



NorthernLGPS

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



Annual Report 2021/2022



Northern LGPS Pool

Report of the Chair

As Chairman of the Northern LGPS Pool Joint Committee I am delighted to update everyone on the progress made by the Northern LGPS Pool over 2021/2022 and highlight some key achievements.

It was a great source of pride for pool members that our GLIL direct infrastructure vehicle won the LGPS Investment Strategy of the Year award at the Local Authority Pension Fund Investments Awards 2021. The Local Authority Pension Fund Awards celebrate outstanding achievements among the local government pension scheme community. The judges stated that GLIL “demonstrated the ability to invest in assets with good ESG credentials, providing sustainable returns for investors and creating value for local communities”. It was noted by the awards that GLIL had led the way with significant UK green energy investments in Flexion Energy, the specialist utility and energy storage infrastructure company, global renewable energy investor Cubico and energy infrastructure provider Smart Meter Assets. GLIL was also lauded for its partnership with Nest, the government-established defined contribution workplace pension provider, a landmark partnership in the infrastructure world.

We unveiled our new Responsible Investment policy in October 2021 which outlines the pool’s approach to environmental, social and governance (ESG) matters. ESG is vitally important to the Northern LGPS for many reasons, in particular, achieving sustainable, long-term financial returns underpins the ability to pay pensions. A focus on ESG issues reduces risks to the Pool and its beneficiaries. Our approach to responsible investment has been informed by a number of important initiatives. The Northern LGPS fully supports the aims and objectives of the Stewardship Code and member funds are signatories of the Code. Pool members are also signatories of the Principles for Responsible Investment and as such the Pool aspires to harmonise the six responsible investment principles with how it implements its investment beliefs. We have also considered guidance from the Law Commission, Department of Work and Pensions and Ministry of Housing, Communities and Local Government in developing our policy, which I would recommend all stakeholders to read and consider.

It's imperative we remember that our beneficiaries live in a society that is affected by the behaviour of investee companies. Therefore, we expect high standards from those businesses we invest in. Consistent with the Northern LGPS fund’s fiduciary duty to their 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 Northern LGPS will seek to invest in a way that is financially and socially beneficial for the North of England.

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. Despite the global economic challenges which will impact us all over the coming months, I am confident 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.

A handwritten signature in black ink, reading "Gerald P. Conway". The signature is written in a cursive style with a large initial 'G' and 'C'.



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 £57.8bn as of 31 March 2022, which is invested on behalf of over 850,000 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 2022 position at a glance

Fund	Assets £bn
GMPF	29.3
WYPF	17.7
MPF	10.8
Total Assets	57.8

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 2022

	Up to 31 March 2018 £m	2018-19 £m	2019-20 £m	2020-21 £m	2021-22 £m	Total to 31 March 2022 £m
Annual running costs	0	0	0.1	0.16	0.01	0.28
Other service provider fees	0	0.13	0.78	1.17	1.21	3.28
Transition costs	0	0	0	0	0	0
Set up costs	0.22	0.18	0.09	0	0	0.49
Total costs	0.22	0.31	0.97	1.33	1.22	4.05
Investment management fee savings	7.63	12.21	22.24	31.63	41.79	115.49
Service provider savings	0	0	0.06	0.15	0.15	0.36
Total savings	7.63	12.21	22.31	31.77	41.93	115.85
Total savings net of costs	7.41	11.90	21.33	30.45	40.71	111.80

Total costs (including set up, transition and running costs) as at 31 March 2022	£4.05m
Total savings, net of costs, as at 31 March 2022	£111.80m

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.



Responsible Investment

Environmental, social and governance (ESG) matters are crucially important to the Pool for a number of reasons. Appropriate consideration of ESG factors is part of the assessment and monitoring of investments in all asset classes and this helps achieve sustainable, long-term financial returns, underpinning the ability for LGPS funds to pay pensions. A detailed focus on ESG issues reduces 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 partner fund's fiduciary duty to their 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.

Members of the Northern LGPS Joint Committee frequently engage with companies the Pool invests in and challenges these companies 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](#).



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 was structured as a limited liability partnership and was 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 fund to facilitate potential new members; which include Nest, one of the UK's biggest Defined Contribution Pension Schemes. Additional commitments made by new and existing members means GLIL now has committed capital of £3.6 billion, of which over £2.4bn is from the Northern LGPS funds. The Net Asset Value of GLIL has increased significantly over the year, with the Northern LGPS funds' share standing at almost £1.8bn.

GLIL currently has 13 investments that include equity stakes in Anglian Water, Clyde Wind Farm, Iona Capital, Rock Rail, Forth Ports, Semperian, Cubico Sustainable Investments, Agility Trains East, Smart Meter Assets, and Flexion Energy.

One of GLIL's more recent transactions, and GLIL's first foray into foreign infrastructure, has seen GLIL acquire a majority investment in Invis Energy's portfolio of 11 operational onshore wind farms that provide around 11% of the Republic of Ireland's installed wind capacity. The portfolio is currently operating 453 MW of installed wind capacity and, in its lifetime, has generated enough electricity to power 350,000 homes and prevented 480,000 tonnes of CO2 emissions per year, compared to non-renewable energy generation.

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. As at 31 March 2022 the Net Asset Value of NPEP stood at £734m.

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.

Other Northern LGPS Investments

Call-offs have been made from the Pool property framework which was established in 2020/21. The framework will deliver efficiencies in the management of property investments and related services, and covers a wide range of services. Pool Collective housing investments are on track to deliver the timely construction of new homes in the North of England, with good returns expected. The Pool remains committed to finance over 10,000 new homes.

Objectives for 2022/23

- Assessing, alongside the partner funds, the recently released consultation on implementing Task Force on Climate-Related Financial Disclosures ('TCFD') in the LGPS
- Continue to collaborate with Government, other LGPS funds and pools and global benchmarking services to help achieve a consistent approach to measuring costs, savings and ESG metrics across LGPS pools
- Seek to expand the Pool's local investment activity in line with the objectives for the LGPS set out in the Government's white-paper on 'levelling-up'; and support other LGPS pools and funds in this area where possible