



NorthernLGPS

The Collective Asset Pool for Greater Manchester
Merseyside and West Yorkshire Pension Funds



Annual Report 2020/2021



Northern LGPS Pool

Report of the Chair

As Chair of the Northern LGPS Pool Joint Committee I am delighted to update everyone on the progress made by the Northern LGPS Pool over the last year. It should go without saying that this past year has been like no other in recent memory with the global spread and the global response to the Coronavirus pandemic. However, despite the tumultuous year I can proudly say we have not been hindered in our quest to allow the LGPS funds participating in the Pool efficient access to the investments that best serve their members, employers and local taxpayers.

We pride ourselves on our cost effectiveness and believe we lead amongst LGPS pools in achieving value for money. The most recent benchmarking exercise placed the Northern LGPS Pool's costs around the lowest 25% of its international peer group (which consists of 21 global pension funds ranging from £12.7 billion to £90.7 billion). This is a tremendous result which shows the value that economies of scale and a consistency of approach can deliver.

Responsible Investment and Environmental Social and Governance continued to feature prominently on our agenda over 2020/21. This year we signed up to the Make My Money Matter campaign which seeks to increase transparency about where pensions are invested. NLGPS' collaboration with Make My Money Matter is part of the pool's ambition to invest 100% of assets in line with the Paris Agreement on climate change and will help raise awareness amongst members regarding how their pensions are invested and the efforts being made by the Pool to help combat climate change.

Make My Money Matter shares NGLPS' view that pension assets can be invested to create a sustainable, better future without compromising on returns. This includes meeting the Paris Agreement to achieve net zero carbon emissions by 2050 and exploring the feasibility of a 2030 target in line with the IPCC's 1.5-degree pathway. NLGPS partnership with MMMM is part of a much wider environmental, social and governance investment strategy, incorporating numerous initiatives which comprise our approach to climate change.

Other highlights during the year include the Pool's direct infrastructure platform, GLIL, securing a 30 per cent equity stake in Agility Trains East, a rolling stock fleet of 65 new intercity trains on the East Coast Mainline that will provide much needed connectivity. Infrastructure investment is absolutely critical to supporting the UK's recovery from Coronavirus and building a sustainable economy for the future, and pension funds can, and should, play a fundamental role in helping to fund those projects.

GLIL's future potential was further bolstered by the commitments made by Nest Pensions to invest in GLIL, taking total capital committed to around £2.5bn. Nest is the defined contribution pension scheme set up by Government to ensure all UK employers have access to a pension scheme in which

to auto-enrol their employees. It currently has over 9 million members. Nest's ground-breaking commitment to GLIL is one of the first allocations to private markets from a modern defined contribution scheme in the UK and endorses GLIL's governance strength and suitability to provide attractive investment returns for pensions savers. We share Nest's long-term investment horizon and sustainable investment objectives and look forward to building an enduring relationship to bring the benefits of infrastructure investment to millions of workplace pension holders.

It pleases me greatly to know that in the last quarter of 2020-21 alone we engaged with 172 different companies regarding issues across the environmental, social and governance spectrum, and we voted at 467 distinct meetings. We abstained or opposed shareholder votes on increased remuneration in 58% of shareholder meetings to avoid unfair remuneration practices. We have also filed shareholder resolutions for several large international companies where we felt environmental concerns were not being properly addressed. We also challenged large companies on their social record where they have been conducting business with countries that do not adequately uphold basic human rights.

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 feel wholeheartedly confident that the coming year will be a positive one. We will carry on thriving by adhering to our cost-effective approach to LGPS investment pooling which delivers sustainable financial returns to the benefit of members, employers and taxpayers.

Gerald P. Conway



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 £53bn as of 31 March 2021, which is invested on behalf of over 800,000 members and 1,250 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

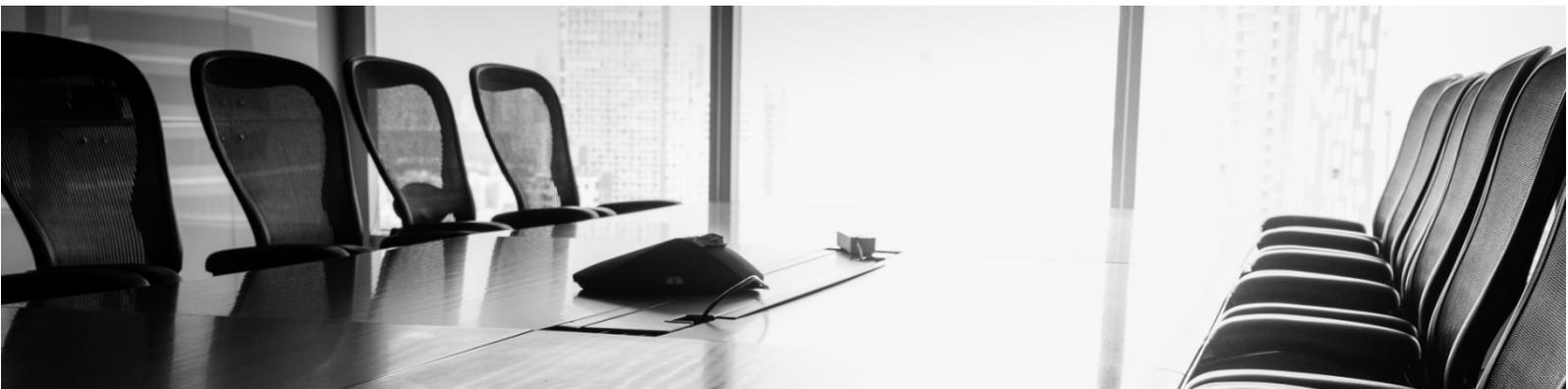
The Northern LGPS Pool was formed in response to the Government's LGPS pooling agenda, which was first announced in 2015. The Government sought to increase the scale of LGPS investment mandates in order to reduce investment management costs and facilitate infrastructure investment to help drive growth 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 collective private equity vehicle, known as 'NPEP', in 2018.

The Pool selected Northern Trust as its FCA regulated custodian to ensure all listed assets of the pool (i.e. internally and externally managed equities and bonds) 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 NPEP.



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 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.

Northern LGPS Pool – 31 March 2021 position at a glance

Fund	Assets £bn
GMPF	26.9
WYPF	16.1
MPF	9.9
Total Assets	52.9

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 2021.

	Up to 31 March 2018 £m	2018-19 £m	2019-20 £m	2020-21 £m	Total to 31 March 2021 £m
Annual running costs	0	0	0.1	0.16	0.26
Other service provider fees	0	0.13	0.78	1.17	2.07
Transition costs	0	0	0	0	0
Set up costs	0.22	0.18	0.09	0	0.49
Total costs	0.22	0.31	0.97	1.33	2.83
Investment management fee savings	7.63	12.21	22.24	31.63	73.71
Service provider savings	0	0	0.06	0.15	0.21
Total savings	7.63	12.21	22.31	31.77	73.92
Total savings net of costs	7.41	11.90	21.33	30.45	71.09

Total costs (including set up, transition and running costs) as at 31 March 2021	£2.83m
Total savings, net of costs, as at 31 March 2021	£71.09m

Over the summer of 2021, the Northern LGPS Pool worked in collaboration with the other seven LGPS pools to develop a standardised approach to the measurement of costs and savings, which will allow Government and other stakeholders to better analyse the impact of LGPS asset pooling and assist in future policy. The figures in the table above have been calculated using the agreed standardised approach.

As there were no pool set up costs in 2020/21 we have not included the table showing the breakdown of set-up costs that was provided in previous years. Please refer to the 2019/20 Northern LGPS Annual Report for a breakdown of historic pool set up costs.



Responsible Investment

Environmental, social and governance (ESG) issues are crucially important to the Pool for a number of reasons. 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.

In addition, the Pool's beneficiaries live in a society that is affected by the behaviour of investee companies. Therefore, we expect high standards from those businesses. Consistent with the Pool's fiduciary duty to our beneficiaries we will ensure that the businesses in which we invest are both financially and environmentally sustainable, have high standards of governance and are responsible employers. As far as possible the Pool will seek to invest in a way that is financially and socially beneficial for the North of England.

Northern LGPS frequently engages with companies the Pool invests in and challenges them where a component of their operations seems deficient. The updates on the Pool's activity can be seen in the quarterly [Stewardship Reports](#).

Our full approach to Responsible Investment can be seen in our [Responsible Investment Policy](#) which, at the time of writing, was being updated to reflect the further strengthening of the Pool's approach.



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 the Local Government Pension Scheme (LGPS) pooling discussions, 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 FCA Regulated fund to facilitate potential new members. Additional commitments made by existing members mean GLIL now has committed capital of approximately £2.5 billion.

GLIL began investing in October 2015 and has completed ten transactions with a total value in excess of £1.6 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.

One of GLIL's more recent transactions, which was completed in January 2021, is the £335 million acquisition of a 30% equity stake in Agility Trains East, a rolling stock fleet of 65 new intercity trains, from Hitachi Rail Limited. The transaction will support the long-term operation of the state-of-the-art trains on the UK's East Coast Main Line.

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.

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 over £1bn committed to 17 investment funds.

At the end of 2019 an investment commitment was concluded with HarbourVest Partners that specifically addressed the co-investment aims of Northern LGPS. The target is for co-investment to constitute 20% of the NPEP portfolio, providing additional fee savings for the Northern LGPS partner funds.

Northern LGPS Property Framework

During the year the Pool has established a property framework which will deliver efficiencies in the management of property investments and related services. The framework is comprised of six lots covering a wide range of services.

Objectives for 2021/22

- Finalise the updating of the Pool Responsible Investment Policy and continue to enhance the impact of our responsible investment activities
- Work alongside the partner funds to develop interim carbon reduction targets for the Pool
- Collaborate with Government, other LGPS funds and pools and global benchmarking services to help achieve a consistent approach to measuring costs and savings across LGPS pools