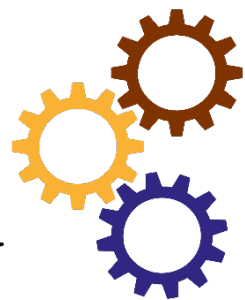




NorthernLGPS

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



Annual Report 2022/2023



Northern LGPS Pool

Report of the Chair

As Chairman of the Northern LGPS Pool Joint Committee I am once again delighted to update all stakeholders on the progress made by the Northern LGPS Pool over the year, highlight some key achievements and look ahead to 2024 and beyond.

First of all, and most importantly, I am delighted to report that the investment performance of the Pool over the year was excellent, with an investment return of 1.4% above benchmark, equivalent to approximately £800m of out performance.

After two years of high equity returns following the market lows of February and March 2020 at the onset of the covid pandemic, the year to 31 March 2023 was a much more challenging one from an investment perspective, with central banks across the globe hiking interest rates significantly in order to tackle rising inflation. The impact of the conflict in Ukraine was also felt in investment markets.

Against this backdrop, for the Pool to register a positive return over the year was a tremendous achievement. 3 year returns are even more impressive, with the Pool outperforming its benchmark by 5.0% (equivalent to over £2.5bn). The continuing strong performance, both on an absolute basis and against performance benchmarks, is testament to the hard work and diligence of my fellow Northern LGPS Pool Joint Committee members, officers, and the boards and committees of the partner funds who set and scrutinise the strategic asset allocations.

At the time of writing we are aware of many likely developments in 2023/24. The long-awaited consultation on LGPS Investments has arrived and we look forward to working with our partner funds to scrutinise the forthcoming guidance and further develop the Pool to best meet the funds' investment needs. Whilst each of the partner funds will form its own views on the proposals, it is pleasing that the funds are well aligned in many areas, including a desire to invest in a way that is financially and socially beneficial for our local areas, which appears to also be a key objective of Government.

We still await a response from Government to last year's consultation on the implementation in the LGPS of the recommendations of the Taskforce on Climate-Related Financial Disclosures ('TCFD'). Whilst ultimate responsibility for providing these disclosures will almost certainly rest with administering authorities, we can see the clear benefits of a coordinated pool approach and each fund has been obtaining carbon foot printing data on a consistent basis to help the funds and the Pool reach their Paris-aligned 2050 net-zero targets.

Of course, environmental social and governance (ESG) matters cover much more than carbon-emissions. ESG is vitally important to the Northern LGPS for many reasons, in particular, achieving sustainable, long-term financial returns which underpin 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 and the Pool collaborates with many other investors and with other LGPS funds via the Local Authority Pension Fund Forum (LAPFF). 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.

The GLIL direct infrastructure vehicle continues to be nominated for; and win, many awards. The most recent success being the award for Alternatives Manager of the Year in the Specialist Sector category at the Pensions Age Awards 2023. Just as pleasing was the prominence of GLIL as an example of successful collaboration and cost saving in the aforementioned consultation on LGPS Investments.

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 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. The importance of this is brought into sharp perspective by the financial challenges that so many local authorities are facing at present.



Councillor Gerald Cooney
Chair, Joint Committee, Northern LGPS Pool
December 2023



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 2023, which is invested on behalf of over 870,000 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 private market assets where there is greatest scope to generate further economies of scale and to combine resources to make increasingly direct investments.

Therefore, the initial focus of the Pool was on establishing vehicles which could make collective investments in private market 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.

The Pool has also made a number of appointments of external managers across various asset classes including direct property and a range of property support services.



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 2023 position at a glance

Fund	Assets £bn
GMPF	29.4
WYPF	18.0
MPF	10.4
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 2023:

	Up to 31 March 2018 £m	2018-19 £m	2019-20 £m	2020-21 £m	2021-22 £m	2022-23 £m	Total to 31 March 2023 £m
Annual running costs	0	0	0.1	0.16	0.01	0.01	0.29
Other service provider fees	0	0.13	0.78	1.17	1.21	1.30	4.59
Transition costs	0	0	0	0	0	0	0
Set up costs	0.22	0.18	0.09	0	0	0	0.49
Total costs	0.22	0.31	0.97	1.33	1.22	1.31	5.36
Investment management fee savings	7.63	12.21	22.24	31.63	41.79	62.90	178.39
Service provider savings	0	0	0.06	0.15	0.15	0.15	0.51
Total savings	7.63	12.21	22.31	31.77	41.93	63.05	115.85
Total savings net of costs	7.41	11.90	21.33	30.45	40.71	61.74	173.54

Total costs (including set up, transition and running costs) as at 31 March 2023	£5.36m
Total savings, net of costs, as at 31 March 2023	£173.54m

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.

The Northern LGPS, both directly and via LAPFF, frequently engages 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 just over £2bn.

At 31 March 2023 GLIL had 13 investments. GLIL aims to invest in a diversified portfolio of assets across the core market segments: energy, renewable energy, waste, regulated assets (utilities, transport and distribution), telecom, and social infrastructure including PFI.

GLIL has the ability to invest across the capital structure but to date has only invested into equity given its risk/return target, and it is not considering any debt investments in the short to medium term. Another factor influencing portfolio construction is the revenue profile of the asset, whether it is demand-based or availabilitybased. GLIL has the ability to invest across both revenue models, as well as across construction and operational assets. The fund seeks to balance the different risk contributors associated with each revenue model, recognising an over-concentration in either can create challenges.

After investing solely in the UK since launch, GLIL completed its first overseas investment in Q1 2022 with the purchase of the Rathcool portfolio of wind farms in the Republic of Ireland. GLIL can invest up to 25% of its portfolio outside the UK.

Full details of the current GLIL portfolio are available on the [GLIL website](#).

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 £1.4bn committed to 26 investment funds. As at 31 March 2023 the Net Asset Value of NPEP stood at nearly £1.2bn.

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

Several 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 2023/24

- Work collaboratively with partner funds to further develop the Pool in response to Government's recent LGPS Investments consultation and forthcoming guidance;
- Assist the partner funds to enhance the reporting of pooling activity, performance and cost benchmarking;
- Seek to expand the Pool's local investment activity in line with the objectives for the LGPS set out in the recent consultation, and use the Pool's experience to support other LGPS pools and funds in this area where possible
- 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