadline given for responses to this consultation - given the significance of the matters being consulted upon (and that the consultation period covers the Christmas holidays) we would have expected a 12 week consultation period as a minimum. We sincerely hope that despite the short deadline and the requirement for pools to prepare a business plan (see below) prior to the consultation exercise being finalised, Government is willing to consider amendments to the consultation proposals where these could result in improved outcomes for LGPS stakeholders and UK economic growth.

Perhaps of even more significant concern is the extremely short timeframe for pools to submit business plans setting out how they intend to evolve their operations to meet the proposals set out in the consultation; and in particular the requirement for pools to explore by this same deadline whether merger or collaboration with other pools is likely to produce more beneficial outcomes. We

believe this to be a thoroughly insufficient timeframe in which to undertake the necessary due diligence on matters of such complexity and potential financial significance. If Government's strong preference is for increased collaboration between Pools (which is our understanding – and something we support) then we believe imposing such a short and arbitrary deadline will hinder this. Similarly, as we have set out in our response to question 10, the indicative implementation timeline targeting March 2026 is extremely challenging; putting in place timescales that are in practice unrealistic is unhelpful, and rushing the process is likely to lead to sub-optimal outcomes at what is a critical juncture for the LGPS.

We are proud to stand behind what we have achieved to date, delivering better outcomes for the LGPS, its stakeholders and beneficiaries, and we look forward to continuing to work with Government in a way which is fit for the future and delivers at scale for the LGPS and our members.

As well as this consultation response, we look forward to setting out in further detail how we will deliver this in our pooling proposal.

## Chapter 2: LGPS pooling

### Proposals

**Question 1:** Do you agree that all pools should be required to meet the minimum standards of pooling set out above?

The five minimum standards proposed in paragraph 22 of the Consultation are:

1. that AAs would remain responsible for setting an investment strategy for their fund, and would be required to fully delegate the implementation of that strategy to the pool;
2. that AAs would be required to take principal advice on their investment strategy from the pool;
3. that Pools would be required to be established as investment management companies authorised and regulated by the FCA, with the expertise and capacity to implement investment strategies;
4. that AAs would be required to transfer legacy assets to the management of the pool; and
5. that Pools would be required to develop the capability to carry out due diligence on local investments and to manage such investments.

**We are comfortable with delegating implementation of investment strategy to the Pool,** although we would have concerns over the precise scope and implementation of the requirement to take “principal” advice on investment strategy from a Pool, given the potential for conflicts of interest. Further detail is provided in our response to question 5.

**We believe that the key outcome from pooling is that all pools can implement AA’s required strategies across a range of asset classes at a low cost, and therefore increasingly by investing directly. This is something we have been doing as Northern LGPS to date.**

We do not think that FCA authorisation is an indispensable requirement to having the expertise and capacity to implement investment strategies effectively for a small number of large LGPS funds, and in fact the success of the Northern LGPS to date in internal investment across private and listed asset classes at low cost shows that it is not. However, as we have previously included in responses to other consultations, we accept that the NLGSPS’ model would not work for a larger group of funds (or for smaller funds without significant internal resource) and that requiring that all pools are FCA authorised investment management companies should provide comfort that the setting of strategy and the implementation of that strategy are separated, which we assume is a key objective of Government. However, please note our concerns regarding the potential for the provision of investment strategy advice from pools to AAs making this separation less clear – please see question 5 for further details.

Given the existing structure of the NLGPS, we do not have legacy “unpooled” assets and **so would be comfortable with an obligation to ensure that legacy assets are under the management of the pool**; however we would be opposed to any transfer of the beneficial ownership of assets to pools that would incur unnecessary transaction costs. We note that paragraph 51 implicitly accepts that legacy illiquid assets could be managed by the pool rather than in pooled vehicles; we do not see a rationale for imposing a constraint on the form of vehicle that listed assets are housed in, and therefore do not believe that it is appropriate that “AAs should be required to transfer any remaining listed assets invested outside the pool to pooled vehicles managed by their pool” (our emphasis), which seems to presuppose the use of an ACS structure.

We strongly believe there is a role for segregated mandates for large investors, as is the case for large private sector pension schemes, with the rationale in both instances being cost efficiencies and the ability to tailor the nature of these mandates to large investors’ requirements (be these responsible investment policies, cashflow generation or risk and return requirements - as noted above, these segregated mandates would be managed on a day to day basis by the FCA regulated Pool).

The use of segregated mandates managed under an Investment Management Agreement (“IMA”) also provides greater efficiencies than pooled vehicles for universal investors who can better manage cash into and out of investments (rather than artificially having cash sat within separate pooled vehicles), to be more nimble to take advantage of market or specific investment opportunities, and to implement more sophisticated strategies (e.g. easily implementing currency hedging or other risk management overlays at a portfolio level collateralised by a central pot of cash for each client).

Having already been through the process with NLGPS of ensuring that all assets are reported on by one custodian we agree that consistent reporting is a key benefit.

**All three partner funds within the NLGPS are supportive of local investment and so agree that the capacity to manage local investments in the North is important**; this is another existing area of strength within the NLGPS, and we want it to continue. However, we have concerns that our ability to invest locally under our current fiduciary duty owed as an asset owner will be impaired by an FCA regulated fiduciary manager.

**Question 2:** Do you agree that the investment strategy set by the administering authority should include high-level investment objectives, and optionally, a high-level strategic asset allocation, with all implementation activity delegated to the pool?

We would be comfortable with this, subject to clarity on the “high-level” investment objectives AAs are permitted to set. For example, we would view cashflow management as an important consideration and a point we would expect engagement between Pools and clients in relation to – as a large investor we would see this as more material than just the management of disinvestments (or the investment of contributions) as we would not want to be a forced seller of assets when we know it can be more efficient to receive regular cashflow from assets.

Our view is that pools should be able to operate segregated mandates for partner funds where there is sufficient scale to do this effectively. Under a segregated structure we would hope that the decision makers within the Pool will be comfortable with more granular and bespoke SAAs reflecting the beliefs and preferences of the underlying AAs, as is the case we would argue for all global asset owners and fiduciary managers – please see our response to question 4 in this regard.

**Question 3:** Do you agree that an investment strategy on this basis would be sufficient to meet the administering authority’s fiduciary duty?

We have not yet sought legal advice on this point and would recommend that advice is obtained, perhaps by the Scheme Advisory Board, on behalf of the LGPS in England & Wales.

We believe it is crucially important to have effective Pool governance arrangements in place which would allow AAs to set a more granular strategic asset allocation at some point in the future should the meeting of fiduciary duty subsequently be called into question.

See also see our response to Q2 above.

**Question 4:** What are your views on the proposed template for strategic asset allocation in the investment strategy statement?

While we understand the desire for consistency and simplicity, and the wish by Government to remove the opportunity for AAs to circumvent the implementation of investment strategy by the Pool by setting very specific target asset allocations, we would expect some flexibility for individual AAs to work with Pools to agree a sensible and appropriate level of detail, which would require some joint understanding of the (risk and return) characteristics of the asset classes listed, for example given the broad spectrum of potential interpretations of “infrastructure” or “private equity”; this could be through the use of Strategic Asset Allocation templates agreed between a pool and its underlying partner funds on a pool by pool basis, for example, or between a pool and a specific AA.

In addition, as specific (theoretical) examples we would expect an AA to have the option to determine allocations to Fixed Interest and Index-Linked “UK Government Bonds” separately should it wish to do so (given specific AAs may have differing liability profiles and requirements in relation to inflation linkage of their assets); also, including non-UK government bonds within credit is an unusual approach (and we note there is no clear place in the current template for Emerging Market equity or debt to comfortably sit).

We would also want to ensure that the ability exists to set specific investment strategies for individual participating employers or groups of similar employers within a LGPS fund, given the range of funding levels, covenant strengths and risk tolerances of employers across the LGPS.

This could potentially be achieved either by pools operating segregated mandates in respect of individual employers/groups of employers, or by AAs constructing notional portfolios from the pooled funds operated by the Pool. However, we believe this second option may introduce additional risk, complexity and reliance on the fund actuary and other consultants.

Ultimately, bespoke employer strategies do not appear easily compatible with the high-level strategic asset allocation template, and this is a good example of how the pooling proposals may underestimate some of the complexity and granularity within the LGPS. Given the upcoming actuarial valuation we recommend that Government clarifies if and how it envisages bespoke employer strategies operating.

**Question 5:** Do you agree that the pool should provide investment advice on the investment strategies of its partner AAs? Do you see that further advice or input would be necessary to be able to consider advice provided by the pool – if so, what form do you envisage this taking?

We have concerns over a model where the Pools provide investment advice which they would then also implement, given the real potential for conflicts of interest in an environment where there are few credible sanctions an AA could rely on to ensure alignment of interests (given the prospect of changing Pool is impractical at best and impossible at worst). We also question how quickly and comprehensively the Pools will be able to pivot to providing this advice directly, including the clear need to further invest in people, systems and data (e.g. Economic Scenario Generators, ALM tools etc), again when the Pool is in effect an unsackable advisor (unlike now, where the services of a third party investment consultant could easily be terminated).

We suggest that to avoid this, AAs could be allowed to take independent advice or use the Pool for investment advice; to manage costs the Pools would need to price advice transparently so that these costs could be compared easily (and indeed, more generally transparency and cost reporting is something we come back to in our response to question 29). We do not think this should be controversial, but if this is not deemed acceptable by Government, as a minimum we think AAs will need to retain the ability to commission independent advice to rely on as a second opinion.

Notwithstanding all of the above, we think that given the segregated nature of the structure we are proposing (and keeping the number of funds within a pool at a manageable number), AAs will be able to limit any conflict of interest that may develop over time.

**Question 6:** Do you agree that all pools should be established as investment management companies authorised by the FCA, and authorised to provide relevant advice?

We note that the consultation assumes FCA authorisation is a necessity for internal investment management, and implicitly that where FCA authorisation has not previously been the route followed this indicates some lack of professionalism; this is a great disservice to the three funds within the



NLGPS (and also those in the wider LGPS) who have developed strong internal investment management functions without needing authorisation, and ignores the nature of the broad church that is the LGPS.

As three of the largest Funds in the LGPS, the partner funds within NLGPS already have internal investment functions managing over £34bn of listed and unlisted assets (including c£18bn in listed equities and bonds, and cash, alone). The NLGPS already demonstrates the benefits of internal management of assets by having some of, if not the, lowest investment costs within the LGPS, without the additional layers of cost and duplication of those functions that requiring a separate (or in some cases additional) FCA authorised investment manager will cause.

The NLGPS has evidenced that it is possible to operate a high performing and cost effective large scale pool without being an FCA regulated investment management company, however we accept that this would not be possible for a pool with a larger number of investors and that the existing Northern LGPS model is not therefore easily scalable (without consolidation of LGPS funds)

That said where it has been appropriate to collaborate and invest via a FCA regulated structure we have led the way in doing so in the for example, the NLGPS partner funds all invest in direct infrastructure through GLIL, which is an FCA authorised AIF and also used by our colleagues at LPP (who are the AIFM), and NEST.

### **Question 7: Do you agree that administering authorities should be required to transfer all listed assets into pooled vehicles managed by their pool company?**

We expect that large, listed mandates should be permissible to be managed on a segregated basis rather than in a pooled vehicle, if they are of a sufficient size to ensure efficiency. In a private sector Defined Benefit scheme (with an advisory or a fiduciary mandate) listed assets are commonly managed on a segregated basis given the fixed costs and reduced flexibility introduced by having a pooled wrapper, and this is the case with other large non-LGPS internally managed mandates (such as USS IM or BTPS). Under a segregated approach there will still be economies of scale from pooling of resources and operational overheads and the ability for consistent management across mandates (including research, tools and systems, and alignment of trading).

Continuing to manage the NLGPS listed assets though segregated sleeves where the beneficial ownership of the assets remains with the funds rather than transferring into a pooled vehicle would also avoid significant potential upfront costs. Initial analysis from our advisors suggests that across the pool unrecoverable transition taxes and crystallisation of capital gains on foreign equity holdings could add up to between £10m and £20m across the Pool (subject to applying for and obtaining reliefs on total possible costs of c. £70m), together with potentially more material but currently unknowable rebalancing costs. In addition, there would potentially be increases to running costs through the additional services required to service an ACS and co-mingled funds, which will be quantified as part of our pooling proposal submission.

**We therefore strongly believe that listed assets should be required to be transferred into the management of the pool company rather than specifically into pooled vehicles managed by that pool company.**



On a minor point of clarity, note (v) under Table 1 in the consultation notes that “*Although Northern LGPS report 96% of partner funds’ assets as being under pool management, the Government’s understanding is that this refers to oversight by the pool committee of investment management and decisions made by the pension committees of the individual AAs*”; **this is incorrect** as investment management decisions (i.e. fund manager selection) are not made by the pension committees but at Pool level and by Officers at the funds within existing internal management delegations.

### **Question 8: Do you agree that administering authorities should be required to transfer legacy illiquid investments to the management of the pool?**

As noted in our response to question 1, given the existing structure of the NLGPS Pool, we do not have legacy illiquid investments not already under pool management, and so would be comfortable with an obligation to transfer legacy assets to the management of the pool.

There is one exception to this - where AAs have bulk annuity buy-in policies which produce an income stream designed to match some of their benefit obligations (e.g. for specific employers). Given the intrinsic link to liabilities, we would expect these will not be managed by Pools who are unlikely to be able to add value, and in fact may confuse the linkage required between AA’s pensioner payrolls and the insurer.

More generally across the LGPS, however, it is not immediately clear if there would be any tangible benefit from requiring the transfer of the management of legacy holdings (e.g. those in run off) from AAs to Pools, or what value this “oversight” of an existing illiquid asset would give other than providing transparency on a fund’s overall asset allocation (which would be a requirement for providing strategic advice, but could be facilitated in other ways) or a purely optical increase in the size of assets under management for pools. It is likely to be the case that where it makes financial sense to transfer the management of an existing illiquid asset to the pools then this will take place. This is something that could possibly be covered in the bi-annual review in the Good Governance proposals also being consulted on.

### **Question 9: What capacity and expertise would the pools need to develop to take on management of legacy assets of the partner funds and when could this be delivered?**

Pools taking on this role if they had not done this previously could introduce significant monitoring and due diligence requirements. Given the current structure of the NLGPS Pool and the existing in-house management of these assets by officers, we do not believe this will be an issue for the NLGPS (where we already have significant in house strength) but we would not want to speak for other Pools and AAs for whom we appreciate this may be a concern.

**Question 10:** Do you have views on the indicative timeline for implementation, with pools adopting the proposed characteristics and pooling being complete by March 2026?

We believe the indicative timeline to implement the proposals being consulted upon is extremely challenging given the pooling proposals are required by 1 March 2025, following which there may be questions from MHCLG to which pools will need to respond. For pools that are not currently established as FCA authorised investment management companies, the feasibility of the timescales will likely be dependent to a significant extent on the priority given by the FCA to these applications.

We strongly believe that it is imperative that the LGPS develops pooling arrangements that deliver positive outcomes for all stakeholders over the medium and long-term and the creation of arbitrary and potentially unrealistic deadlines increases the risk of failing to meet that objective. However, we also appreciate that a challenging deadline can help drive activity.

**We suggest that the March 2026 deadline should be “to demonstrate significant progress towards” the objective (e.g. that the FCA application process is well underway), or that a more realistic timeline would be at least c. 18 months**, so Q4 2026 / Q1 2027, as this would actually permit an FCA authorised function to be established in an expedient and robust manner (allowing time to undertake thorough recruitment processes for directors and staff, prepare a submission and secure FCA authorisation, and allow an appropriate time for the TUPE of staff to a new entity).

We will in the absence of further direction of course look to work towards the timescales in the consultation, but as has previously been pointed out by others in calls for evidence and consultation responses, putting in place timescales that may in practice be unrealistic is unhelpful, and rushing the process is likely to lead to suboptimal outcomes at what is a critical juncture in the LGPS. If the government wishes to see greater collaboration between pools, then the requirement to provide a full proposal (with cost/benefit analysis) is unrealistic by 1 March 2025, and delivering collaboration (or in extremis, merger of pools) by 31 March 2026 is extremely unlikely to be practical.

## Other developments

**Question 11:** What scope is there to increase collaboration between pools, including the sharing of specialisms or specific local expertise? Are there any barriers to such collaboration?

As the GLIL direct infrastructure partnership between NLGPS and LPP demonstrates, it is already possible for Pools to collaborate successfully and for investments to be made across Pools. It is clear that similar models could be applied in other asset classes and used by other Pools.

There are certain asset classes where it would likely be sub-optimal for multiple Pools to be operating similar fund structures. Direct infrastructure is an obvious example, where there is a significant level of scale and expertise required to operate effectively and there is a risk of Pools bidding against each other for assets. A similar case could also be made for commercial property and some other alternative assets that may be accessed directly either presently or at some point in the future.

To avoid incurring unnecessary costs it may be easier for Pools to work together in respect of investing new commitments rather than seeking to co-mingle existing investments.

The main barriers to this sort of collaboration would appear to be available time and resources. Discussions of this nature are complex, and it is difficult for Pools and their shareholders to obtain the assurance they need to work with others when there are many other competing demands as part of the pooling agenda. The default approach for a Pool will likely be to create or evolve its own vehicle rather than collaborate with others as this ensure that the ability to make changes in future if required is retained. Similar to the previous question, we see the likelihood of positive outcomes increasing if this process is not rushed due to arbitrary deadlines (across the pooling agenda as a whole) being imposed.

Experience to date of pooling has shown that collaboration at an asset class level between Pools has been limited, despite the ambitions set out in 2016. Notable exceptions are GLIL, where LPPI is the regulated operator of GLIL, and in which NLGPS invests and has significant governance rights. However, to date no other Pools have joined, despite material costs savings versus investing indirectly via more traditional infrastructure funds (although outside the LGPS, NEST (the large DC master trust) has invested. We also note the collaboration between LPPI and the London CIV on the London Fund).

The relative lack of effective collaboration across pools will also be down to a number of factors, which could include the comparatively short track records of pools compared to external managers, and potentially an increased sense of competition between pools (given Government's apparent desire to have fewer pools).

We do wonder whether collaboration across the LGPS may be more expediently delivered by Government-backed organisations such as the National Wealth Fund and the British Business Bank constructing patient capital backed centralised vehicles in which LGPS pools could be cornerstone investors. This could also attract additional private sector capital and help deliver wider economic benefits for the UK.

Finally, we believe that AAs should be permitted to invest directly in the products of other Pools (under the proposed model through advice from “their own” Pool, or as part of a formal partnership). This would avoid the double layering of fund structures and costs, i.e. by partner funds in Pool A investing in a fund where Pool B was the AIFM, rather than through an allocation within a Pool A pooled vehicle, or a white labelled Pool A fund.

**Question 12: What potential is there for collaboration between partner funds in the same pool on issues such as administration and training? Are there other areas where greater collaboration could be beneficial?**

We already collaborate closely within the NLGPS through the Metropolitan Pension Fund Group where we discuss administration issues and share good practice. In addition, we collaborate across the wider LGPS through our membership of the LGA and PLSA, and have done for a long time before pooling was a consideration. Furthermore, WYPF (with CBMDC as AA) hosts a shared service administration function alongside Lincolnshire, Hounslow, Barnet and around half of the English fire authorities. Our LGPS Administration Shared Service provides administration for more

than 500,000 scheme members, across around 800 scheme employers, and was recognised in the 2024 LGC Investment Awards as the winner of the Innovation in Administration category.

We support further collaboration across the LGPS in these areas but believe that a discussion in the context of establishing and evolving investment management companies muddies the water; furthermore, we would not want pool level collaboration to crowd out or parochialize the far wider collaboration that already exists. As we have previously noted in relation to administration, our view is that it would be very difficult to quickly integrate two or more large administration teams, which would likely need to continue operating at separate sites due to the importance of retaining, and the difficulty in recruiting, experienced pension administrators. Given the high “business as usual” workloads that the LGPS is experiencing, any significant consolidation in this area at the current time would likely impact service standards and risk creating substantial failure demand.

## Chapter 3: Local investment

### Proposals

#### **Question 13:** What are your views on the appropriate definition of ‘local investment’ for reporting purposes?

The ability to invest locally is hugely important to all three partner funds within the NLGPS (and many of their stakeholders). We support the proposals in the consultation to encourage local investment of LGPS assets more widely across the LGPS.

NLGPS has a longstanding track record of local investment:

- through Northern Gritstone we support investment in leading edge technology, entrepreneurs and academics coming out of our world class universities ([Northern Gritstone secures final close of £312m with broad base of investors](#))
- we have seeded and have board seats on innovative investments such as Rebalance Earth (<https://www.ft.com/content/1956817f-8630-496a-b69c-da2788b8bbbb>)
- we are hands on investors in local real estate, including through the Merseyside Catalyst Fund ([Funding secured for development of sustainable heat network at Liverpool Waters](#)) and early stage participation in the LCR Social Investment Pathfinder, a pioneering initiative established by the former Mayor of Liverpool City Council to build on the success of Combined Authority (CA)-funded community lending project Kindred LCR and to catalyse further growth of the Liverpool City Region’s burgeoning social economy. Within its strategic allocation to Alternatives, WYPF also includes sustainability beliefs and a drive to invest locally where possible.

Alongside the current work with Number 10, Treasury and MHCLG to develop a ‘patient equity’ financing solution to unlock unviable brownfield housing developments, the three funds have a track record of working with Homes England and other public bodies to create innovative fund structures.

In terms of definitions, GMPF has a well- developed local investment programme of place-based investment (through its impact portfolio and the Greater Manchester Property Venture Fund (“GMPVF”)), where “local” is defined as “Greater Manchester and the North West of England”, covering Cheshire, Cumbria, Greater Manchester, Lancashire, Merseyside and West Yorkshire; similarly the Merseyside Catalyst Fund (<https://www.merseysidecatalystfund.org/>) invests in the

Liverpool City region “and the local area”), while WYPF consider ‘local investment’ as investment within West Yorkshire and neighbouring areas

It is well established fact that while geographic boundaries such as those outlined by individual administering authorities or local pools provide a useful baseline, impact frequently transcends such boundaries, and an appropriate definition of ‘local investment’ should identify geographic areas represented by a Pool but should also be able to accommodate investments outside these areas which have a clear economic, environmental or social impact on the region e.g. regeneration, supply chain benefits and regional employment creation. We may also access local investments via external funds with a national footprint where their investment guidelines are appropriate (also making use of co-investment side vehicles), thereby directing investment into the local region.

**In conclusion, we would consider local investment within the geographic area of the pool and its surrounds, where capital deployed has a benefit to the local area specified in terms of business and economic activity and resilience, social improvement and/or environmental impact. We favour a definition that is not overly prescriptive to ensure that the Pool (and the partner AAs) have access to attractive opportunities.**

**Question 14:** Do you agree that administering authorities should work with their Combined Authority, Mayoral Combined Authority, Combined County Authority, Corporate Joint Committee or with local authorities in areas where these do not exist, to identify suitable local investment opportunities, and to have regard to local growth plans and local growth priorities in setting their investment strategy? How would you envisage your pool would seek to achieve this?

The three funds in the NLGPS each sit within Combined Authorities (“CAs”) which have local growth plans – the West Yorkshire Combined Authority (“WYCA”) has published *The West Yorkshire Plan*,<sup>1</sup> the Greater Manchester Combined Authority (“GMCA”) has published its *Place for Everybody*<sup>2</sup> plan together with its Greater Manchester Strategy 2021-2031, *Good Lives for All*<sup>3</sup> (part four of which addresses growth) and the *Greater Manchester Local Industrial Strategy*<sup>4</sup>, while the Liverpool City Region Combined Authority (“LCRCA”) has *A Plan for Prosperity*<sup>5</sup>.

We would be very happy working with the combined authorities, and indeed are currently doing so, to identify potential local investments and targeting allocations that have regard to these plans (given fiduciary duty and the need to invest in the interests of the membership of the Funds, these investments would clearly need to be subject to certain risk and return requirements); the alignment with three CAs across a geographically contiguous area (recognised as a region that needs investment) makes this an exciting and well aligned prospect and we agree there is significant merit in requiring engagement with CAs (or equivalent regional authorities) to identify local investment

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<sup>1</sup> <https://www.westyorks-ca.gov.uk/growing-the-economy/the-west-yorkshire-plan/>

<sup>2</sup> <https://www.greatermanchester-ca.gov.uk/what-we-do/planning-and-housing/strategic-planning/places-for-everyone/>

<sup>3</sup> <https://aboutgreatermanchester.com/media/jlslgbys/greater-manchester-strategy-our-plan.pdf>

<sup>4</sup> <https://www.greatermanchester-ca.gov.uk/media/2132/gm-local-industrial-strategy-web.pdf>

<sup>5</sup> <https://www.liverpoolcityregion-ca.gov.uk/plan-for-prosperity>

opportunities and align with regional growth strategies. This ensures investments are strategically targeted to deliver maximum economic and social value with an appropriate level of input and ownership from all stakeholders. The existence of agreed CA growth plans also already provides a clear mechanism to align public and private sector investment, to direct the delivery of inclusive and sustainable growth.

We believe that a wide range of formal/informal contacts with our CA and LA stakeholders results in productive dialogue covering mutual policy and investment goals, challenges and experiences. We see this local knowledge sharing as a critical part of building upon our track record in place-based impact investment, and our role in providing a bridge between our local networks and our extensive network of relationships across the investment community. This is made possible by multi-disciplinary investment teams in the NLGPS with specialisms across infrastructure, real estate, private credit/equity, impact & sustainable investing, who maintain extensive networks across private and public capital markets.

We believe that the NLGPS is arguably leading the LGPS in this respect – for example, last August we hosted a successful Property Venture fund breakfast event with local authorities and developers at which the Deputy Prime Minister spoke. Following this event there are several options for development in due diligence stage.

<https://www.gmpf.org.uk/about/how-does-gmpf-invest> includes videos demonstrating the investments made through GMPVF and GMPF's Impact Portfolio which we would encourage readers to view.

### **Question 15: Do you agree that administering authorities should set out their objectives on local investment, including a target range in their investment strategy statement?**

Setting objectives for the Funds and Pools will provide clarity of intent by the AAs and will ensure that delivery of local investment is measured against set and clearly defined objectives (with Pools also responsible for performance); it must be recognised that targets are by definition aspirational, as suitable investible opportunities may not be immediately available.

However, while we would be comfortable with AAs being required to set a specific target for local investment, the approach set out in the consultation appears inconsistent with the other proposals in the consultation, particularly given local investment is not specified by asset class (equity, debt, property etc); either the AA actually has little ability to ensure the target range is met as the Pool is making the decision whether or not to make each investment, and considering at an asset class level (therefore making it an uncomfortable objective to hold for the AA), or the proposal runs counter to the push for removing implementation from a local level to sit with more independent bodies. As we mentioned in our response to question 4, **our ask is that there would be some flexibility for individual AAs to work with Pools to agree a sensible and appropriate level of detail in the template used to frame strategy, and that it would therefore be possible not just to set an aspirational target but to focus attention through a specific allocation.**



**Question 16:** Do you agree that pools should be required to develop the capability to carry out due diligence on local investment opportunities and to manage such investments?

We agree that Pools should develop and maintain robust due diligence capabilities for local investment opportunities. Origination and effective monitoring and management of local investments is a highly resource intensive area, and the NLGPS is already well-equipped to assess such opportunities. Local investment opportunities are inherently higher risk due to the typically smaller size of local counterparties, and the limited number of investable opportunities. A single due diligence framework within a pool which is well connected to local stakeholders and counterparties would avoid the inefficiency of evaluating a large volume of small low-value opportunities, as well as reduce risk given local knowledge and networks; we would also expect that Pools would in practice want to partner with specialised third party organisations in order to originate and underwrite more niche local investment opportunities (for example, our close work with CBRE in relation to local real estate).

We are unclear on whether the expectation is that local investments will be ring-fenced in a single fund operated by the Pool or if it is expected that they will be held in specific local sleeves in respect of each Administering Authority (likely the most transparent way to implement, but inconsistent with the investment strategy template in the consultation), or within existing mandates (which would be inconsistent with the ability of specific AAs to set differing targets, and runs the risk that these (presumably small) positions are lost within a larger mandate) – as noted previously some flexibility in the asset template to allow Pools and AAs to have effective dialogue could help mitigate this concern.

**Question 17:** Do you agree that administering authorities should report on their local investments and their impact in their annual reports? What should be included in this reporting?

If AAs have set a local investment objective, then yes it would be appropriate for reporting against this in terms of exposure (allocations, NAV and undrawn commitments if applicable), performance and impact (which would also likely help with member engagement). We would expect that reporting would cover delivery of the investments against specific objectives set by the AAs when determining their allocation to local investment – for example, economic impact such as the creation of jobs through SME finance or property led economic development; the number of homes delivered, or education/training initiatives provided; and environmental impact such as the reduction in carbon-emissions driven by energy infrastructure investments, energy efficiency improvements or renewable energy capacity installed.

An excellent example of the type of reporting that is possible for a well-executed local investment programme is the October 2024 report published by GMPF in conjunction with The Good Economy, and which is available online at [https://www.gmpf.org.uk/getmedia/947fba44-7e63-4af5-a104-c3afb86d8b84/Place-Based-Impact-GMPF-Local-Investment-Portfolio-Oct-2024-\(1\).pdf](https://www.gmpf.org.uk/getmedia/947fba44-7e63-4af5-a104-c3afb86d8b84/Place-Based-Impact-GMPF-Local-Investment-Portfolio-Oct-2024-(1).pdf) and which we are rolling out across the NLGPS at pool level. We would expect that adopting an existing reporting framework such as that used by The Good Economy would allow stakeholders to be provided with a comprehensive and comparable view of performance and impact.



## Chapter 4: Governance of funds and pools

### Fund governance

**Question 18:** Do you agree with the overall approach to governance, which builds on the SAB's Good Governance recommendations?

We agree with the overall approach to governance set out in the consultation.

**Question 19:** Do you agree that administering authorities should be required to prepare and publish a governance and training strategy, including a conflict of interest policy?

We are comfortable with this proposal.

**Question 20:** Do you agree with the proposals regarding the appointment of a senior LGPS officer?

Yes, although we note the consultation document suggests that the LGPS Senior Officer should be involved in the local authority's budget setting process. Our view is that the LGPS Fund should have autonomy to set its own budget largely independent of the local authority's non-pension related activity; as a result we don't think that the LGPS Senior Officer should be involved in the local authority's wider budget setting. Our understanding is that this is how most, if not all, of the Metropolitan LGPS funds currently operate and, in our view, this works well.

**Question 21:** Do you agree that administering authorities should be required to prepare and publish an administration strategy?

We are comfortable with this proposal.

**Question 22:** Do you agree with the proposal to change the way in which strategies on governance and training, funding, administration and investments are published?

We are comfortable with this proposal.

**Question 23:** Do you agree with the proposals regarding biennial independent governance reviews? What are your views on the format and assessment criteria?

We are comfortable with this proposal and would welcome the opportunity to work with the LGPS Scheme Advisory Board to develop how these reviews can be structured.

**Question 24:** Do you agree with the proposal to require pension committee members to have appropriate knowledge and understanding?

We are comfortable with this proposal, and the alignment of knowledge and understanding requirements for pension committee members and local pension board members. We would note

that given the potential turnover in pension committee members over time and the need to ensure diversity of opinions and views, there is likely to need to be an acceptance that knowledge will be built up over time for new members.

**Question 25:** Do you agree with the proposal to require AAs to set out in their governance and training strategy how they will ensure that the new requirements on knowledge and understanding are met?

We are comfortable with this proposal.

**Question 26:** What are your views on whether to require administering authorities to appoint an independent person as adviser or member of the pension committee, or other ways to achieve the aim?

We would be comfortable with this, however are unclear of the intent of some of the wording in the consultation document; *“those who were or might be involved in recommending specific investment products to the committee would not be eligible”* is very restrictive – we see no reason why in theory a retired (or reformed) consultant should not be an independent adviser, and in fact consider that they could add value.

For clarity, while we support the idea that AAs should have independent advisers as, in our experience, this is likely to add significant value to decision making, we do not believe that this should be limited to “an” independent person, as advisers with different backgrounds and experience may be helpful in different areas (investment, administration etc), and those with different lived experiences improve the decision making process through introducing a diversity of perspectives.

We do not however think this is a panacea for any removal of the option for AAs to access independent investment advice if they feel the need to do so.

**Question 27:** Do you agree that pool company boards should include one or two shareholder representatives?

We believe the shareholder AAs should be able to determine the governance arrangements of their pool, including how many shareholder representatives is appropriate.

There may be a challenge in finding shareholder representatives who sit on a pool oversight committee and who would have the requisite skills and time to sit on the board of a FCA regulated investment manager. The requirements of these roles would presumably mean that they would need remunerating, as they may fall under the SMCR and must comply with the statutory duties of directors under the Companies Act 2006 (and therefore risk personal liability for company losses).

It may be more effective to introduce mechanisms to hold the Pool to account through formalising the need for stakeholder representative groups, and for ensuring partner funds have the necessary rights through reserved matters to elect or remove directors, and to call Extraordinary General Meetings.

Ensuring Pools can invest in vehicles provided by other Pools would also give some teeth to these proposals as shareholders could propose this as a course of action in response to poor performance

(alternatively and more significantly, ensuring AAs can move Pools in certain scenarios without incurring excessive costs would allow shareholders to use the potential threat of this action to ensure accountability).

Finally, the need to ensure stakeholder views are represented is an argument not to consolidate pools into groups with too many shareholders – in extremis, a single pool with 86 shareholders as partners would either have no accountability to individual shareholders or be ungovernable.

**Question 28:** What are your views on the best way to ensure that members' views and interests are taken into account by the pools?

We would expect that this would be through the AAs, given the pools will be acting as independent professional asset managers.

**Question 29:** Do you agree that pools should report consistently and with greater transparency including on performance and costs? What metrics do you think would be beneficial to include in this reporting?

We believe transparency is very important. Pools should report consistently, regularly, and publicly on the performance of their assets under management (net and gross of costs), what their investment costs are and how charged (through AMC and/or explicit charges) and what their ongoing costs are (i.e. pool overheads), including regularly publishing pooled fund performance in line with GIPS standards. Transparency on a look-through basis to include underlying external investment management costs is also important to allow internal and external management to be properly understood. This has been a requirement for private sector fiduciary managers since 2019 following the CMA's review of that marketplace.

Northern LGPS publishes its cost benchmarking reports, independently prepared by CEM, on its website at <https://northernlgps.org/content/investment-benchmarking-results>.

## Chapter 5: Equality impacts

**Question 30:** Do you consider that there are any particular groups with protected characteristics who would either benefit or be disadvantaged by any of the proposals? If so please provide relevant data or evidence.

We are not aware of any particular groups that would benefit or be disadvantaged.