



Annual Report 2019/2020



Northern LGPS Pool

Report of the Chair

As Chairman of the Northern LGPS Pool Joint Committee I am delighted to be introducing this summary annual report for the Northern LGPS Pool. This was my first year as Chair of the Pool having taken over from Cllr Paul Doughty. I would like to thank my predecessor for the excellent job he did as chair and I hope going forward we can continue to build on the progress made under his tenure.

2019-2020 was a busy year for the Pool, which continues to evolve to meet the investment needs of its partner funds, employers and members. During the year GMPF and WYPF moved custody of their assets to Northern Trust, meaning that over £40bn of pool assets are now under a collective custodial arrangement. This has greatly enhanced the scope and timeliness of reporting and our ability to exercise shareholder rights.

Responsible Investment and Environmental Social and Governance continue to be at the top of our agenda. In conjunction with ShareAction and Barclays plc, we supported a successful climate resolution at Barclays' AGM requesting that the bank set and disclose targets to phase out the provision of financial services to the energy sector and gas and utility companies that are not aligned with the Paris Agreement. The proposal was the first to refer to the "Just Transition" wording in the Agreement, which says that tackling climate change requires the transformation of sectors and economies with important implications for the global workforce.

In the last quarter of 2019-2020 alone we engaged with 90 different companies regarding issues across the environmental, social and governance spectrum, and we voted at 300 distinct meetings. We abstained or opposed shareholder votes on increased remuneration in 71% of shareholder meetings to avoid unfair remuneration practices. We have also filed shareholder resolutions for several large international companies where we felt labour rights and environmental concerns were not being properly addressed.

Northern LGPS also launched a thematic review of the housebuilding sector and conducted engagement with listed companies in the sector. The findings of the review are summarised in a report on the Northern LGPS website.

The Pool's direct infrastructure platform, GLIL, has recently secured a major new investment in Cubico, a leader in sustainable investments in the wind and solar power industries. Our pooled private equity vehicle, NPEP, made several fund commitments and has developed a co-investment arrangement with a leading manager to further enhance returns and reduce investment management costs.

This Pool prides itself on being cost efficient and we obtain independent benchmarking to understand our investment costs relative to global peers. The most recent benchmarking exercise

placed the pool within the lowest cost 25% of its international peer group (which consists of 21 global pension funds ranging from £11 billion to £68 billion). This is a tremendous result which shows the value that economies of scale and a constancy of purpose can deliver.

The end of the year saw extreme volatility in most financial markets as governments around the world responded to the Covid-19 pandemic and 2020-2021 therefore promises to be a year of both great challenge and opportunity. Planned activity for the year includes taking further steps towards pooling property investments by progressing our property management framework and further deployment of capital to our existing direct infrastructure and collective private equity vehicles.

I would like to thank my colleagues on the Joint Committee and also the pensions committees, local pension boards and officers from each of the partner funds for their support and hard work over the year. I look forward to helping ensure the Pool's continuing progress over the forthcoming year. We believe we are the most cost-effective and efficient LGPS investment pool, with a simple, democratic governance structure that delivers sustainable financial returns to the benefit of members, employers and taxpayers.

A handwritten signature in dark ink, appearing to read "Gerald P. Kearney". The signature is fluid and cursive, with a large initial 'G' and 'P'.



Background

The Northern LGPS Pool is a partnership between the Greater Manchester (GMPF), Merseyside (MPF) and West Yorkshire (WYPF) LGPS funds (the 'partner funds'). The combined assets of the funds stood at approximately £44bn as of 31 March 2020, which is invested on behalf of over 800,000 members and 1,100 contributing employers.

The Northern LGPS Pool's purpose is to facilitate via a simple and democratic governance structure, the pooling of assets and the sharing of services in order to achieve sustainable improved net investment returns for the partner funds.

History

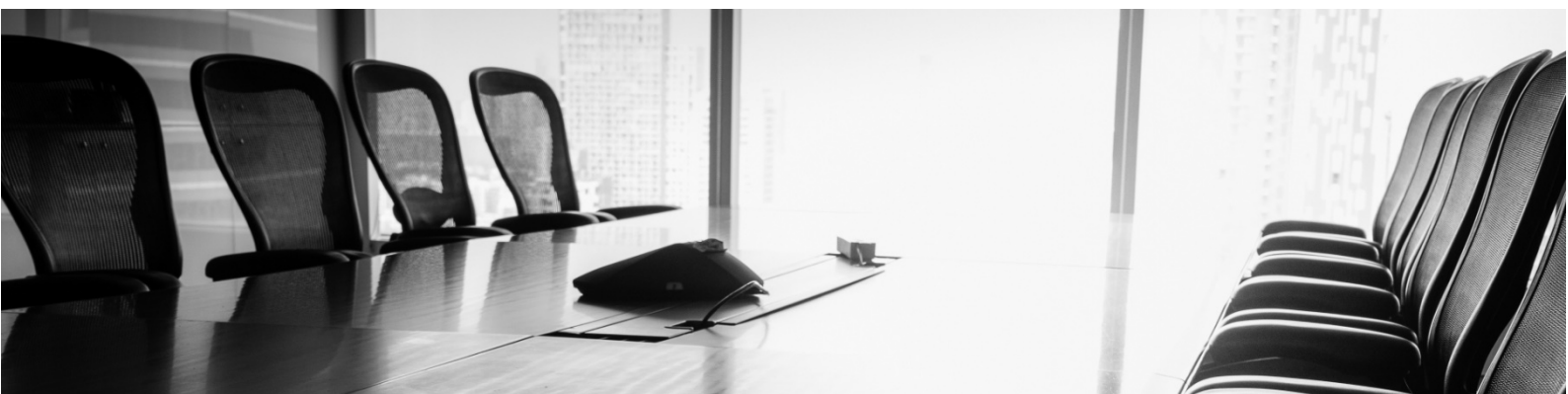
The Northern LGPS Pool was formed in response to the Government's LGPS pooling agenda, which was first announced in 2015. The Government sought to increase the scale of LGPS investment mandates in order to reduce investment management costs and facilitate infrastructure investment to help drive growth in the UK economy.

Due to the existing scale of the three partner funds, the vast majority of the benefits of pooling for the funds are in respect of alternative assets where there is greatest scope to generate further economies of scale and to combine resources to make increasingly direct investments.

Therefore, the focus of the Pool has been on establishing vehicles which can make collective investments in alternative assets, in particular infrastructure and private equity.

The partner funds are the major investors in the GLIL direct infrastructure vehicle and also established a vehicle (known as 'NPEP') in 2018 to make collective private equity investments.

The Pool selected Northern Trust as its FCA regulated custodian to ensure the assets of the pool are held within a single permanent FCA regulated entity. The custodian acts as 'master record-keeper' for all assets of the partner funds and manages the calls and distributions in the Pool private equity vehicle.



Governance

The Northern LGPS Pool is not a standalone legal entity. It is a Local Government Joint Committee structure supported administratively by a Host Authority (currently Tameside MBC), which provides all administrative resources and facilities that may be necessary, such as preparing the annual budget and clerking services for the Joint Committee meetings.

The Pool is governed by an inter-authority agreement signed by the three constituent Administering Authorities. The agreement sets out the terms of reference for the Northern LGPS Joint Committee, which is the decision-making body for the Pool. The Joint Committee has been appointed under S102 of the Local Government Act 1972, with delegated authority from the Full Council of each Administering Authority to exercise specific functions in relation to the pooling of pension fund assets.

The Joint Committee may delegate certain functions to the Officer Working Group which is composed of the Directors of the partner funds. The Officer Working Group has the necessary technical skills to advise the Joint Committee on technical investment matters and is a central resource for advice, assistance, guidance and support for the Joint Committee.

The Administering Authorities retain full control of their individual funds' asset allocations and nominate members to the Joint Committee. Employee representatives are also being sought to join the Joint Committee.

Northern LGPS Pool – 31 March 2020 position at a glance

Fund	Assets £bn
GMPPF	22.035
WYPF	13.214
MPF	8.602
Total Assets	43.851

Pool Set-up Costs

The set-up costs incurred by the pool during 2019-20 and from inception are set out in the table below. The costs are split equally amongst the 3 Funds.

	2019-20			
Set up costs:	Direct £000	Indirect £000	Total £000	Cumulative £000
Recruitment	0	0	0	0
Legal	49	0	49	244

Procurement	35	0	35	125
Other support costs	0	0	0	0
Share purchase/subscription costs	0	0	0	0
Other working capital provided	0	0	0	0
Staff costs	0	0	0	0
Other costs	4	0	4	235
Total set up costs	88	0	88	604

Northern LGPS Pool – Total costs and savings

The table below sets out the total costs and savings of the Northern LGPS Pool up to 31 March 2020

	Up to 31 March 2018 £m	2018-19 £m	2019-20 £m	Total to 31 March 2020
Annual running costs	0	0	0.16	0.16
Other service provider fees	0	0.13	0.13	0.26
Transition costs	0	0	0	0
Set up costs	0.22	0.18	0.09	0.49
Total costs	0.22	0.31	0.38	0.91
Investment management fee savings	7.63	12.21	22.24	42.08
Service provider savings	0	0	0	0
Total savings	7.63	12.21	22.24	42.08
Total savings net of costs	7.41	11.90	21.86	41.17

Total costs (including set up, transition and running costs) as at 31 March 2020	£0.91m
Total savings, net of costs, as at 31 March 2020	£41.17m



Responsible Investment Activity

Responsible Investment (RI) is a central aspect of how NLGPS operates, and environmental, social and governance (ESG) issues are discussed at every meeting.

ESG factors can be financially material and, as such, should be part of the assessment and monitoring of investments in all asset classes. Achieving sustainable, long-term financial returns underpins the ability to pay pensions. A focus on ESG issues helps reduce risks to the Pool and its beneficiaries. These risks might be financial, such as the underperformance or failure of an investee company, or reputational, resulting from poor corporate behaviour. NLGPS has appointed PIRC as our responsible investment adviser to undertake voting, engagement and other RI activity on our behalf and we published our collective RI policy in early 2019.

The three member funds co-ordinate their voting activity and all votes are disclosed online in a searchable database two days ahead of company meetings. We believe that we are the only asset owner in the UK that currently discloses voting ahead of meetings.

In the table below we show voting and engagement statistics over the year to 31 March 2020.

Voting and engagement statistics

Quarter	Meetings Where NLGPS voted	Meeting-related engagements (PIRC)
Q2 2019	1863	269
Q3 2019	318	122
Q4 2019	339	91
Q1 2020	416	99

Voting decisions

	Director election		Remuneration Report		Remuneration Policy		Auditor Appointment	
Quarter	For %	Oppose %	For %	Oppose %	For %	Oppose %	For %	Oppose %
Q2 2019	68	24	35	47	14	66	22	60
Q3 2019	77	20	43	31	31	50	33	49
Q4 2019	70	24	29	51	26	51	34	43
Q1 2020	70	20	59	26	27	54	39	42

RI Highlights

We have prioritised a number of themes in our RI activity including the Just Transition, as part of our work in relation to climate change, public sector risk and employment standards and employee voice.

NLGPS was a panel participant at the launch of the Investor Roadmap Just Transition in October which was headlined by Lord Stern. The NLGPS RI policy, which identified the Just Transition as a priority, is featured in the report. NLGPS also participated in a Just Transition related engagement with Drax early in 2020, which included a visit to its power station near Selby.

We have been active in supporting shareholder resolutions in the UK and elsewhere. NLGPS funds co-filed resolutions addressing issues such as climate risk, lobbying activity and employee rights and representation. These have included companies such as Barclays, Delta Airways and Amazon.

As an additional aspect of our engagement activity we have sought to meet with and attend the annual meetings of a number of companies where we have a significant holding. These have included companies where we have identified public sector risk as a factor.

NLGPS funds have participated in a number of collaborative initiatives. We are active members of the Local Authority Pension Fund Forum and are also involved in collective engagement projects such as Climate Action 100+, Workforce Disclosure Initiative and the Human Capital Management Coalition.

We have initiated a thematic project on the housebuilding sector with the support of PIRC. This has involved engagement with a number of the key firms where NLGPS holdings are significant, alongside research into practice across the sector and engagement with stakeholders. An initial report on the project was published in 2019.



GLIL Direct Infrastructure Vehicle

In April 2015, GMPF and the London Pensions Fund Authority formed a joint venture to invest directly in infrastructure assets, with a focus on the UK. The joint venture is structured as a limited liability partnership and has been named GLIL Infrastructure LLP (GLIL). As part of their respective pooling arrangements, West Yorkshire, Merseyside and Lancashire County Council pension funds joined GLIL in December 2016. In March 2018 GLIL was re-structured as an open-ended fund to facilitate potential new members. Additional commitments made by existing members in October 2018 mean GLIL now has committed capital in excess of £1.8 billion.

GLIL began investing in October 2015 and has completed nine transactions with a total value in excess of £1.1 billion.

One of GLIL's earliest transactions was the purchase from SSE of a 21.7 per cent stake in Clyde wind farm for £150 million. GLIL invested an additional £30 million in September 2017 with a further £88 million invested in the summer of 2018. Clyde now has a total generation capacity of 522MW, making it one of the largest onshore windfarms in Europe.

GLIL's most recent transaction, which was completed in January, is the £93 million acquisition of a 49 per cent stake in Cubico's portfolio of 250MW of solar and wind assets across the UK. Combined with Clyde and other assets, GLIL now has exposure to over 800MW of renewable energy.

GLIL's remit includes investment in new build (so-called 'greenfield') infrastructure projects. Alongside GLIL's partnership with Iona to construct £130 million of bioenergy plants around the UK, it has also financed two joint ventures for the build and commissioning of more than a thousand new rail vehicles across two rail franchises in the south of England. The first of these fleets is already entering service on the Greater Anglian network.

At 31 March 2020, Northern LGPS's share of GLIL had net assets valued at £883.4 million. GLIL's internal rate of return (IRR') since inception is 6.0% per annum with a 3.4% per annum cash yield.

GLIL's direct approach has generated costs savings of over £21 million for the Pool over the year and over £30 million since inception compared to a global benchmark cost for infrastructure investment via a typical fund structure.

Northern Private Equity Pool LP

Northern LGPS established the Northern Private Equity Pool in May 2018; an investment joint venture structured as an English Limited Partnership. The partnership operates as a single legal entity through which the three Northern LGPS funds can invest collectively and collaboratively in private equity assets.

The Northern Private Equity Pool draws on the combined expertise and experience of the internal teams at each of the respective Northern LGPS funds, and the administration capabilities of

Northern LGPS's pool-wide external custodian. The combined scale and resources of the Northern Private Equity Pool enables the partner funds to invest in private equity through lower cost implementation approaches than have been the case historically.

Investment pace since inception has been consistent with targets, with £850 million committed to 15 investment funds. In addition, a substantial agreement was signed at the end of 2019 that will see the partner funds, through Northern Private Equity Pool, access a lower cost implementation method for the private equity asset class through co-investment alongside preferred managers.

At 31 December 2019, NPEP had net assets valued at £53 million and undrawn commitments of £599 million to infrastructure funds and \$500 million to co-investment. Replacing investment via a fund of funds structure with NPEP's implementation approach has generated savings of approximately £1m over the year, with cumulative savings of approximately £17m forecast by 31 March 2023.

Objectives for 2020/21

The Pool's key objectives for 2020/21 are to:

- Complete the establishment of a pool property framework to deliver efficiencies in the management of property investments and related services
- Further enhance the impact of our responsible investment activities