Northern LGPS Annual Report 2023/2024

The collective asset pool for the Greater Manchester, Merseyside and West Yorkshire Pension Funds

The Northern LGPS

The Northern LGPS is an investment pool. It is a partnership between three Local Government Pension Scheme (LGPS) pension funds: Greater Manchester Pension Fund, Merseyside Pension Fund and West Yorkshire Pension Fund.

Our purpose is to combine the management of the investments of the three funds to capture the benefits of investing together rather than separately.

The Northern LGPS is one of eight UK LGPS investment pools, each owned or governed by their partner funds.

Our operating model is flexible, focused on outcomes and delivering value for money. The Northern LGPS's operating costs are low, helping to provide the cost savings we were created to achieve.

You can find out more about what we do by visiting our website at: www.northernlgps.org.uk

This is our annual report for 2023/2024

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Chair's Introduction

The Northern LGPS has an excellent story to tell

"This has been an outstanding year for the Northern LGPS"

Gerard Cooney, Chair of the Northern LGPS Pool Joint Committee

Our performance continues to go from strength to strength

I am delighted to introduce the Northern LGPS' Annual Report and update all stakeholders on our pool's performance over the year. I will highlight our key achievements and look ahead to 2025 and beyond.

Our performance continues to go from strength to strength

The performance of Northern LGPS this year was extremely positive, and our pool continues to go from strength to strength. It achieved a return of 7.5% over the year to 31 March 2024, with pool assets standing at over £61.4 billion at the year-end. Three-year returns are an impressive 19.7%, with the Northern LGPS outperforming its benchmark by 0.9% over this period (equivalent to over £500 million).

This strong performance, both on an absolute basis and against performance benchmarks, is a 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.

2023/24 was a very turbulent year geopolitically. However, investment markets performed strongly, with several large equity markets hitting all-time highs. Performance was strong in the USA, driven by its 'Magnificent Seven' mega-cap stocks.

Although there are exceptions to the rule, private markets have typically performed less strongly. Rises in interest rates over the previous couple of years have gradually fed through to market valuations. There are early signs that we may see this effect reverse over the forthcoming year, as central banks have started to cut interest rates and have signaled that they will cut them further on the expectation that the recent high inflation has been sufficiently tamed.

Recent Government announcements relating to pensions

At the time of writing, there have been some significant announcements made by the Government that will impact the LGPS and other UK pension schemes. Over the last couple of years, the Government has focused on consolidation across all types of pension schemes, with the Government's general perception that a smaller number of larger schemes would deliver better value for money for members and scheme sponsors. In addition, the Government has been concerned that UK pension funds' investment strategies have not provided sufficient support for UK economic growth.

The new Labour Government has continued this theme and launched a 'Pensions Review,' led by the Treasury with support from the pensions minister and the Ministry for Housing, Communities and Local Government (formally DLUHC). Phase 1 of the review focused on Defined Contributions Master Trusts and the LGPS, with the Government publishing its interim response in November alongside the Chancellor's Mansion House Speech, and a consultation on strengthening pooling within the LGPS.

The Northern LGPS has an excellent story to tell. The Pool and each of our partner funds have supported investing in the UK. We have shown a desire to invest in a financially and socially beneficial way for our local areas. This approach appears to mirror the objectives of the Government.

As of 31 March 2024, the Pool had over £26 billion invested in the UK (around 43% of pool assets), likely the highest amount of any LGPS pool.

We invest approximately £2 billion of pool assets in the GLIL direct infrastructure vehicle, which continues to receive nominations and win awards. Its most recent success was winning the Transport category award at the IPE Real Assets Infrastructure and Natural Capital Global Awards. Just as pleasing is the continued prominence of GLIL as an example of successful collaboration and cost saving as part of the ongoing public focus on consolidation and investing productively in the UK.

Environmental, social and governance matters

We still await a response from the Government to the 2022 consultation on the implementation in the LGPS of the recommendations of the Taskforce on Climate-Related Financial Disclosures ('TCFD'). While the ultimate responsibility for providing these disclosures will almost certainly rest with administering authorities, we can see the clear benefits of a coordinated pool approach. Each fund has obtained carbon-foot printing data consistently 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 vital to the Northern LGPS for many reasons, not least for achieving sustainable, long-term financial returns that underpin the ability to pay pensions. A focus on ESG issues reduces risks to the Pool and its beneficiaries. Several important initiatives have informed our approach to responsible investment. The Northern LGPS collaborates with many other investors and LGPS funds through the Local Authority Pension Fund Forum (LAPFF). We fully support the aims and objectives of the Stewardship Code, and our member funds are signatories of the Code. Pool members are also signatories of the Principles for Responsible Investment, and the Northern LGPS aspires to harmonise the six responsible investment principles with how it implements its investment beliefs.

I thank my colleagues on the Joint Committee, pensions committees, local pension boards and the officers from our partner funds for their support and hard work over the year. I am confident that we will continue to thrive by adhering to our cost-effective approach to LGPS investment pooling. It delivers sustainable financial returns, benefitting members, employers, and taxpayers. The continuing financial challenges that so many local authorities face bring the importance of this into sharp perspective.

Gerald P Cooney

Chair of the Northern LGPS Pool Joint Committee
(as of 31 March 2024)

Highlights of the year

£61.4 billion Assets under our stewardship as of 31 March 2024	**7.5%** Return over the year
19.7% Three-year cumulative returns	**0.9%** Outperformance of benchmark over three years (equivalent to over £500 million)
£43.1million Net savings over the year	**£216.6 million** Net savings since the Northern LGPS's inception in 2017
£26 billion+ Invested in the UK (around 43% of pool assets)	**Over 3,500 new homes** Created by Northern LGPS since inception in 2017
31,942 Votes at meetings	**685** Shareholder resolutions voted on
Over 6,000 jobs Created by investment in SME Finance to date	Holds investments in **8** clean energy and **5** sustainable infrastructure assets
Supporting Place Based Development – a new primary healthcare facility built in Salford	

About the Northern LGPS

How the Northern LGPS came to exist

The Northern LGPS is a partnership between the Greater Manchester Pension Fund, Merseyside Pension Fund and West Yorkshire Pension Fund. These LGPS funds are our partner funds. As of 31 March 2024, the combined assets of these funds totaled £61.4 billion. The Northern LGPS invests these assets for over 870,000 members and 1,250 contributing employers. It aims to achieve sustainable, improved net investment returns for its partner funds.

The Northern LGPS 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 to reduce investment management costs and facilitate infrastructure investment. It aimed to help drive growth in the UK economy.

Due to the existing scale of its three partner funds, the most significant benefit of pooling for these funds was in private market assets, where there was scope to generate further economies of scale and to combine resources to make direct investments. Therefore, the initial focus of the Northern LGPS was on establishing vehicles that could make collective investments in private market assets, particularly infrastructure and private equity. The partner funds were already significant investors in the GLIL direct infrastructure vehicle, but they also established a collective private equity vehicle known as NPEP in 2018.

The Northern LGPS selected Northern Trust as its FCA-regulated custodian to ensure it held all listed assets of the pool (all internally and externally managed equities and bonds) within a single, permanent FCA-regulated entity. The custodian acts as a primary recordkeeper for all assets and manages the calls and distributions in NPEP.

The Northern LGPS has appointed external managers across several other asset classes, including direct property and a range of property support services.

Our partner funds

The Northern LGPS is a partnership between the Greater Manchester Pension Fund, Merseyside Pension Fund and West Yorkshire Pension Fund. The three local authority pension funds preside over a powerhouse area that is approximately 3% of England's landmass but 10% of its GDP.

The partner funds collectively invest over £26bn, or 43% of pool assets, in the United Kingdom.

	Greater Manchester Pension Fund	West Yorkshire Pension Fund	Merseyside Pension Fund	Total
Gross Domestic Product of local area (*ONS Data 24 April 2024*)	£99.7Bn	£74.4Bn	£40.2Bn	£214.3Bn (approximately 10% of England's GDP, covering just 3% of England's landmass)
Number of member accounts *(all types)*	429,345	323,414	153,157	905,916
Number of contributing employers	678	409		1,315
Value of fund assets *(31 March 2024)*	£31.3Bn	£19.4Bn	£10.8Bn	£61.4Bn
Value of UK assets *(SAB Basis)**	£8.0Bn	£7.3Bn	£4.6Bn	£19.9Bn
Value of UK assets *(NLGPS Basis)***	c. £12Bn	c. £9Bn	c. £5Bn	£26Bn

*Value of UK assets as disclosed in Fund annual accounts and consistent with CIPFA Code and Scheme Advisory Board's annual reporting guidance; West Yorkshire Pension Fund figure is estimated as not prepared on this basis for 2023/24.

**Value of all UK assets (including corporate bonds, property and other assets excluded from CIPFA definition)

The benefits of asset pooling

There are many positive reasons for asset pooling in the LGPS. Five of the main benefits of asset pooling identified by our partner funds are:

- Increased opportunities – By pooling funds, we can take advantage of investment opportunities available only to the largest investors that partner funds might not have been able to access individually.
- Cost savings – We can achieve cost savings through economies of scale and increased bargaining power.
- Further diversified portfolios – Pooling provides greater diversification, which reduces risk. Our partners will be less affected if a particular type of investment underperforms.
- Improvements through collaboration – We can amass experience, knowledge, and views across all three funds, delivering better outcomes for all aspects of our work.
- Strengthened governance – Our model provides greater scrutiny, transparency, and accountability. It also helps to mitigate the risks associated with asset ownership.

Northern LGPS Governance

Our governance structure

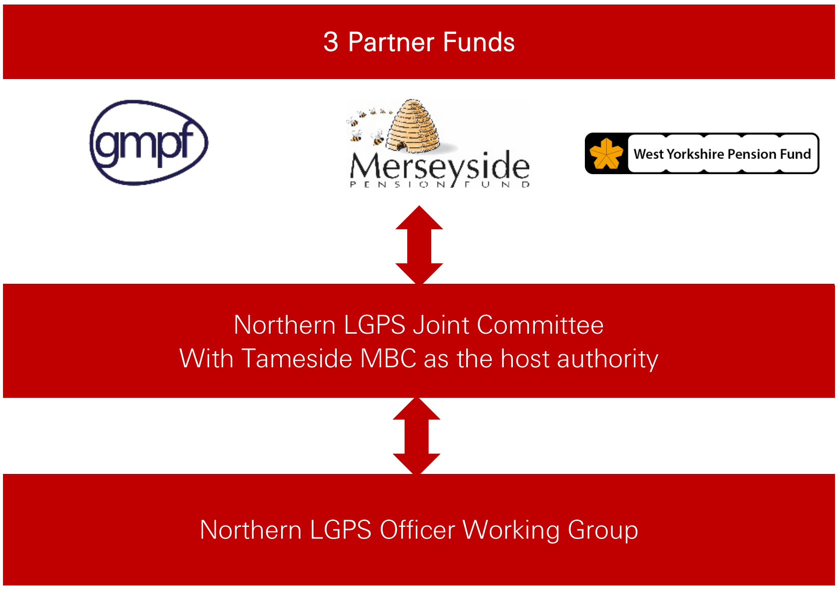
The Northern LGPS Pool is a Local Government Joint Committee. It is not a standalone legal entity. A host authority (currently Tameside MBC as the Administering Authority for the Greater Manchester Pension Fund) provides the committee with administrative support. Tameside MBC provides all administrative resources and facilities necessary for the committee to run successfully, such as clerking services for the Joint Committee meetings.

The Administering Authorities for the three partner funds signed an inter-authority agreement to create the Joint Committee. The agreement sets out the terms of reference for the Northern LGPS Joint Committee, which is the decision-making body for the Pool.

The Local Government Act 1972 section 102 enables administering authorities to create joint committees. The Northern LGPS has delegated authority from each Administering Authority to exercise specific functions for pooling pension fund assets.

The Joint Committee may delegate certain functions to the Northern LGPS Officer Working Group. The Directors of each partner fund sit on the Officer Working Group and provide technical advice to the Joint Committee on investment matters. The Group is a central resource for advice, assistance, and guidance for the Joint Committee.

The three Administering Authorities retain control of their individual funds' asset allocations and nominate members to sit on the Joint Committee.



Northern LGPS Joint Committee

The Northern LGPS Joint Committee consists of the chair and deputy chair of each partner fund's pension committees or alternative persons' as nominated by the partner funds.

The members of the Northern LGPS Joint Committee as of 31 March 2024 were:

Greater Manchester Pension Fund	Merseyside Pension Fund	West Yorkshire Pension Fund
		
Councillor Gerald Cooney (Chair of the Joint Governance Committee)	Councillor Julie McManus	Councillor Andrew Thornton
		
Councillor Jacqueline North	Councillor Cherry Povall, JP	Elizabeth Bailey

Trade Union representatives	
Ken Drury (UNITE)	Alan Flatley (GMB)

The Northern LGPS Joint Committee ordinarily meets four times per municipal year. In 2023/24, the Joint Committee met on the following dates:

- 6 July 2023
- 5 October 2023
- 1 Feb 2024
- 11 April 2024

Northern LGPS Officer Working Group

The Northern LGPS Officer Working Group consists of the Directors of each partner fund (or their nominated representatives), supported by other fund officers as required.

The Officer Working Group provides a central resource for advice, assistance, guidance and support.

The members of the Northern LGPS Officer Working Group as of 31 March 2024 were:

Greater Manchester Pension Fund	Merseyside Pension Fund	West Yorkshire Pension Fund
		
Sandra Stewart	Peter Wallach	Euan Miller

Our core objective, values, and strengths

Our purpose is to combine the investments of the three funds to capture the benefits of investing together rather than separately.

Our core objective is to generate cost savings for our three partner funds.

We aim to meet this objective by:

- Investing in opportunities that are likely to generate costs savings
- Keeping our running costs low
- Investing responsibly
- Managing risk effectively

Our values align with the values and aims of our partner funds. We value:

- Excellence – delivering results and focusing on the needs and requirements of our stakeholders.
- Collaboration – working together and capturing the benefits of joint working.
- Social responsibility – ensuring our investments and working practices meet our social and environmental goals.
- Prudence – being prudent in our decision-making and taking a long-term view as a long-term investor.

Our two main strengths are our size and our ability to deliver savings for our partner funds at a consistently low cost. Our structure and approach mean we can meet our objectives while keeping our running costs exceptionally low, which adds to our ability to ensure value for money for all stakeholders.

Our partners and support structure

Host Authority – Tameside MBC

Tameside MBC is the host authority of the Northern LGPS. Its responsibilities include:

- Being the point of contact for the Northern LGPS
- Providing administrative resources and facilities for the Northern LGPS
- Providing governance and administrative services for the Northern LGPS, including arranging and clerking meetings
- Providing training for those who undertake a role on the Joint Governance Committee
- Managing contracts for supplies and services

Custodian – Northern Trust Global Services

Northern Trust is our custodian bank and is responsible for the safekeeping of Northern LGPS assets and for recording transactions and settlements.

External Internal Auditors

West Yorkshire Pension Fund and the Greater Manchester Pension Fund have Forvis Mazars LLP as their appointed auditor. Merseyside Pension Fund has Grant Thornton LLP as their appointed auditor.

Both external auditors provide assurance that the constituent Administering Authorities' finances are soundly managed, and the annual accounts present a true and fair view of the Administering Authority's income and expenditure and its assets and liabilities.

Benchmarking – CEM Benchmarking Inc.

All three partner funds use CEM Benchmarking to benchmark their investment data against pension funds across the globe, providing insight into how to maximise value for money in investments.

Engagement Advisors - Pensions & Investment Research Consultants Ltd (PIRC)

PIRC provides the Northern LGPS with stewardship and proxy research services on environmental, social and governance issues. PIRC helps to produce the Northern LGPS's quarterly stewardship reports.

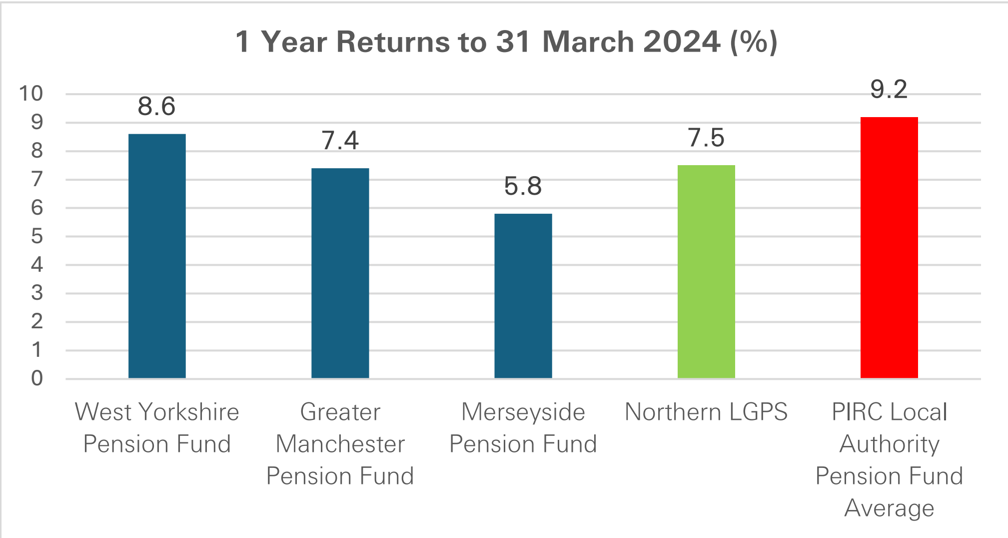
Our Performance

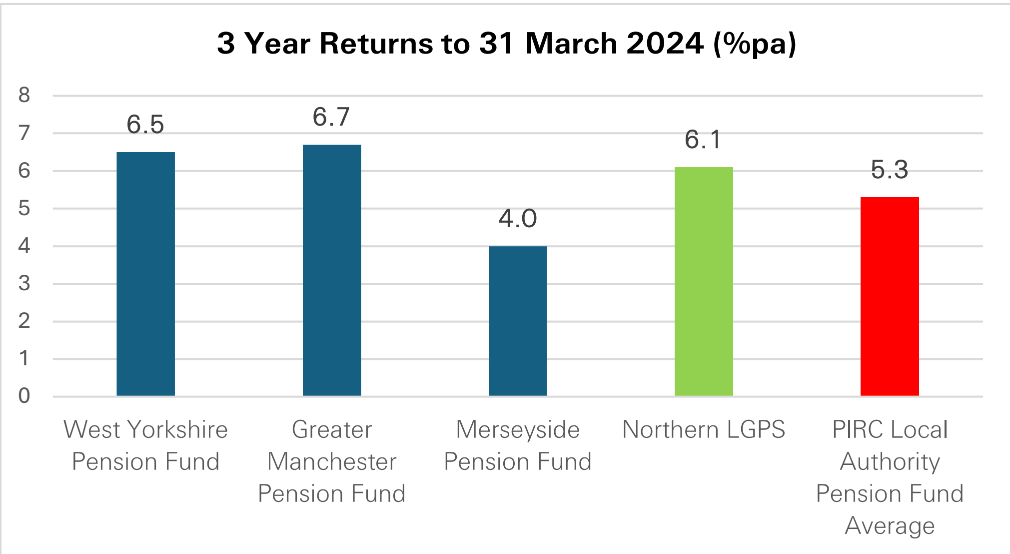
Our strategy

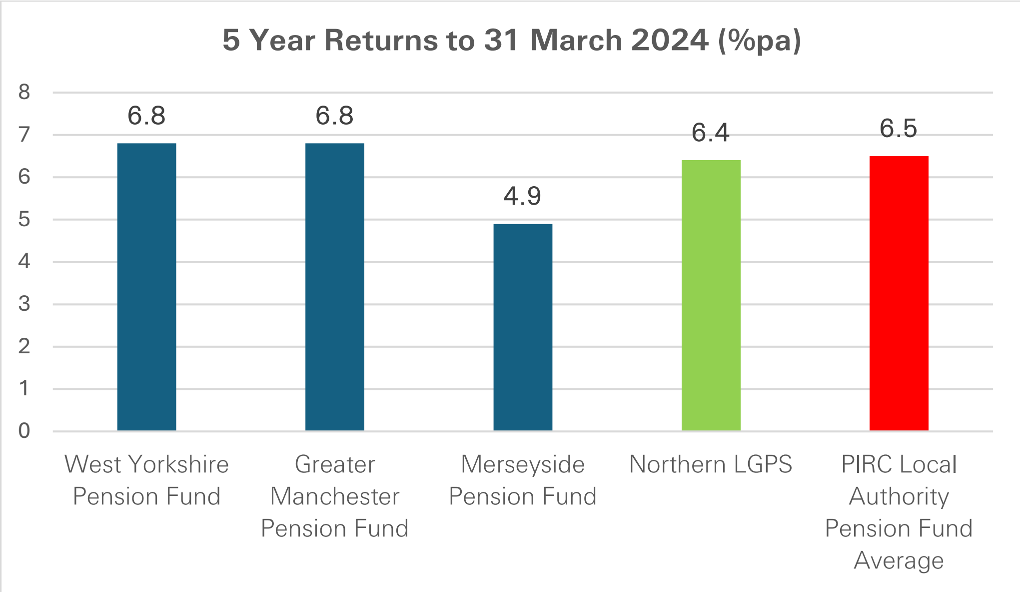
Our strategy is to focus on tasks where there is the greatest scope to generate further economies of scale and where combining resources will increase the number of direct investments.

What we have delivered

The Northern LGPS delivered strong investment returns of 7.5% over the year to 31 March 2024. This return exceeded the rate of CPI inflation, which was 3.2% for the year to 31 March 2024, and above the returns assumed by the Funds' respective actuaries. Investment returns over 3 and 5 years are also strong, with 3-year returns exceeding the PIRC Local Authority Pension Fund Average, and 5 year returns broadly in line with the PIRC Local Authority Pension Fund Average.







More detail on costs and savings

The table below sets out the total costs and savings of the Northern LGPS up to 31 March 2024:

	Up to 31 March 2018 £m	2018-19 £m	2019-20 £m	2020-21 £m	2020-21 £m	2022-23 £m	2023-24 £m	Total to 31 March 2024 £m
Annual running costs	0	0	0.1	0.16	0.01	0.01	0.01	0.29
Other service provider fees	0	0.13	0.78	1.17	1.21	1.30	1.33	5.92
Transition costs	0	0	0	0	0	0	0	0
Set up costs	0.22	0.18	0.09	0	0	0	0	0.49
Total costs	0.22	0.31	0.97	1.33	1.22	1.31	1.34	6.70
Investment management fee savings	7.63	12.21	22.24	31.63	41.79	62.90	44.25	222.64
Service provider savings	0	0	0.06	0.15	0.15	0.15	0.15	0.66
Total savings	7.63	12.21	22.31	31.77	41.93	63.05	44.40	223.30
Total savings net of costs	7.41	11.90	21.33	30.45	40.71	61.74	43.05	216.59

Total costs (including set up, transition and running costs) as of 31 March 2024	£6.70m
Total savings, net of costs, as of 31 March 2024	£216.59m

Over the summer of 2021, the Northern LGPS collaborated with the other seven LGPS pools to develop a standardised approach to measuring costs and savings. This work was to enable the Government and other stakeholders to better analyse the impact of LGPS asset pooling and assist in future policymaking. We have calculated the figures in the table above using the agreed standardised approach.

Investments

GLIL

In April 2015, the Greater Manchester Pension Fund and the London Pensions Fund Authority formed a joint venture to invest directly in infrastructure assets, with a focus on investing in the UK. The joint venture was a limited liability partnership named GLIL Infrastructure LLP (GLIL). As part of the LGPS pooling discussions, the West Yorkshire Pension Fund, Merseyside Pension Fund and Lancashire County Council Pension Fund joined GLIL in December 2016.

In March 2018, GLIL was restructured as an open-ended fund to facilitate potential new members. Nest, one of the UK's biggest defined contribution pension schemes, joined GLIL at this time. Additional commitments made by new and existing members mean GLIL has committed capital of £4.1 billion, of which £2.6 billion is from the Northern LGPS partner funds. The Northern LGPS funds' share of the GLIL Net Asset Value stood at almost £2.2 billion at the year-end.

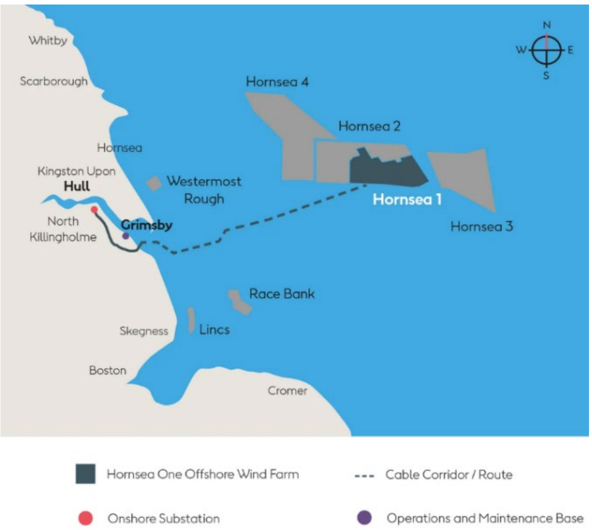
On 31 March 2024, GLIL had fifteen investments. GLIL aims to invest in a diversified portfolio of assets across the core market segments, including energy, renewable energy, waste, regulated assets (utilities, transport, and distribution), telecom, and social infrastructure, including private finance initiatives.

GLIL can invest across capital structures but has only invested in equity because of its risk versus return targets. 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 and whether it is demand-based or availability-based. GLIL can invest across both revenue models as well as across construction and operational assets. GLIL seeks to balance the different risk contributors associated with each revenue model, recognising an over-concentration in either model can create challenges.

GLIL completed its first overseas investment in the first quarter of 2022, purchasing 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.

Case study:
UK Green Infrastructure Co-Investment Hornsea 1



In November 2022, GLIL invested in Hornsea 1. Hornsea 1 is one of the world's largest operational wind farms, generating enough green energy to power over one million homes across the UK. Hornsea 1 was the world's largest wind farm until its sister project, Hornsea 2, came into operation in August 2022.

GLIL jointly acquired a 12.5% stake in Hornsea 1 alongside an aligned financial investor through a 50:50 joint venture. This investment was GLIL's first offshore wind transaction. GLIL invested alongside other financial investors who were familiar with the sector.

Hornsea 1 became fully operational in 2019 and was the world's first offshore wind farm to exceed 1GW in capacity. The wind farm consists of 174 wind turbines located 120km off the Northeast coast of England. Hornsea 1 covers an area of 407 square kilometres, which is over five times the size of the city of Hull.

The Hornsea 1 wind farm is a significant contributor to the UK's net zero ambitions and is part of an ambitious partnership between the UK Government and the offshore wind industry aiming to meet the government's offshore wind target of 50GW by 2030.

Northern Private Equity Pool (NPEP) LP

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

NPEP draws on the combined expertise and experience of the internal teams at each Northern LGPS partner fund and the administration capabilities of Northern LGPS's custodian. The combined scale and resources of NPEP enable it to invest in private equity through lower-cost implementation approaches than have been the case historically.

The Northern LGPS has made Investment decisions at a consistent pace in line with targets since NPEP's inception. It has committed over £2 billion to 33 investment funds and as of 31 March 2024, NPEP's net asset value was over £1.5 billion.

At the end of 2019, NPEP concluded an investment commitment 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's partner funds.

Case study:
NPEP Private Equity Co-Investment OCU Group

In August 2022, the Northern LGPS invested in OCU Group through NPEP alongside its Private Equity partner, Triton.

OCU Group's journey as a company began in 1994. It has since grown to become the UK's leading energy transition and utilities infrastructure contractor. OCU delivers infrastructure solutions in the energy, water, telecoms, and transport sectors. OCU's capabilities span utility, energy, mechanical, civil, and electrical engineering. Their services include connecting and reinforcing the electricity grid, laying and maintaining fibre networks, network design, and subterranean drilling, which they deliver through their commitment to innovation and sustainability.

OCU Group has headquarters in Stockport, Greater Manchester, regional service centres in Boreham Wood and Leeds, and over 50 strategic locations nationwide to support delivery of services to clients.

The Group has three core business units, OCU Energy, OCU Utilities and RJ McLeod, with over 4,500 people working daily across the UK, supported by centralised group services.

OCU Energy plays a critical role in reshaping the UK's energy landscape. Their non-regulated power work in deploying battery energy storage systems, electric vehicle (EV) charging infrastructure, and broader renewable energy solutions is crucial for transitioning the UK to a net-zero future, ensuring the UK's energy infrastructure is both sustainable and resilient.

OCU Utilities focuses on renewing and building the essential utility infrastructure across the UK. Its work includes deploying advanced fibre optics to boost digital connectivity and working on regulated power networks. This work ensures reliable utility services for homes, businesses, and communities countrywide.

Recently acquired, RJ McLeod delivers significant projects in the renewable energy market, particularly regarding onshore wind developments such as the Viking and South Kyle wind farms. The business operates throughout Scotland. In addition to wind farms, RJ McLeod has specialist capabilities in battery storage, hydroelectric projects, grid construction, and substation construction.

The Group's client portfolio includes major utility providers, renewable energy developers and private sector companies.

OCU is leading the integration of digital and sustainable solutions into its operations. The Group is investing in digital platforms for its workforce and central functions, and working toward electrifying its vehicle fleet, particularly in urban areas, to reduce carbon emissions. These initiatives align with OCU's broader goal of achieving long-term sustainable operations, aligned with the UK's net-zero targets. Coupled with that is OCU's People First commitment, ensuring they take care of their workforce. They have recently become a holder of the Armed Forces Covenant (Gold), confirming their commitment to defence and acknowledging the strong community of armed service leavers and veterans in their business.

OCU's comprehensive approach ensures that they deliver each project with a focus on safety and sustainability. Recently, it launched a leadership led 'Think Safe' campaign to enhance its safety culture. OCU Group's continuous innovation and commitment to sustainability position it as a leader in the energy transition and utilities infrastructure markets. With a clear vision for the future and a robust operational framework, OCU is set to play a crucial role in shaping the UK's energy and utility landscape for years to come.

Property investments

The Northern LGPS has also invested in property, calling off from a Northern LGPS property framework it established in 2020/2021. It created this property framework to deliver efficiencies in property management, property investments, and related services, and it covers a wide range of services. The Northern LGPS collective housing investments are on track to deliver the timely construction of new homes in the North of England, and we anticipate good returns. The Northen LGPS has committed to finance over 16,000 new homes, with over 8,600 delivered to date.

Case study:
Property Co-Investment
PGIM UK Affordable Housing Fund

In December 2020, the Northern LGPS made its first collaborative investment into UK housing with a commitment to the PGIM UK Affordable Housing Fund.

PGIM UK Affordable Housing Fund is a real estate core fund managed by PGIM Real Estate. The fund targets investment in multi-family properties.

The Northern LGPS initially committed £150m of investment, subsequently committing a further £75m in 2023.

PGIM's strategy focuses on developing and acquiring high-quality, sustainable housing, most of which are suburban homes. While rents are at open market rates, they are set at an affordable level linked to the local area (calculated as rent being no more than 33% of the local median household income).

As of March 2024, PGIM's total value was £323m (including co-investments). PGIM has drawn upon all the Northern LGPS commitments to provide affordable housing. A further £105m of capital from other investors can be drawn upon, and PGIM is actively deploying capital into new developments. PGIM's Affordable Housing Fund remains entirely unleveraged (wholly owned by investors and not financed with debt).

PGIM has built 1,526 homes that are either occupied or available for tenants to rent, with a further 126 homes under development (due to be completed in 2026).

PGIM is now one of the largest institutional owners of suburban rental housing in the UK. All homes are of high specification, with 96% of the portfolio having an excellent energy efficiency rating of EPC B or better. The portfolio has maintained a consistently high occupancy rate of 98% or above since its formation, demonstrating the depth of demand and structural undersupply of affordable housing.

Current affordability thresholds are far lower than PGIM's cap of 33% of local household income, with a current affordability ratio of 21.6% on average.

Despite investment market volatility, PGIM has delivered a strong and resilient total return of 5.54% for the Northern LGPS compared to the All Property MSCI Index return of -1.88% over the same time frame.

Forward-looking projections for the coming 3-5 years are for a net total return of 7-8%, with the improvement being led by a more stable interest rate and yield environment, albeit with resilient and consistent income growth.

Market commentary

Overview

The year has been characterised by the ongoing fight against high levels of inflation by global central banks. The economic outlook has oscillated between narratives of a 'hard-landing', a 'delayed hard-landing' and a 'soft landing'. This has all taken place against a backdrop of steadily increasing geopolitical issues and risks.

Key Economic and Market Events

Q2 2023:

The second largest US bank failure in history (the collapse of Silicon Valley Bank) did not lead to broader financial contagion. The US debt ceiling crisis was resolved, and volatility fell throughout the quarter. However, economic activity was subdued as inventories were run down, and at the same time inflation remained high, leading central banks to continue to raise interest rates.

Consensus forecasts for 2023 global GDP growth saw further upwards revisions in Q2, given unexpected resilience in labour markets and consumer spending. Nonetheless, with higher interest rates likely to weigh on consumer and business activity in the second half of 2023 and into 2024, growth forecasts remained relatively weak. Stresses in the banking sector caused financial market sentiment to decline amid concerns around financial stability. Elevated inventories and weak global goods demand continued to bear down on the manufacturing sector. Meanwhile, consumer spending on services had been strong, supported by both the strength of labour markets and further drawdown from excess pandemic savings, which was now more focused on services than goods. However, services growth had also started to slow, and June's composite PMI (Purchasing Managers' Index) data suggested the recent upturn was easing, particularly in the eurozone. Headline CPI inflation continued to fall in the major advanced economies but remained well above central bank targets and core inflation, which excludes volatile energy and food prices, and was proving more persistent.

Q3 2023:

Amid concerns of stubbornly high inflation, there were expectations that central banks may have to keep interest rates elevated for an extended period, that is 'higher-for-longer'.

Better than expected Q2 data, released in Q3, led to further upwards revisions to 2023 global growth forecasts for Q3. Survey indicators suggested that economic activity weakened in Q3, particularly in Europe, but growth was expected to slow, rather than collapse. While inflation generally declined, it remained above target, and markets were beginning to expect that central banks would have to keep interest rates higher for longer to return inflation to target. Headline inflation was at 3.7%, 6.7%, and 4.3% year on year in the US, UK, and eurozone, respectively. Furthermore, year-on-year core CPI inflation was also substantially above central bank targets, at 4.3%, 6.2%, and 4.5%, in the US, UK and eurozone, respectively. The US Federal Reserve and Bank of England both raised interest rates 0.25% pa in Q3, to 5.5% pa and 5.25% pa, respectively, before leaving interest rates unchanged at their September meetings. Given a smaller cumulative increase in interest rates in this cycle, the European Central Bank raised its deposit rate twice, to 4.0% pa. While major central banks, and financial markets were indicating interest rates were close to peaking, they also suggested that interest rates may have to remain at current, or higher, levels for longer to return inflation to target.

Q4 2023:

Signs that cooling inflation would allow central banks to begin lowering interest rates in 2024 without deterioration in economic growth fuelled strong gains in financial markets during Q4 2023.

In December, the US Federal Reserve signalled that it was prepared to cut rates, potentially even before inflation was brought fully to target, which was expected to boost economic growth and reduce the chance of a US recession. This justified the significant fall in bond yields and provided a boost to risk appetite more generally.

The US Federal Reserve's optimistic outlook for a 'soft landing' for the economy was backed up by US economic data suggesting that inflation was steadily falling while economic activity remained robust. US inflation fell to 3.1% for November while the US composite Purchasing Managers Index (PMI) rose to 51.0 in December, marking the third straight month of growth. The US economy added 199,000 jobs in November, which exceeded market expectations but nevertheless revealed a slowdown in the labour market. The US economy expanded by 1.2% quarter on quarter in Q3, driven by robust consumer spending. By contrast, UK and eurozone GDP contracted by 0.1% in Q3. This left the UK flirting with a mild technical recession in the second half of 2023 as recent monthly data showed the economy contracted 0.3% in October, following a 0.2% expansion in September.

Year-on-year CPI inflation in the UK, US, and eurozone fell more than expected to 3.9%, 3.1%, and 2.4% respectively, in November. The main drivers were a decline in energy prices and a moderation in food prices. However, core inflation, which excludes both, also fell more than expected. Perhaps highlighting a degree of persistence in high inflation, the respective core measures were 5.1%, 4.0%, and 4.2% in the UK, US, and eurozone.

Q1 2024:

US economic data was broadly positive, causing expectations of a recession in the US to fall. However, inflation was slightly higher than expected in both January and February, which prompted the US Federal Reserve to caution against cutting rates. European data showed the UK entered a technical recession while the eurozone economy narrowly avoided one.

Data released in the first quarter revealed that the US economy grew more quickly than previously envisaged, at an annualised quarterly pace of 3.4% in the final quarter of 2023, amid ongoing resilience in consumer spending. Meanwhile, European data showed the UK entered a technical recession, as GDP fell 0.3% in Q4 following a 0.1% contraction in Q3, and the eurozone economy flirted with one, after stagnating in Q4. The Japanese economy also narrowly escaped recession, with a 0.1% expansion in Q4, following a 0.8% contraction in Q3. Backward-looking GDP data and coincident survey data, which were pointing to an economy with much stronger momentum than previously anticipated, saw consensus forecasts for year-on-year US GDP growth in 2024 jump from 1.4% in January to 2.2% in March. At the same time, global growth forecasts for 2024 were revised up to 2.4%. Even in Europe and the UK, where growth expectations were more modest, most economists had begun to anticipate a recovery. Survey data in the UK had become more positive, suggesting that the recession experienced in the second half of 2023 was over and decent growth could be expected in Q1 2024.

US headline CPI inflation rose unexpectedly to 3.2% year-on-year in February, fuelling fears that the downtrend in inflation was slowing. Equivalent UK and eurozone measures, however, eased to 3.4% and 2.6%, respectively. Equivalent core measures came in at 3.8%, 4.5%, and 3.1% in the US, UK and eurozone, respectively. With economic data surpassing expectations and signs of persistence in underlying inflation, markets cut back the number of interest rate cuts expected from central banks. At the start of the year markets had been anticipating six to seven cuts in 2024 but these expectations were scaled back during the quarter to just two to three cuts. In March, the Bank of Japan raised interest rates for the first time in 17 years, exiting negative interest rates.

Responsible investment

Environmental, social and governance (ESG) matters are paramount to the Northern LGPS for several reasons. We consider ESG factors when assessing and monitoring investments in all asset classes. This work helps achieve sustainable, long-term financial returns, underpinning the ability of LGPS funds to pay pensions. A detailed focus on ESG issues reduces risks to the Northern LGPS 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 behaviour of investee companies affects the society that our partner fund's beneficiaries live in. Therefore, we expect exacting standards from those businesses. Consistent with the partner funds' fiduciary duty to their beneficiaries, we will ensure that we invest in financially and environmentally sustainable companies that have exacting standards of governance and are responsible employers. As far as possible, the Northern LGPS will seek to invest in a financially and socially beneficial way for the North of England.

The Northern LGPS, directly and through LAPFF, frequently engages with companies the Pool invests in and challenges these companies where a component of their operations seems deficient. You can read updates on the Northern LGPS' activity in the quarterly Stewardship Reports and learn about our approach to Responsible Investment in our Responsible Investment Policy.

Looking to the future

What's next for the Northern LGPS?

The Northern LGPS will continue to develop and mature as an LGPS collective asset pool over the next twelve months. We intend to create longer-term business plan objectives and review and refresh our approach to risk management. In addition, some of our key objectives for the next twelve months will be to:

- Work collaboratively with our partner funds and the Government to support its Pensions Review.
- Improve and enhance how we report the work of the Northern LGPS and document its performance and cost benchmarking in line with the LGPS Scheme Advisory Board guidance.
- Expand the Northern LGPS's local investment activity and use our experience to collaborate with and support other LGPS pools and pension funds.
- Collaborate with the Government and other LGPS funds and pools, alongside global benchmarking services, to achieve a consistent approach to measuring costs, savings and ESG metrics across LGPS pools.

How to contact us and find out more

Our contact details:

W: www.northernlgps.org

E: info@northernlgps.org

Postal Address of Host Authority:

Guardsman Tony Downes House
5 Manchester Road
Droylsden
M43 6SF

Glossary of Terms

Ad-valorem

A payment or rate which is calculated according to the price of a product or service, rather than at a fixed rate. External asset managers usually have an ad-valorem component as part of their fees.

Administering Authority

A body listed in Part 1 of Schedule 3 of the LGPS Regulations who maintains a fund within the Local Government Pension Scheme. Administering Authorities are typically councils based in England and Wales. The three Administering Authorities of the Partners Funds of the NLGPS are Tameside Metropolitan Borough Council, Bradford Council and Wirral Council.

Alternative Investments (also referred to as 'Alternatives')

Alternative investments are financial assets that do not belong to conventional investment categories such as stocks, bonds or cash. Alternative investments are normally considered to include private equity, private credit, infrastructure, private real estate and hedge funds.

Benchmark

A measure against which fund performance is to be judged.

Bonds

Loans made to an issuer (often a government or a company) which promises to repay the loan at an agreed later date. The term refers generically to corporate bonds or government bonds (government bonds are also referred to as 'gilts').

Consumer Prices Index (CPI)

CPI is an abbreviation standing for 'Consumer Prices Index'. CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. Pension increases in the LGPS are usually linked to the annual change in CPI.

Environmental, Social and Governance (ESG)

ESG criteria are a set of standards for a company's operations that socially conscious investors use to understand their environmental, social and governance facets.

GLIL Infrastructure LLP (GLIL)

GLIL is a joint venture created in 2015 by GMPF and Local Pensions Partnership to invest directly into infrastructure assets, predominantly in the UK. West Yorkshire Pension Fund and Merseyside Pension Fund joined GLIL in December 2016.

Local Authority Pension Fund Forum (LAPFF)

The Local Authority Pension Fund Forum is a forum of Local Government Pension Scheme funds which meet quarterly. The Forum provides an opportunity for discussion and debate on a broad range of investment issues concerned with shareholder responsibilities and action. Members of the Forum construct agendas themselves. Meetings are serviced by PIRC Ltd, as the appointed research and engagement partner to the Forum.

Local Government Pension Scheme (LGPS)

An occupational pension scheme for Local Government workers and other related workers made up of 86 individual pension funds located across England and Wales.

Northern Local Government Pension Scheme Pool (NLGPS)

An investment pool comprised of the Greater Manchester Pension Fund, Merseyside Pension Fund and West Yorkshire Pension Fund. NLGPS is one of eight LGPS investment pools in England and Wales. LGPS investment pools aim to increase pension fund investment efficiency and make it easier to access more asset classes.

Northern Private Equity Pool (NPEP) LP

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

Pensions & Investment Research Consultants Ltd (PIRC)

Pensions & Investment Research Consultants Ltd is an independent corporate governance and shareholder advisory consultancy with experience in providing ESG research services.

Private Equity

Private equity is the ownership of companies that are not listed on a public stock exchange.

Public Equity

Public equity is an asset class where individuals and/or organisations can buy ownership in the shares of companies that are recorded on a public market such as the London Stock Exchange.

Task Force on Climate-related Financial Disclosures (TCFD)

TCFD provide climate-related financial disclosure recommendations designed to help companies and pension funds provide clear, comparable and consistent information about the risks and opportunities presented by climate change to their operations.