

NLGPS
Stakeholder
Day
2024

1198

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



Local Government Pensions

SAB

England and Wales

Jeremy Hughes – Deputy Secretary, Local Government Pension Scheme Advisory Board (SAB)

Pensions Review – Phase 1 proposals

Northern LGPS Stakeholder Day

22nd November 2024

About the Scheme Advisory Board

The Local Government Pension Scheme Advisory Board (SAB) is a statutory body set up under Section 7 of the Public Service Pensions Act 2013 and The Local Government Pension Scheme Regulations 110 - 113 for England & Wales.

Its purpose is to:

- Provide advice to the Secretary of State and to administering authorities on “the desirability of changes to the scheme” and “in relation to the effective and efficient administration and management” of the LGPS
- Provide a framework to encourage best practice, increase transparency and coordinate technical and standards issues across the sector

Established in 2014, Chaired by Cllr Roger Phillips since 2016

Membership includes equal number of employer and employee representatives, assisted by non-voting members and advisors

The E&W SAB’s website is at www.lgpsboard.org



What the Scheme Advisory Board does

The Board contributes to policy thinking and best practice in various areas including but not limited to:

- Producing the Scheme Annual Report and Scheme Valuation Report
- Co-creating new statutory guidance with CIPFA (Annual reporting, FSS, K&S)
- Taking legal advice on emerging issues for funds collectively (eg BDS)
- Proactive initiatives such as the Good Governance project
- Cost management and the Code of Transparency – new focus on reporting of investment costs
- Climate risk reporting

The Board, its Committees and working groups are supported by the Secretariat, which is provided by the Local Government Association (LGA)

Aims to proceed by consensus (has not had vote-outs to date)

The Pensions Review, quick recap

- Labour Party Manifesto committed to review the whole pensions system to “take advantage of consolidation and scale”
- Review announced shortly after the election, with significant and welcome programme of engagement by Ministers and officials
- [Terms of Reference](#) for Phase One aimed to deal with “fragmentation and inefficiency in the LGPS”, DC consolidation and “encouraging further pension investment into UK assets to boost growth across the country”
- Call for Evidence published in September (with just three weeks to reply)
- No significant announcements made at Budget, but...
- Consultation issued following Chancellor’s Mansion House speech. As yet no draft amendments to LGPS Investment Regulations 2016 or text of Pensions Bill

What is being proposed - pooling

Funds must

- fully delegate implementation of their investment strategy to their pool
- take their “principal investment advice” from the pool
- transfer legacy assets to the management of their pool by end March 2026
- take CAs, MCAs, CCAs and local authorities growth strategies into account
- include in their annual report a report on the extent and impact of their local investments

Pools must

- be investment management companies authorised and regulated by the FCA
- develop the capability to do due diligence on local investment opportunities
- must include on their boards 1 or 2 representatives of shareholder AAs
- publish asset performance and transaction costs

Also an open consultation on role of member representatives in pool governance

What is being proposed – fund governance

Largely what was proposed in 2021 Good Governance report

- Governance and training strategy to replace the governance compliance statement, Fund specific conflicts of interest policy
- Requirement to appoint a senior LGPS officer with overall delegated responsibility for the management and administration of the Scheme
- Requirement to prepare and publish an administration strategy.
- Further obligations to publish governance and training, funding, administration and investment information
- Funds to participate in a biennial independent governance review (run by SAB)
- Requirement for pension committee members, the senior officer and officers to have the appropriate level of knowledge and understanding
- Funds to have training strategy demonstrating how they will achieve that
- Pension committees must include an independent person who is a pensions professional (as voting member or as an adviser)

It's not just about the investments

Phase Two of the Pensions Review will look at adequacy and fairness

- Minister has a very keen interest in this we are told
- We hope to see survivor benefits (and death grants) updated in line with case-law
- A commitment across PSPS to Gender Pensions Gap reporting (and beyond?)
- Opt-outs

Two stage approach by the government to **pension rights on transfer**

- Catching up LGPS to previous Government's New Fair Deal (NFD) policy
- Plus Two Tier Code (part of Labour's "new deal for working people" document, but not explicitly in the manifesto)
- Labour committed to "extend and strengthen" what was in previous Two Tier Code - we have had AE since then, so what might it look like?
- Waiting for announcement from Govt on how NFD applies in Further Education

Disclaimer

The information contained in these slides has been prepared by the LGPS Advisory Board Secretariat on behalf of the speaker. It represents the views of the speaker based on the current understanding of the law and policy in relation to the LGPS and the Board. It should not be treated as a complete and authoritative statement of the law, the views of or the policy intentions of the Board. Readers may wish, or will need, to take their own legal advice on the interpretation of any particular piece of legislation quoted. No responsibility whatsoever will be assumed by the Board or the Board Secretariat for any direct or consequential loss, financial or otherwise, damage or inconvenience, or any other obligation or liability incurred by readers relying on information contained in these slides.



Any questions?





CEM Benchmarking

Northern LGPS Stakeholder Day

November 22, 2024

We compare your costs with 19 global peers from £13 bn to £126 bn.

Are your costs reasonable for a pool of your size and with your assets?

Peers are selected:

- Based on size - because size impacts costs.
- To include both LGPS and non-LGPS funds globally.
- Because they hold similar assets to you.
- For stability and validity.

The median size in the peer group is £56.9 bn (versus your average assets of £55.0 bn).

Peer Group

LGPS Funds

Border to Coast Pool¹
Central Pool²
Northern LGPS
Strathclyde Pension Fund

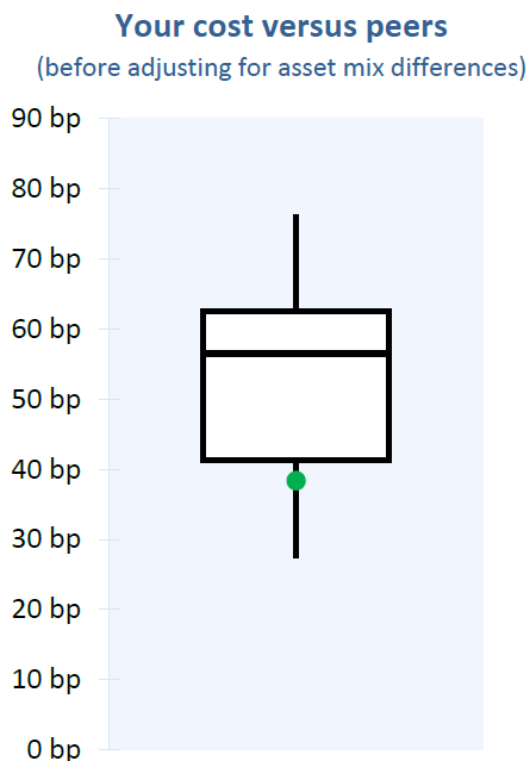
Non-LGPS Funds

Alberta Investment Management (Total Fund)
Anonymous UK Fund No. 1
AustralianSuper
BT Pension Scheme Management
General Motors Corp.
Healthcare of Ontario
Keva
Ontario Municipal Employees Ret. Sys.
Oregon Public Employees Retirement Fund
Pensioenfonds Metalektro
Regents of the University of California
BPF voor de Bouwnijverheid
STRS Ohio
Universities Superannuation Scheme
Varma Mutual Pension Insurance Company

Your cost of 38.4 bps was below your benchmark cost of 42.0 bps.

Comparison of costs *before adjusting for asset mix* :

Before adjusting for differences in asset mix, your costs of 38.4 bps were 18.1 bps below the peer median of 56.5 bps.



Comparison of costs *after adjusting for asset mix* :

To calculate a benchmark cost we apply peer median costs at an asset class level to your asset mix (i.e., we adjust for differences in asset mix).

Your cost versus benchmark
(after adjusting for asset mix differences)

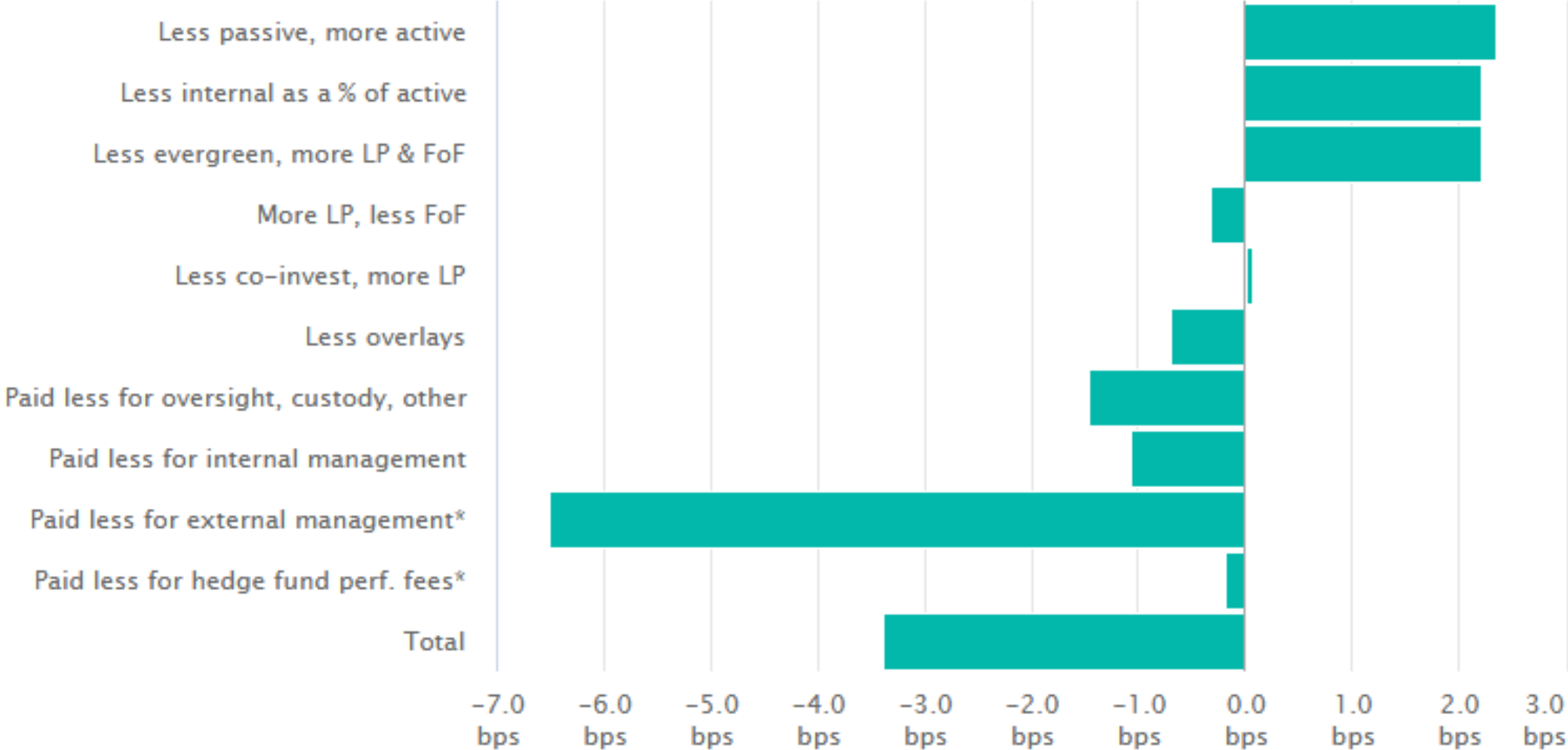
	£000s	bps
Your investment cost	210,996	38.4
Your benchmark cost	230,821	42.0
Difference	(19,825)	(3.6)

The difference is explained by two factors:

	£000s	bps
1. Implementation style	31,972	5.8
2. Paying less for similar assets	(51,797)	(9.4)
Total	(19,825)	(3.6)

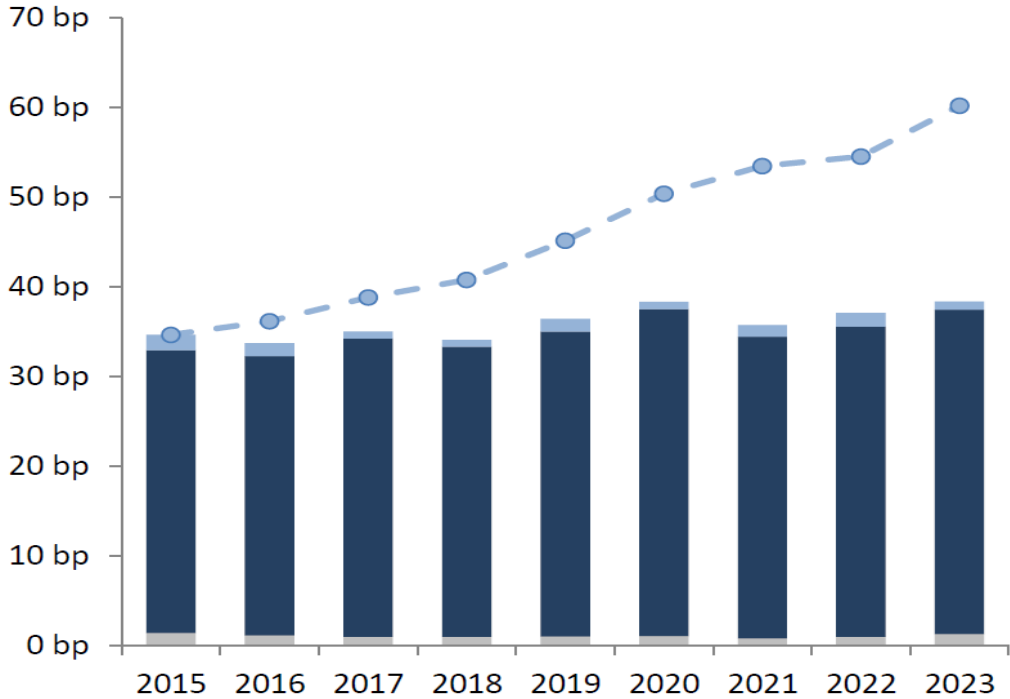
These factors are quantified in the pages overleaf.

NLGPS was low cost because it paid less than peers for external management. These savings were partly offset by a higher cost implementation style.



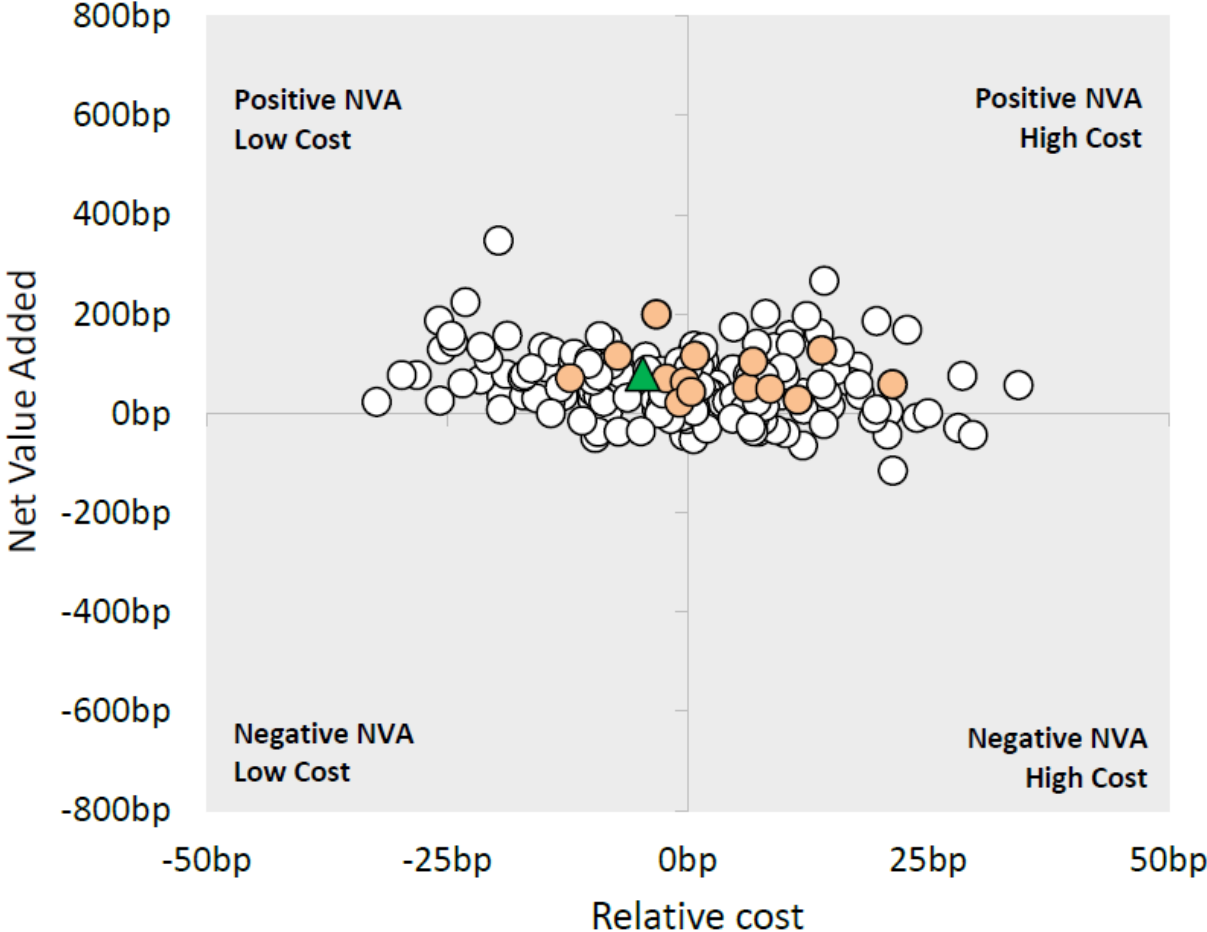
NLGPS costs have increased since 2015, but by less than expected.

Investment cost changes (bps)



■ Performance	1.7	1.4	0.8	0.8	1.4	0.8	1.3	1.6	0.9
■ Base and intern	31.5	31.1	33.3	32.3	34.0	36.5	33.7	34.6	36.2
■ Oversight	1.4	1.1	1.0	1.0	1.0	1.1	0.8	1.0	1.3
Total	34.7	33.7	35.0	34.1	36.5	38.3	35.7	37.1	38.4
--- Asset mix imp.	34.7	36.2	38.8	40.8	45.2	50.4	53.5	54.6	60.2

Your 9-year performance placed in the positive value-added, low-cost quadrant of the Value-for-Money chart.



To illustrate the effect of scale on cost and performance, we split the CEM database into 5 size-banded cohorts.

We neutralised the impact of asset mix differences and looked at the expected cost and performance of each cohort independently.

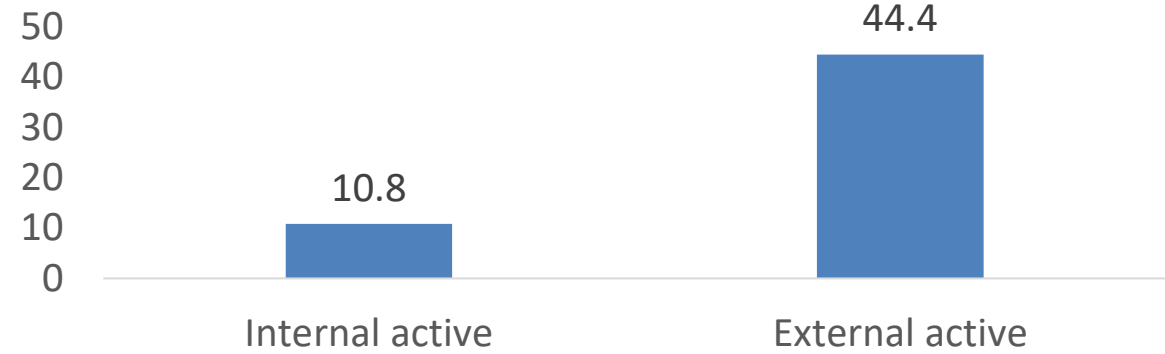
Indicative size	£2 bn	£8 bn	£20 bn	£40 bn	£80 bn
Count of funds	95	38	30	29	15
Median size (£bn)	2.1	8.0	19.0	42.1	82.5
Estimated Cost (bps)	75	72	64	60	48
Cost saving v £2 bn fund (bps)	n/a	3	11	15	27
Avg. NVA advantage v £2 bn fund (bps)	n/a	8	11	13	22

Assumes consistent mix of Equity 38.3%, Bonds 37.8%, Real Assets 10.1%, Hedge Funds 4.2%, Private Equity 6.0%. This is the average asset mix for the entire database.

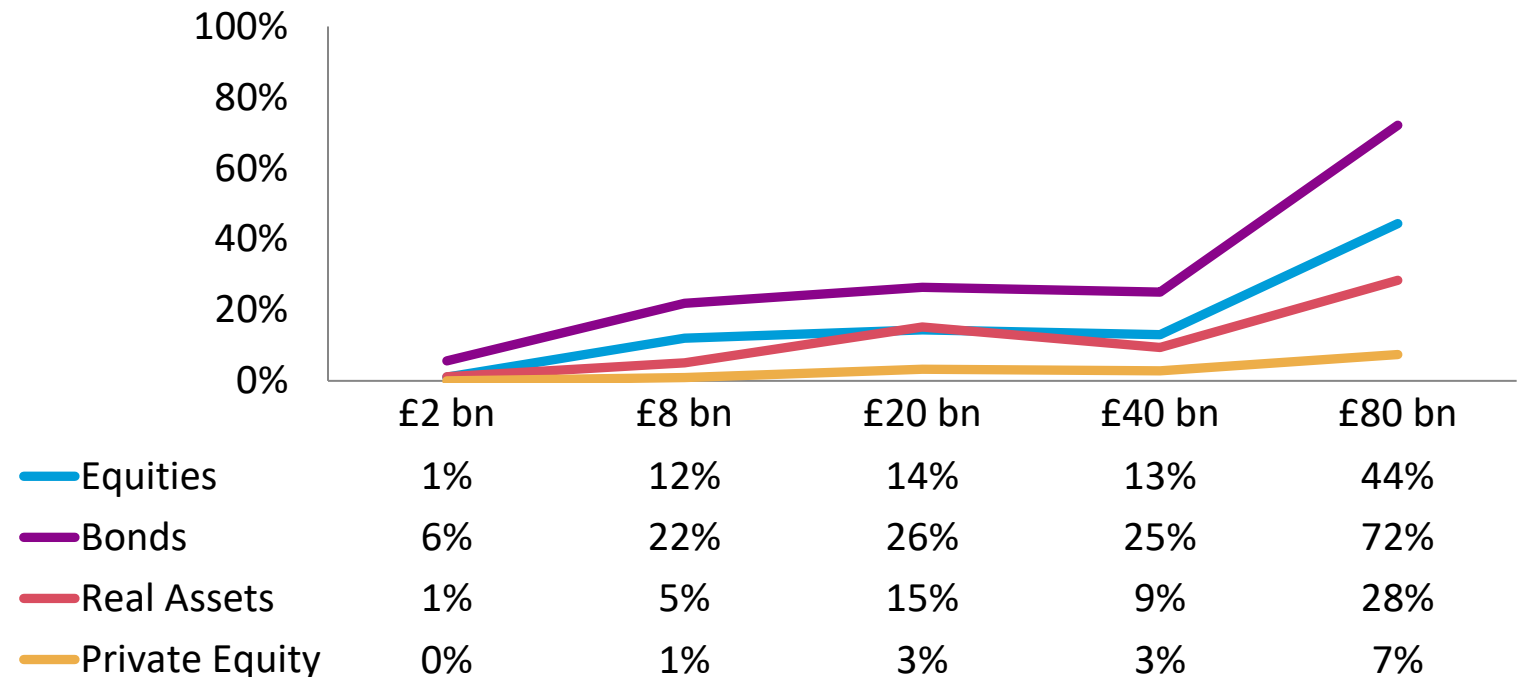
The primary cost advantage of larger funds is in 'implementation style'.

- The incidence of lower-cost internal investment management increases with fund size, and
- Private markets are accessed in a more efficient manner.

Global Equity - global universe median costs (bps)



Average % assets managed internally by size cohort





Measuring the Impact of LGPS Portfolios from a Place-based Perspective

Sarah Forster, CEO, The Good Economy
Northern LGPS Stakeholder Day

22 November 2024

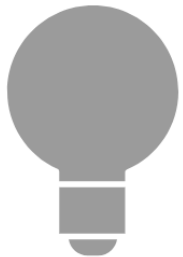
About The Good Economy

TGE

Leading, independent **impact advisory firm** with a mission to enhance the contribution of finance to inclusive and sustainable development - dedicated to facilitating the emergence of a 'Good Economy' – one that works for *everyone*.

Services designed to help clients to **understand, enhance and report their impact** and meet **growing market demand and regulatory requirements** for greater transparency and accountability.

Focus on social impact and the contribution of investment to **positive outcomes for people and places**.



Strategic
Advisory



Impact
Management
& Reporting



Verification &
Assurance



Research &
Data Analytics



PBII
Network



Investment
Management

CIRCULARITY
CAPITAL




Gresham House
Specialist investment


Legal &
General
AFFORDABLE HOMES



PBII Network

Trusted environment for **local and combined authorities**, **specialist investment managers** and **LGPS/asset owners**.

Aims to promote knowledge sharing, mutual learning and the development of innovative financing solutions to scale-up institutional investment for place-based impact in the UK



Services include:
 Roundtables
 Seminars
 Curated industry news
 Networking & introductions

Local and Combined Authorities



Investors



“The work the PBII Network is doing is vital to bringing experienced, regionally-focused investment managers together with the investors that really want to make a difference in their local region and across the UK more broadly.”

Emma Hardcastle, Foresight Group

“Joining the PBII Network gives us the opportunity to learn from others, shaping the future of regeneration.”

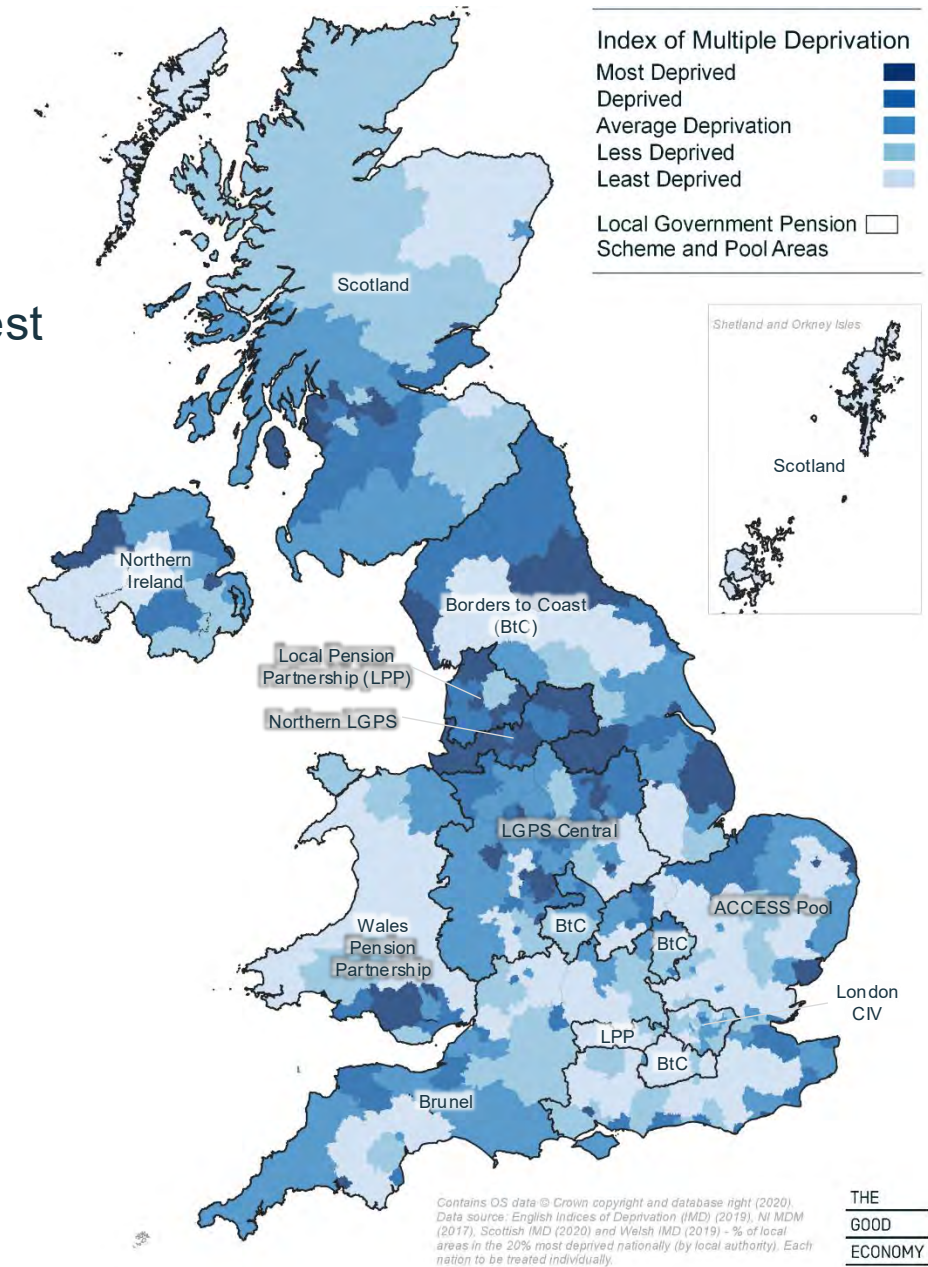
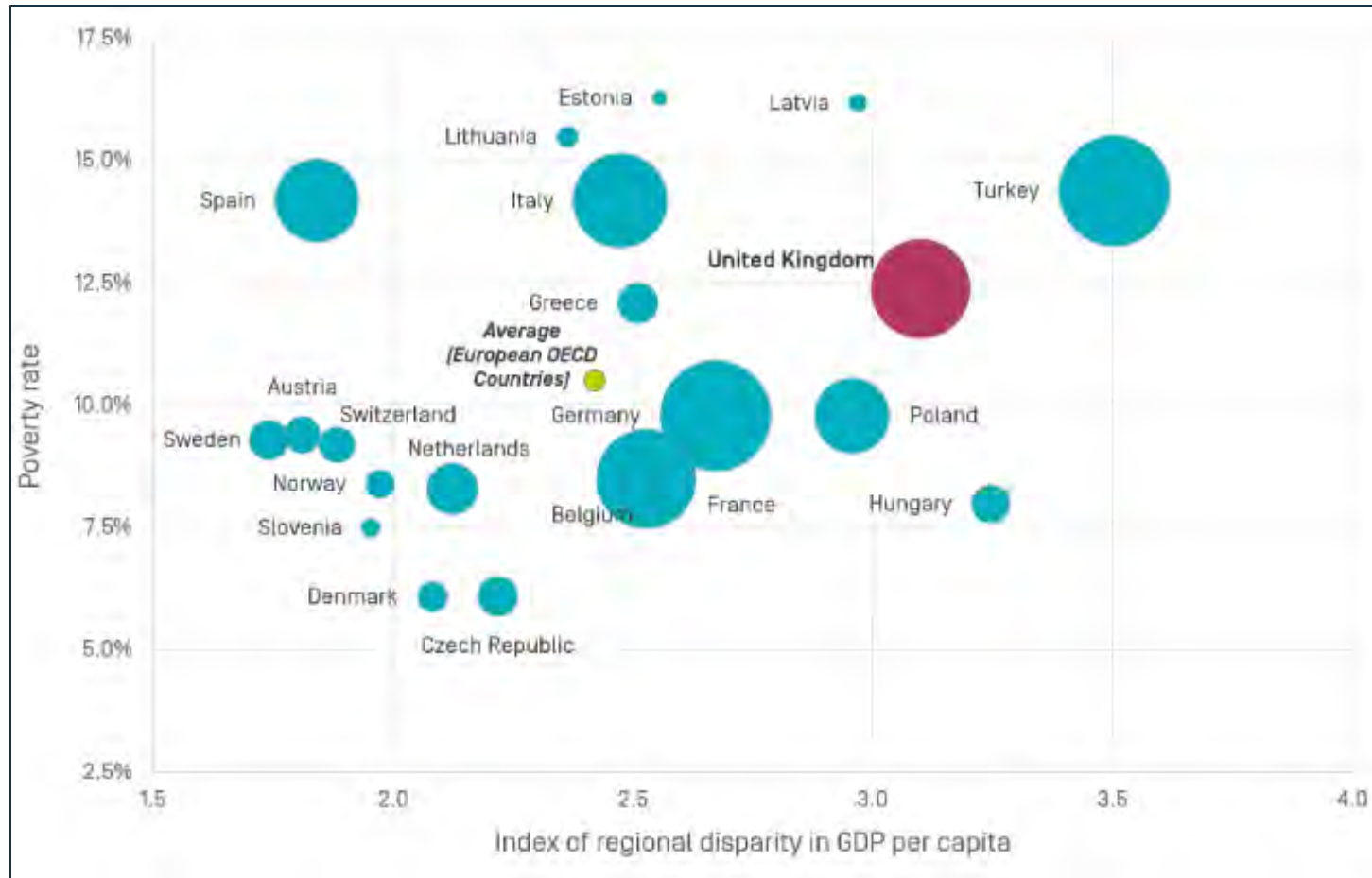
Sir Michael Lyons, ECF

1

Context

Challenge for the UK

UK has some of the worst and most entrenched social and spatial inequalities of any industrialised country, despite being one of the richest countries.



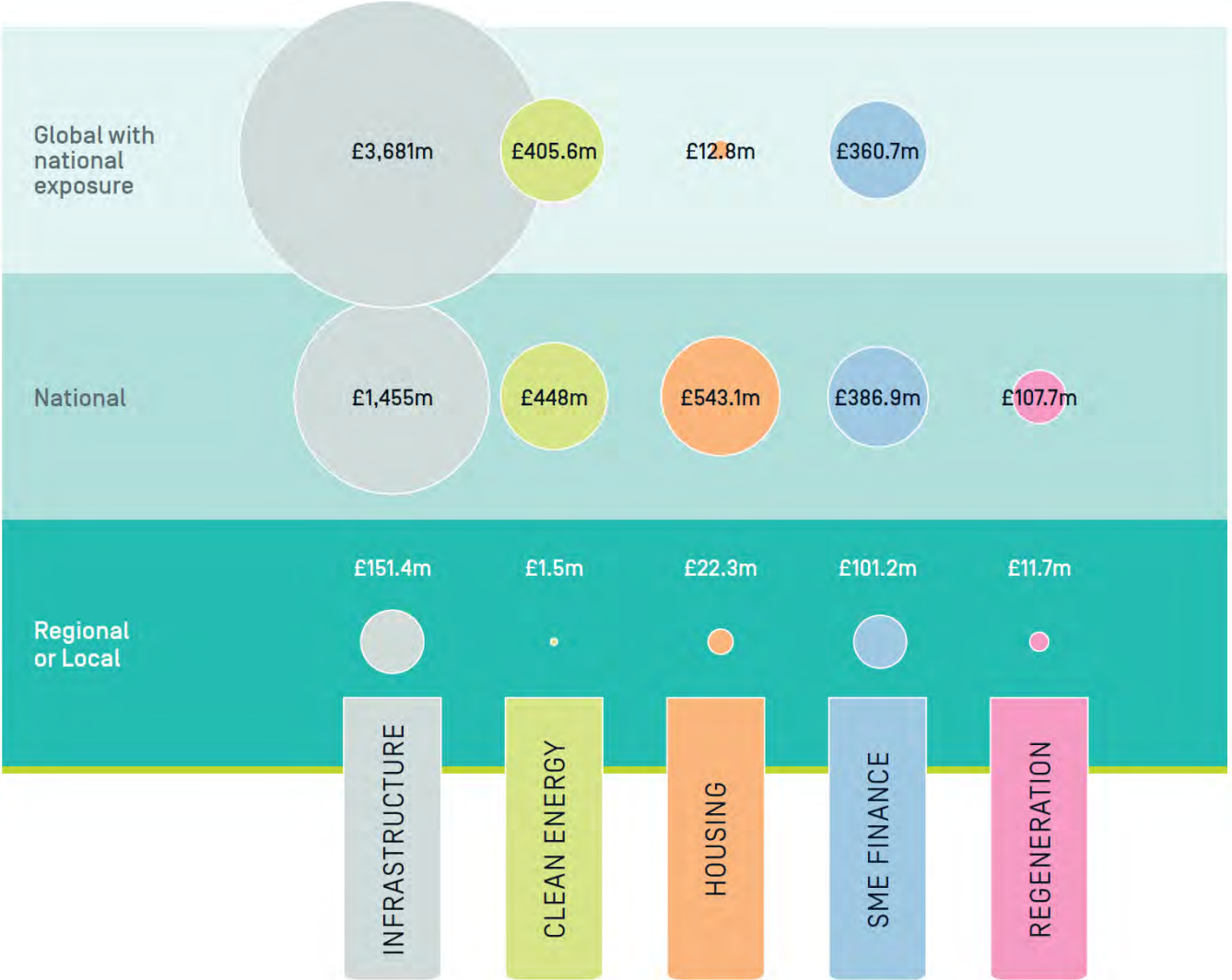
Low Level of Investing in Key Sectors in the UK by LGPS

Key sectors defined as those that drive inclusive growth and development - housing, regeneration, infrastructure, clean energy, SME finance.

“Only 2.4% of the total value of LGPS funds holdings are in key sectors, of which only 1% of total assets (£3.2 billion) is clearly identifiable as directly invested in these sectors within the UK.”

Scaling Up Institutional Investment for Place-based Impact, White Paper, 2021

Why don't we invest more in our own backyard?

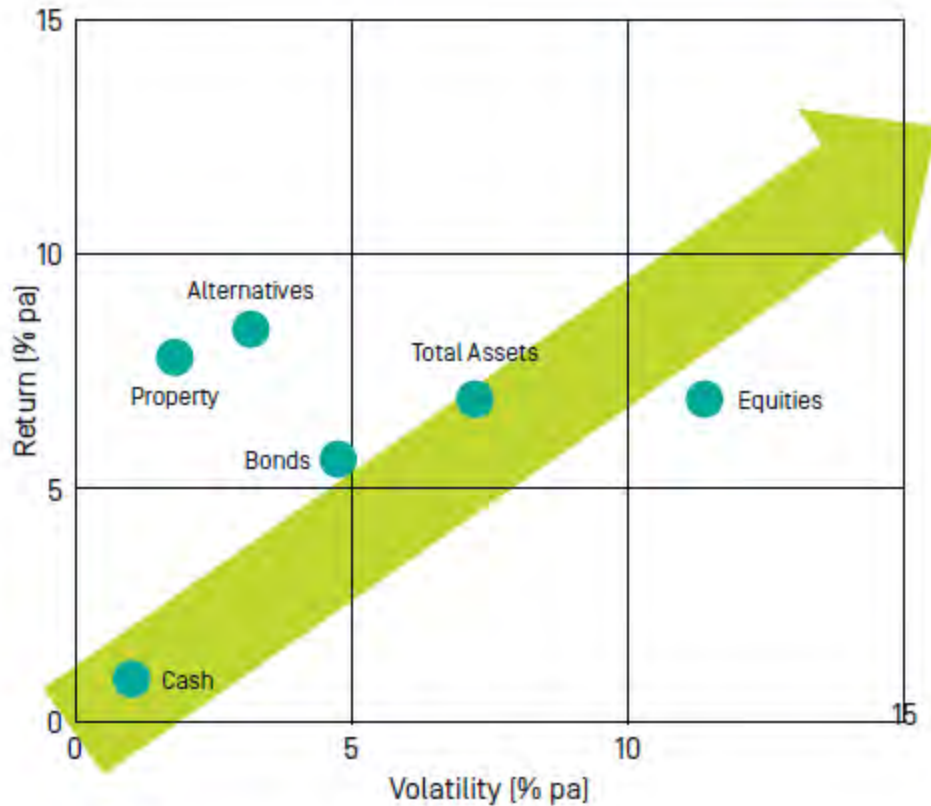


Source: The Good Economy.

Investing in Key Sectors Can Deliver Good Financial Returns



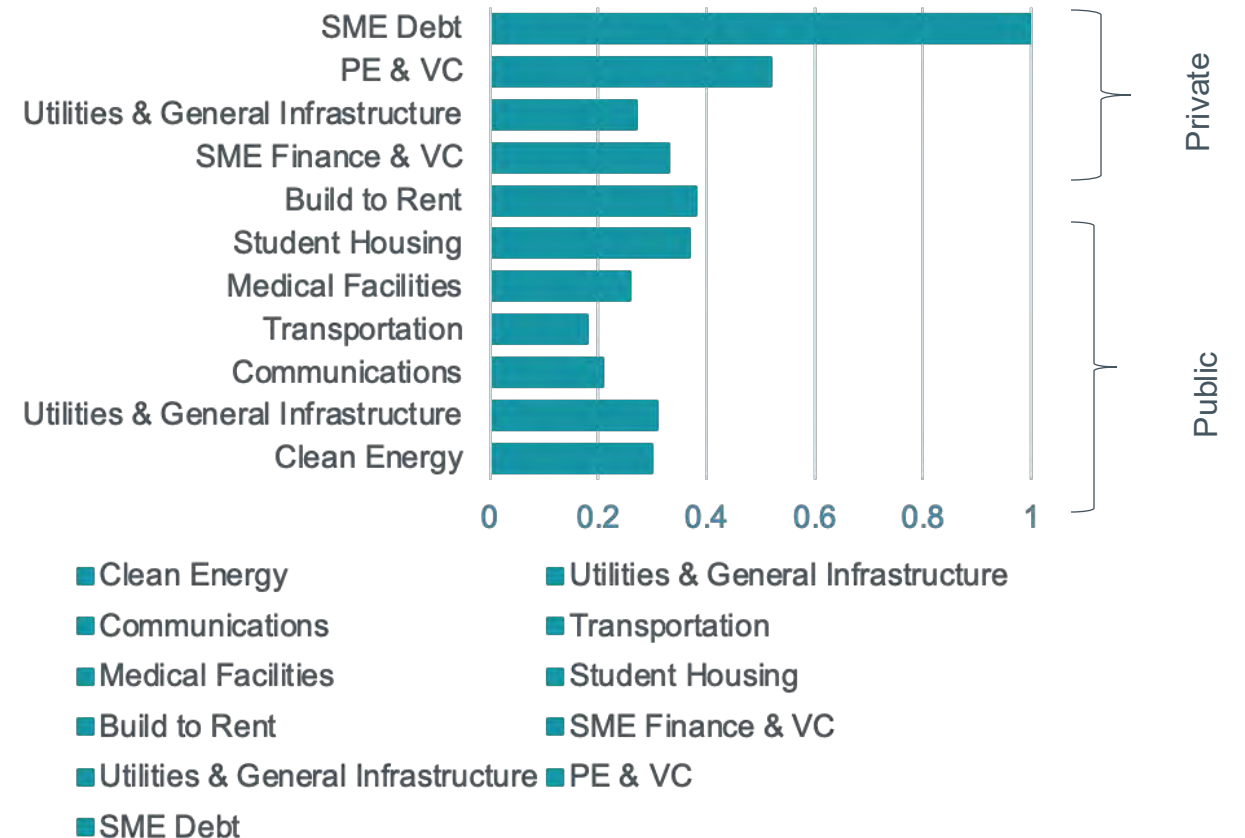
Asset Class Performance – 10 Years (2010-2020)



Source: PIRC 2020.

Return for a unit of risk is highest for alternative assets incl. private equity, property and infrastructure.

UK Asset Class Sharpe Ratio



Source: Based on Bloomberg and Prequin data, analysed in partnership with Centrus.

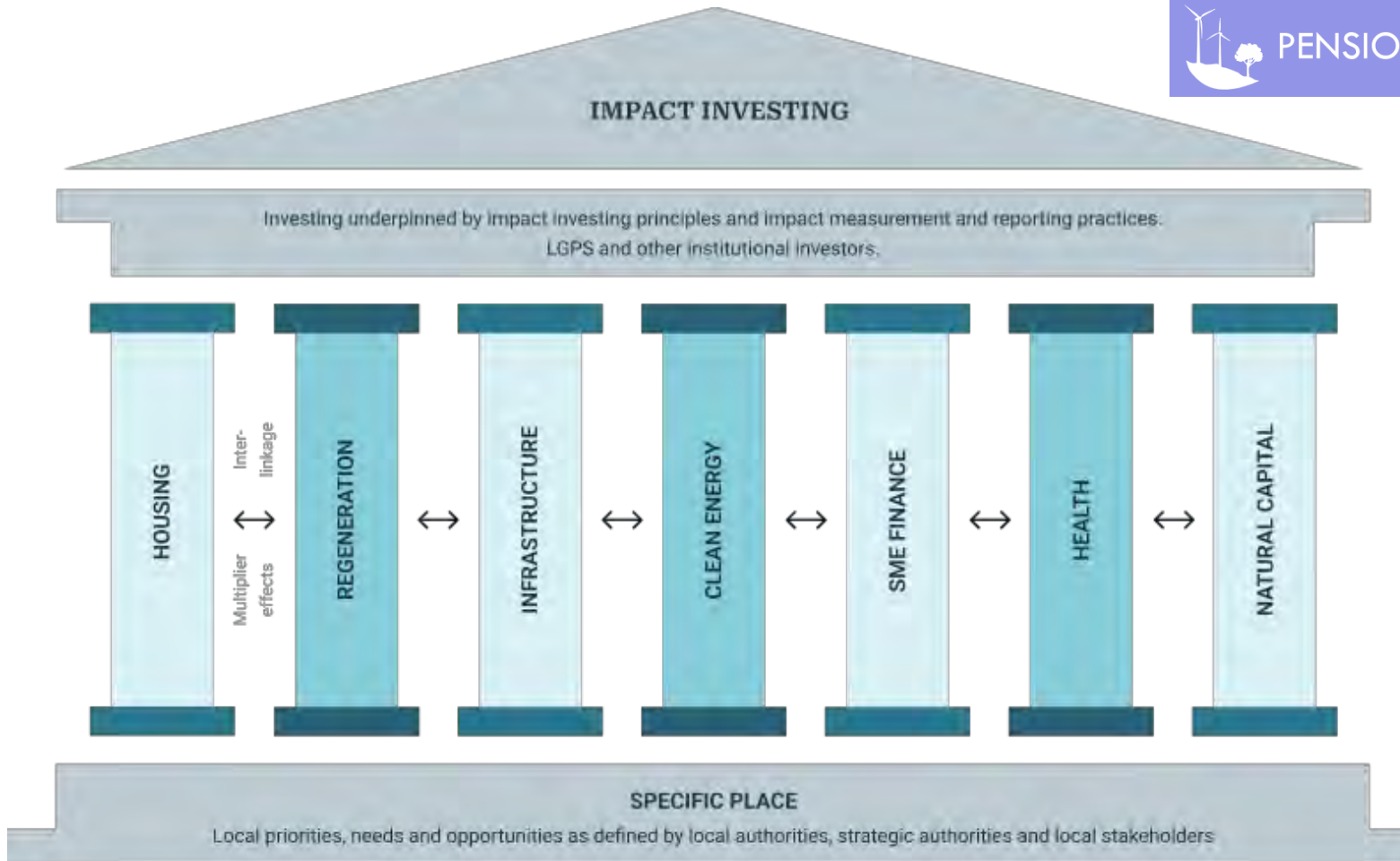
Place-Based Impact Investing (PBII)

A Conceptual Model (updated 2024)

THE
GOOD
ECONOMY



PENSIONS FOR PURPOSE

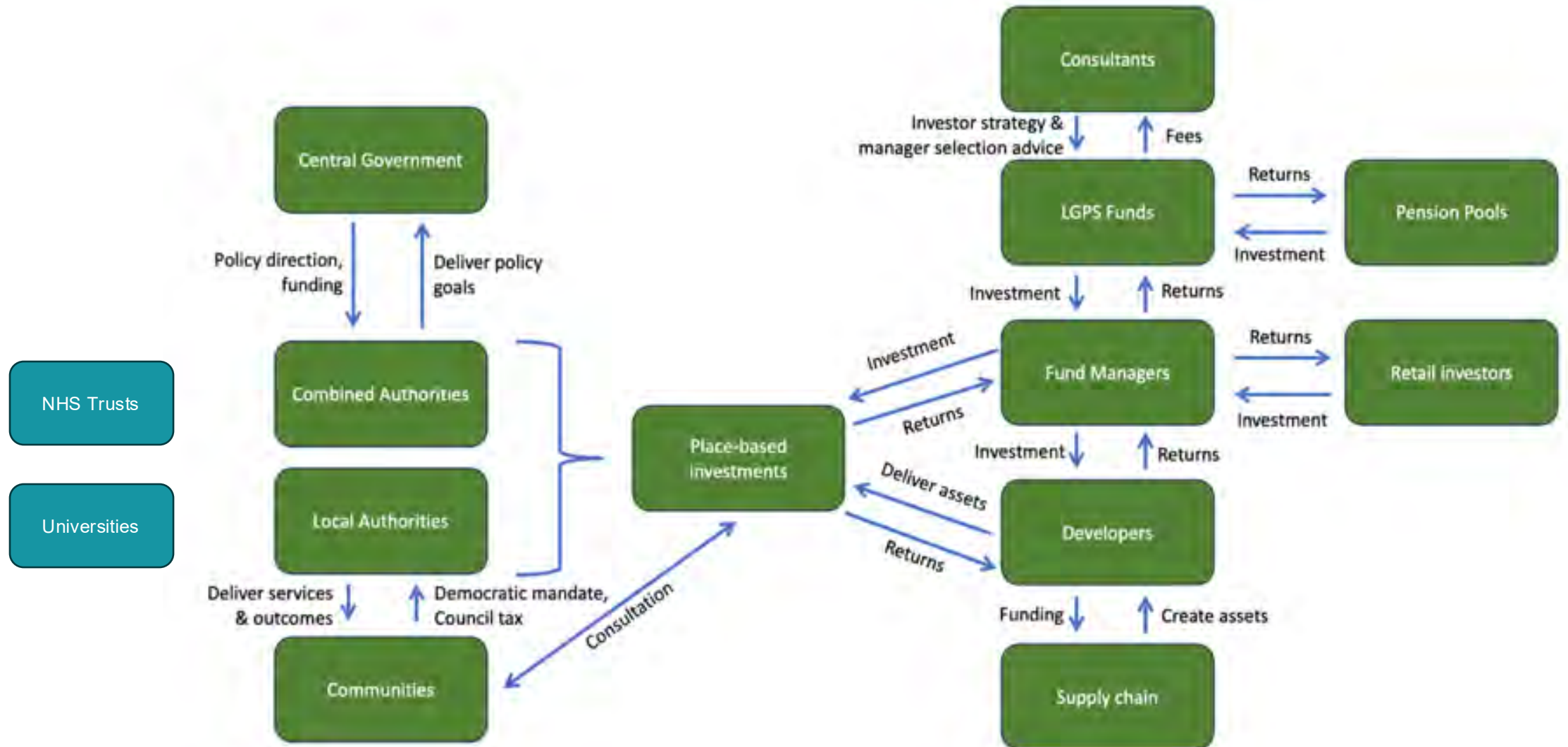


*“PBII investments are made with the intention to yield appropriate risk-adjusted **financial returns** as well as **positive local impact**, with a focus on addressing the needs of specific places to enhance local economic resilience, prosperity and sustainable development.”*

These pillars are dual structures:

- **priority areas** of local development strategies
- **real economy sectors** that fall within institutional investment strategies and asset classes.

Stakeholder Alignment and Collaboration is Key

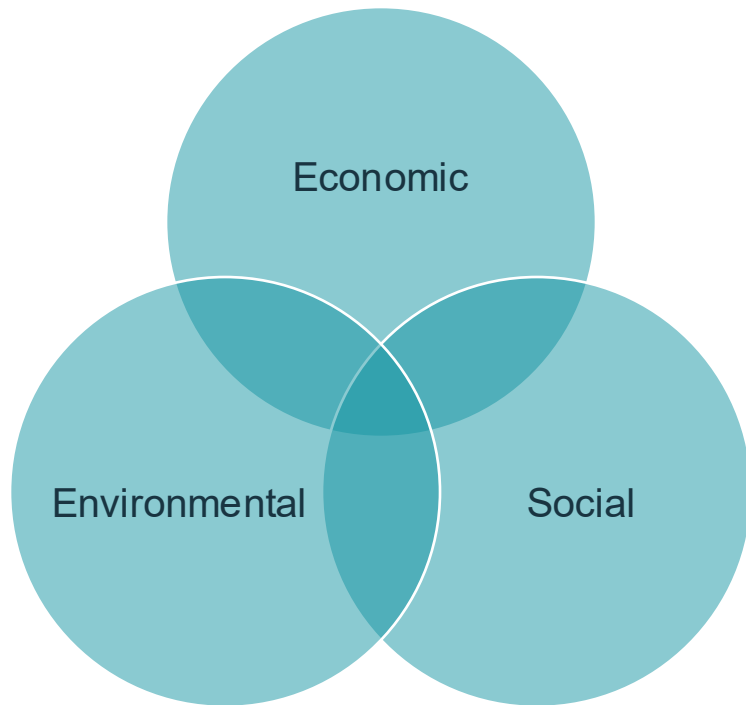


2

Impact Measurement and Reporting

What do we mean by impact?

“Meeting the needs of the present without compromising the ability of future generations to meet their own needs.” United Nations



At its core about achieving **Sustainable Development** as reflected in the UN Sustainable Development Goals.

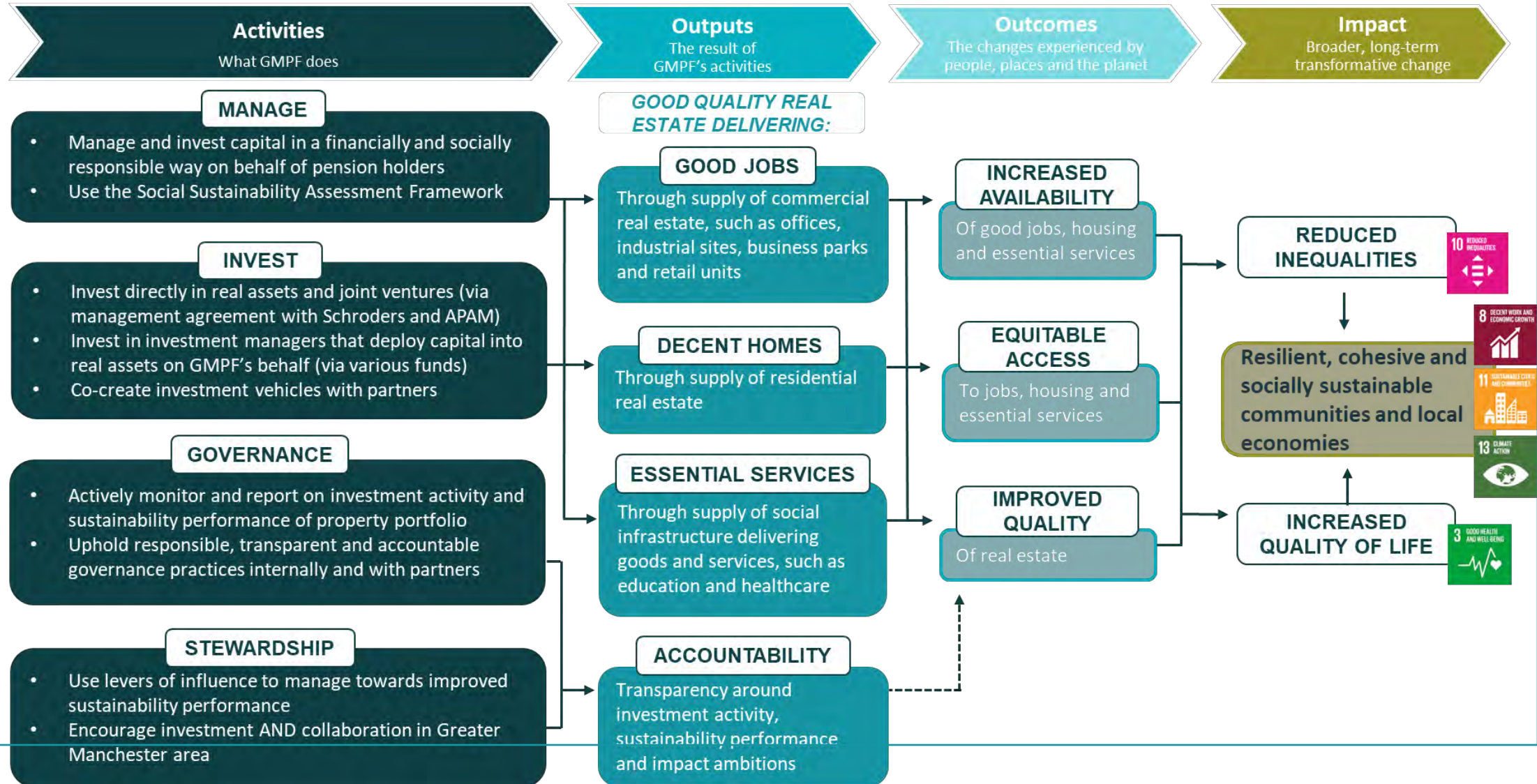
Requires a **triple-bottom-line approach** to investment, contributing to social, economic, and environmental sustainability, while acknowledging the interdependencies between these three dimensions.

Over the past decade, the focus has largely been on the environmental aspect of sustainable development and measuring carbon emissions related to achieving Net Zero. Now growing attention on social inequality and social impact.

Impact relates to a change in well-being outcomes for people or planet (can be positive or negative). Aligned to “social value”.

TGE impact measurement approach aligns to international norms e.g. Impact Management Project, Impact Principles and regulatory requirements e.g. TCFD, TNFD, TISFD, SDR

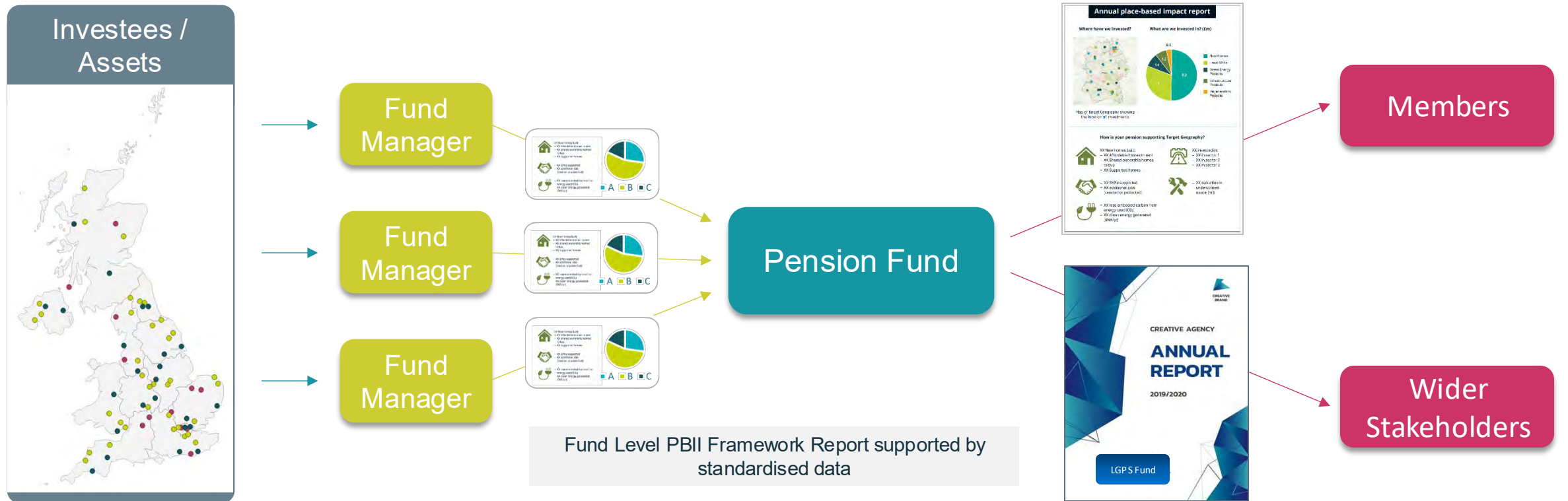
THEORY OF CHANGE: A framework to describe how planned actions can lead to desired outcomes. Example for GMPF real estate portfolio



The PBII Reporting Framework

TGE

The Place-Based Impact Investing (PBII) Reporting Framework enables LGPS and other asset owners to collect fund manager data and report on how their investments support UK sustainable development at a local, regional and national level in a common, consistent and transparent manner. The approach was developed by TGE in collaboration with a working group of LGPS, fund managers and the Impact Investing Institute.



PBII Working Group

3

GMPPF Case Study

Purpose of the Project

TGE was commissioned to carry out an independent impact assessment of GMPF's investment mandates that have intentional local impact objectives.

Local investment has been a consistent part of GMPF's strategy for over 25 years.

Close relationships with the Combined Authority and local government.

GMPF learns from and develops its place-based impact investment approach on an ongoing basis including taking into account the findings and recommendations from the impact assessment.

GREATER MANCHESTER PENSION FUND ANNUAL ASSESSMENT OF THE PLACE-BASED IMPACT OF GMPF'S LOCAL INVESTMENT PORTFOLIO

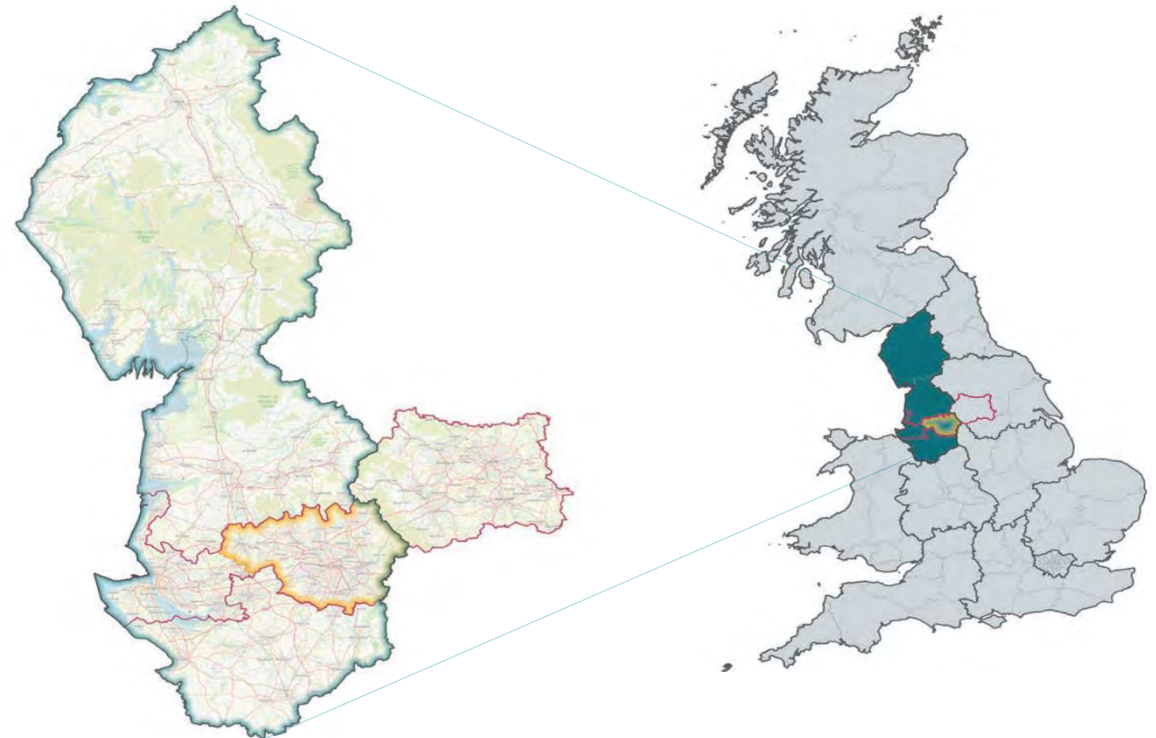
SEPTEMBER 2024



GMPF's Local Investment Portfolio

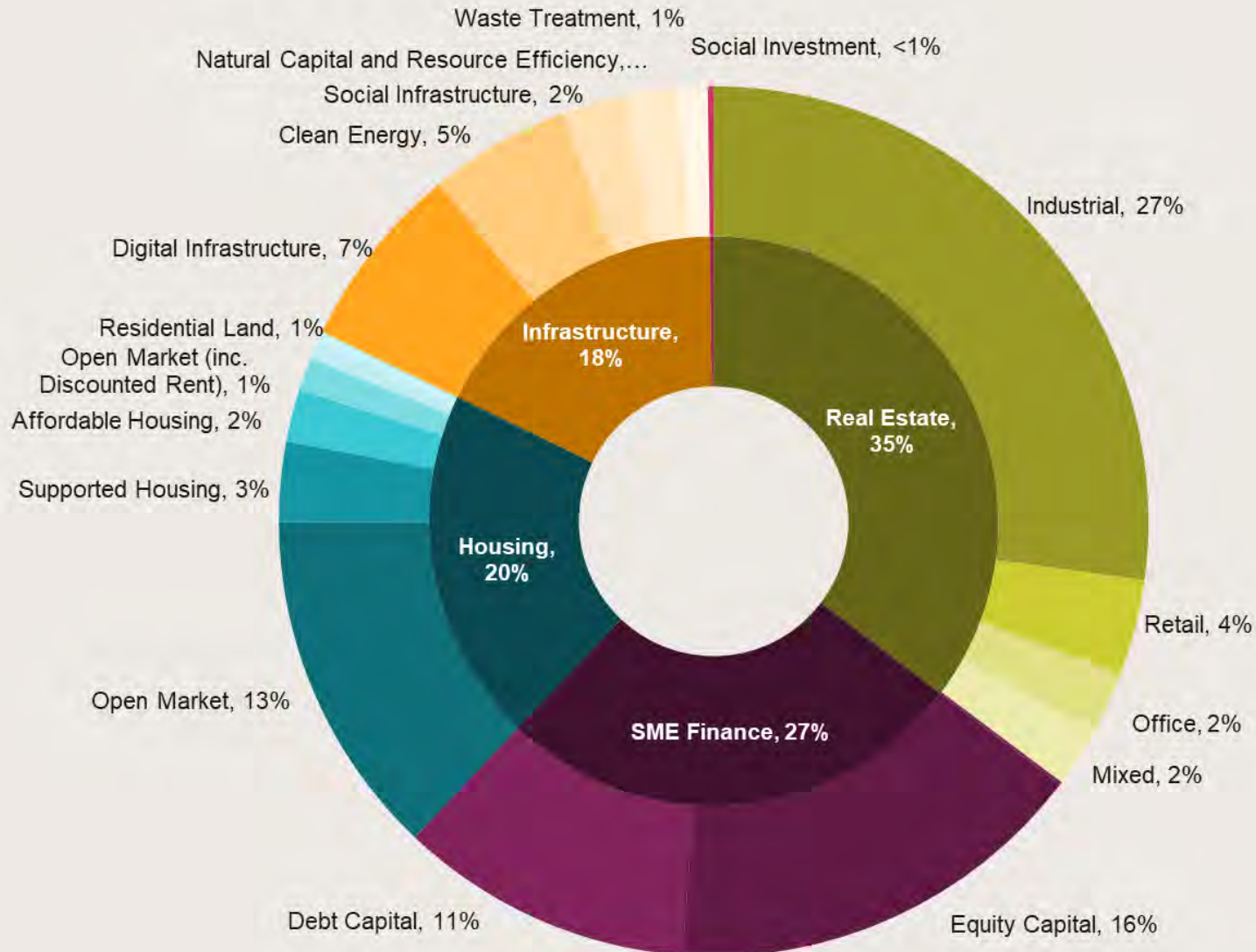
Local Investment Portfolio	Impact Themes	Impact Sub-Themes
Impact Portfolio [Target allocation: 2% of GMPF]	Jobs	Loans to SMEs
		Equity Investment in Under-served Markets
		Investment in technology jobs
	Place	Renewable energy infrastructure
		Social investment
		Social infrastructure
Greater Manchester Property Venture Fund [Target allocation: 3% of GMPF]	Economic Development	Generate employment
		Improve long-term employment prospects
		Contribute to the overall development of the local economy

“Local” is defined by GMPF as the North-West (Cheshire, Cumbria, Greater Manchester, Lancashire and Merseyside) with the addition of West Yorkshire which is in the Northern Pool



What GMPF invests in

TGE



As of 31 December 2023, GMPF had committed £1.42 billion to the portfolio (4.8% of the overall value of GMPF), of which 64% was allocated to the Impact Portfolio and 36% to the GMPVF.

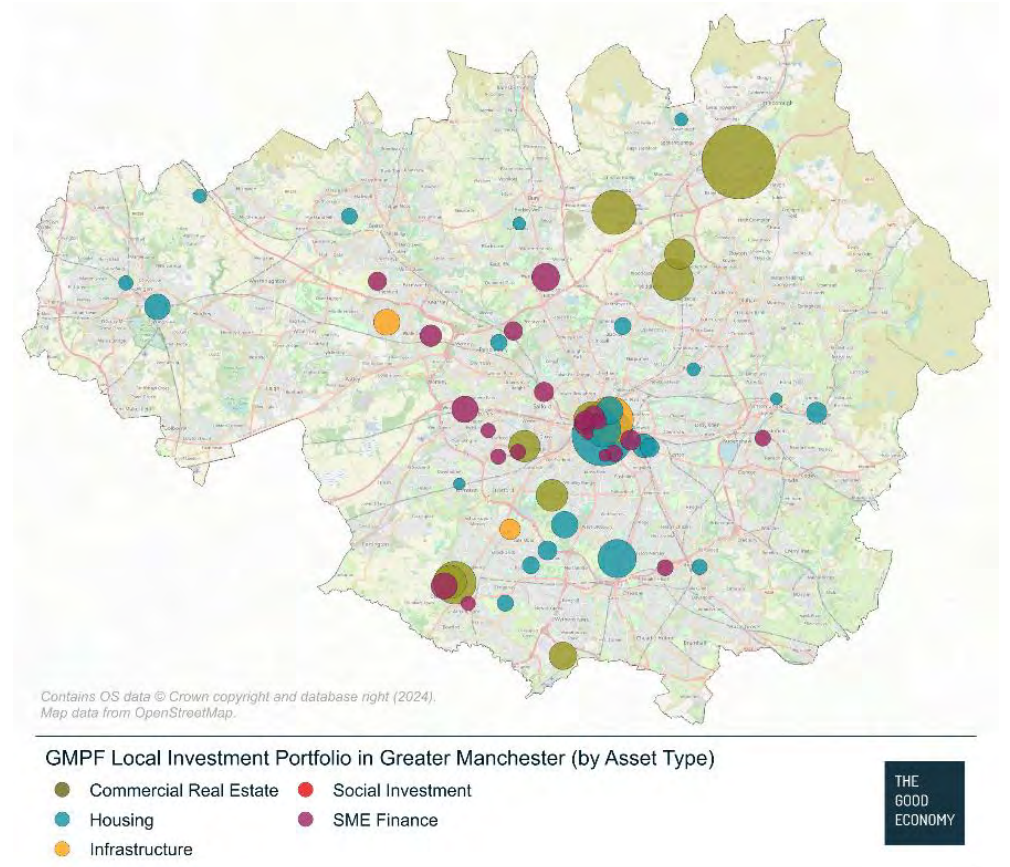
Two-thirds of investment is local

Two-thirds of these investments (66% of value) are located in Greater Manchester and the North West.

GMPVF property investments are all within the region (85% of value in Greater Manchester).

The Impact Portfolio has a broader geography. 37% of investment is located in Greater Manchester and the North West (up from 35% in 2022) and 65% invested across the rest of the UK.

Capital is being deployed across designated growth locations and into priority sectors; both high growth sectors driving local economic growth and foundational sectors, such as healthcare.



How portfolio investment is contributing to GMPF's impact themes

Jobs:

- **16,141** jobs supported in businesses (30% locally – Greater Manchester and North West)
- A further **2,563** jobs in sustainable infrastructure assets
- **6,372** jobs created (33% are in businesses located locally)
- **75%** of businesses demonstrated job growth
- **60%** of jobs pay the Real Living Wage or higher

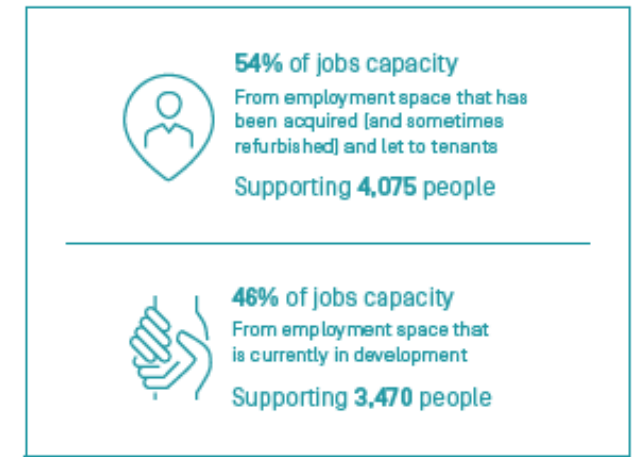


Place:

- **3,541** new homes – completed, in development or planned (64% locally)
- **13** renewable energy and other sustainable infrastructure assets
- **£20 million** has been invested in 38 social investment organisations delivering services that benefit those on low-incomes or in high social need

Economic Development:

- **£332 million** has been invested in 21 commercial real estate assets
- **7,545** jobs to be supported through new employment space created (83% locally)

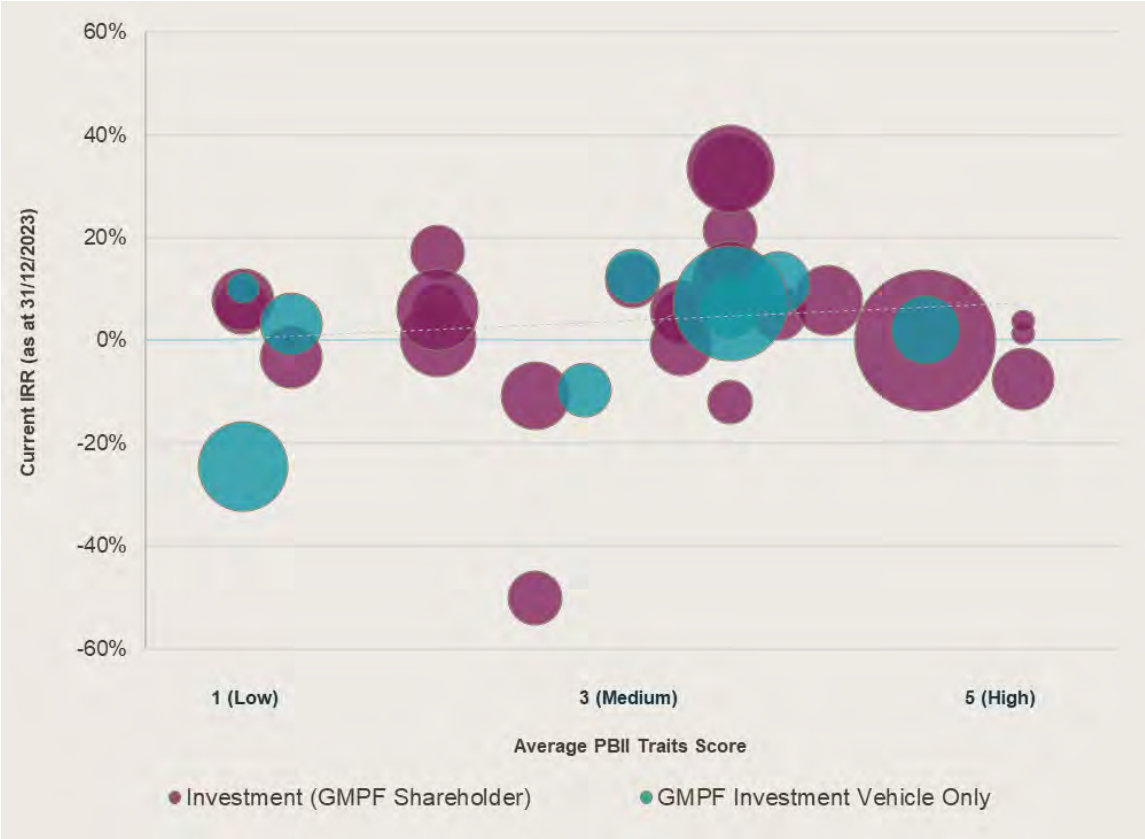


Local Investment delivers on Financial Returns

GMPF expects its Local Investments to deliver on financial returns commensurate with the main fund. It has set a benchmark of the Retail Price Index (RPI) +4% for the Local Investment portfolio.

Many of GMPF's local investments are relatively immature so it is too early to assess their financial performance. However, the Internal Rate of Return (IRR) performance of Impact Portfolio funds exited to date is 3.6% (23 mature funds which represent around 45% of total commitments), and 6.1% for GMPVF investments.

This past performance combined with the current performance of existing investments provides GMPF with confidence that the Impact Portfolio will achieve the financial return target over the long term.



4

Final reflections

Final reflections: Northern Pool as an exemplar pool in terms of local investing



Northern experience shows how LGPS can invest for local and regional impact - strong track record.



Requires leadership, collaboration and willingness to be innovative.



Government encouraging LGPS administering authorities to work more directly with devolved authorities to secure more than £20 billion for investment in local communities assuming each LGPS set a 5% target for local investment. Northern LGPS already have good relations with combined and local authorities. Build on this and become exemplar for other pools.



While LGPS administering authorities will retain responsibility for setting investment objectives and their approach to local investing, the pools will take on all investment management responsibility. Opportunity for the Northern Pool and underlying LGPS to collaborate on best-in-class pool model with clear local investment strategy and place-based impact reporting built in.





Thank You

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Northern LGPS Stakeholder Day

22 November 2024

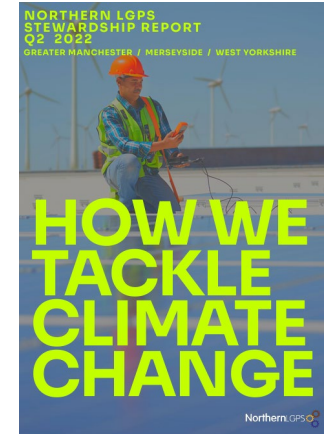
Voting & Engagement for Northern LGPS

Agenda

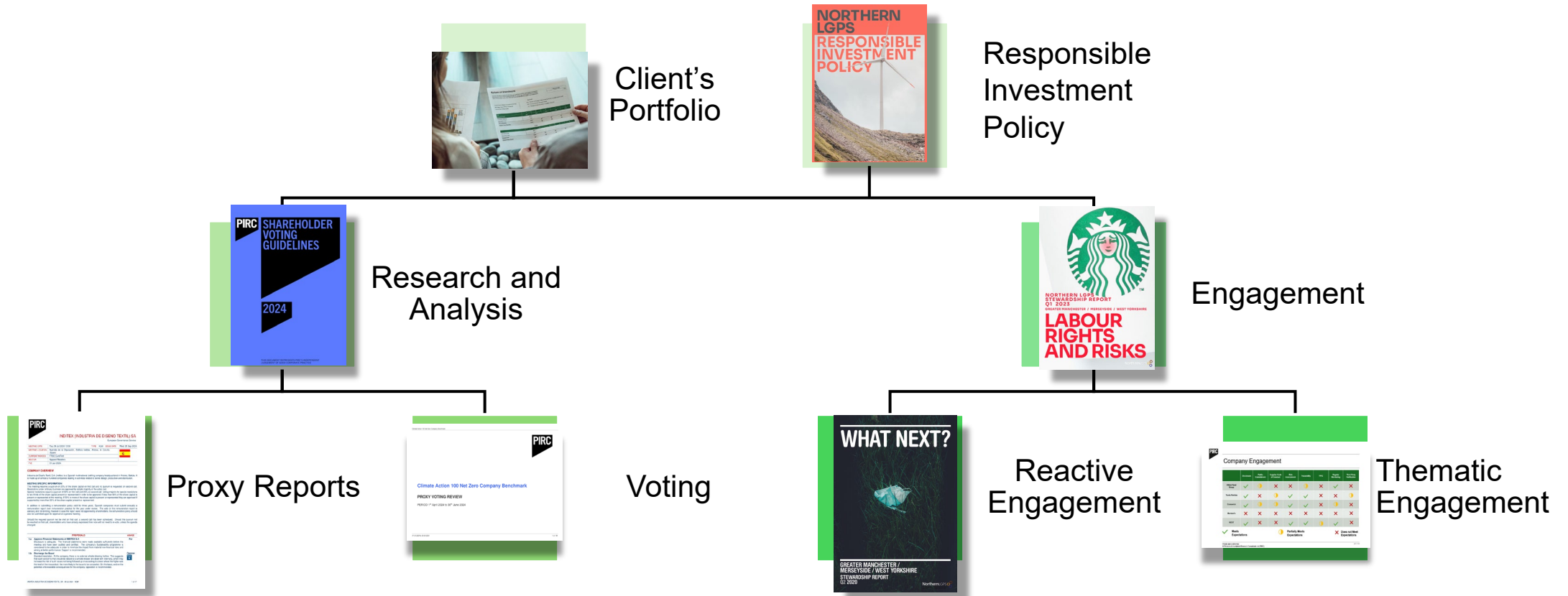
Voting

Engagement with consequences

Case studies



Stewardship for Northern LGPS



Why stewardship matters

“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.” (Northern LGPS, Responsible Investment Policy)

01

The majority of investors view ESG as a material issue¹

02

Academic studies have shown positive impact of good ESG standards on corporate performance and the positive impact engagement plays in raising performance and returns²

03

Regulators are increasingly demanding of issuers and investors consideration and disclosures of ESG risks, e.g. Corporate Governance Code; Stewardship Code; TCFD

¹ Deutsche Bank, ESG Survey – What corporates and investors think (2021); Pensions and Lifetime Savings Association, Stewardship Survey 2016; ² Friede, G et al “ESG and financial performance: aggregated evidence from more than 2000 empirical studies”, Journal of Sustainable Finance and Investment (2015); Hoepner, A et al, ESG Shareholder Engagement and Downside Risk, European Corporate Governance Institute – Finance Working Paper 671/2020 (2022); Dimson, E et al Active Ownership, The Review of Financial Studies, 2015

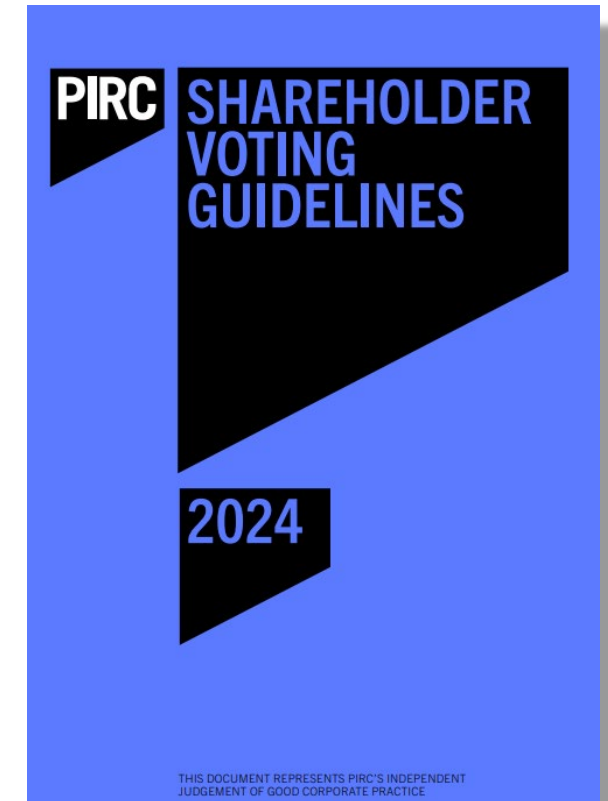
Why pension funds vote at company meetings

- Good company governance alongside adequate environmental and social approaches can be critical to enhancing shareholder value
- Through voting shareholders can express support for management or highlight areas for improvement
- Voting can drive up standards at companies and across the market
- Voting is a vital tool for being an active and responsible steward of capital
- This enables funds to realise their stewardship goals and aligns with their wider stewardship priorities



Voting on the issues that matter

- Investor's voting policies include a wide range of environmental, social and governance issues. Typically, guidelines cover:
 - Board composition
 - Remuneration
 - Accounts and audit
 - Shareholder rights and capital authorities
 - Environmental and social factors
- Policies ensure that there are expectations for each standing item but also for shareholder proposals



Putting climate on the ballot

- Northern LGPS continues to take a lead on climate-related voting supporting a pilot climate governance framework, which will be rolled out in 2025
- This aims to further align voting with Northern LGPS' responsible investment policy
- The framework focuses on ensuring that companies in high-emitting sectors (CA100+) provide investors with sufficient relevant information on their decarbonisation strategies
- Companies are assessed with reference to existing investor frameworks (covering targets, financial disclosures and strategy) which then informs voting recommendations

2



Voting and engagement

Voting and engagement is a cornerstone of our RI activities. We take the legal right to vote seriously and exercise it in a way consistent with our publicly disclosed objectives and policy positions. How we vote is one way of providing investee companies with an indication of our views as shareholders, as well as to the wider market.

Engagement designed to effect change

Guided by the Northern LGPS Responsible Investment policy, PIRC maps portfolio companies to identify risk. Engagement, and where necessary escalation, is undertaken at focus companies



Northern LGPS priorities

Guided by **core stewardship themes** covering a range of environmental, social and governance topics that align with **your values**

Objectives that provide a framework to driving improvements and measuring outcomes



Identifying ESG risks and opportunities

PIRC's engagement team analyses your portfolio to establish a set of **focus companies** based on their **strategic importance, holding size and materiality of the risk**

The PIRC team analyses publicly available materials and maps existing performance against relevant objectives. This process is used to inform individual company engagement priorities

Double materiality approach that reflect Northern LGPS' priorities and identifies financial risk



Engagement with consequences

3-year engagement cycles that allow for annual check ins with the company to assess their progress towards meeting PIRC's expectations

PIRC seeks to engage companies in constructive, long-term dialogue but we believe in engagement with consequences and escalate action through collaborative actions, voting, filing resolutions and, investor campaigns where needed



Reporting that demonstrates responsible investment activities

Public facing quarterly reports tailored to Northern LGPS' portfolio that outline engagement and voting activities undertaken on Northern LGPS' behalf

Presenting at pool and pension fund committee meetings to provide a comprehensive review of recent engagements and outcomes

Addressing risks across Northern LGPS' core ESG themes

PIRC has developed a set of objectives on core themes that are aligned with the Northern LGPS RI policy and provide a framework for raising corporate ambition in a specific, measurable and time-bound manner

- 

Halting **deforestation**, reversing **biodiversity loss** and protecting **water** sources
- 

Transitioning to a **net-zero** future in a **just, equitable and orderly** manner
- 

Improving **tax disclosures**, discipline around **executive pay** and balancing **board composition**
- 

Eliminating threats to public health through promoting **nutritious diets** and improving **air quality**
- 

Advocating for **DE&I**, **freedom of association** and better **occupational health & safety**
- 

Preventing human rights violations in **conflict zones** and tackling **modern slavery** in supply chains

Supported by collaborative action:



Case Study: Starbucks

Northern LGPS RI policy:

“Companies should offer secure, direct employment where possible, and should not interfere with the right of their workforce to seek representation through a trade union.”

Issue:

- Concerns about employment rights being upheld and violations of labour laws
- Allegations of union-busting activities



Sector

Food & Beverage

Region

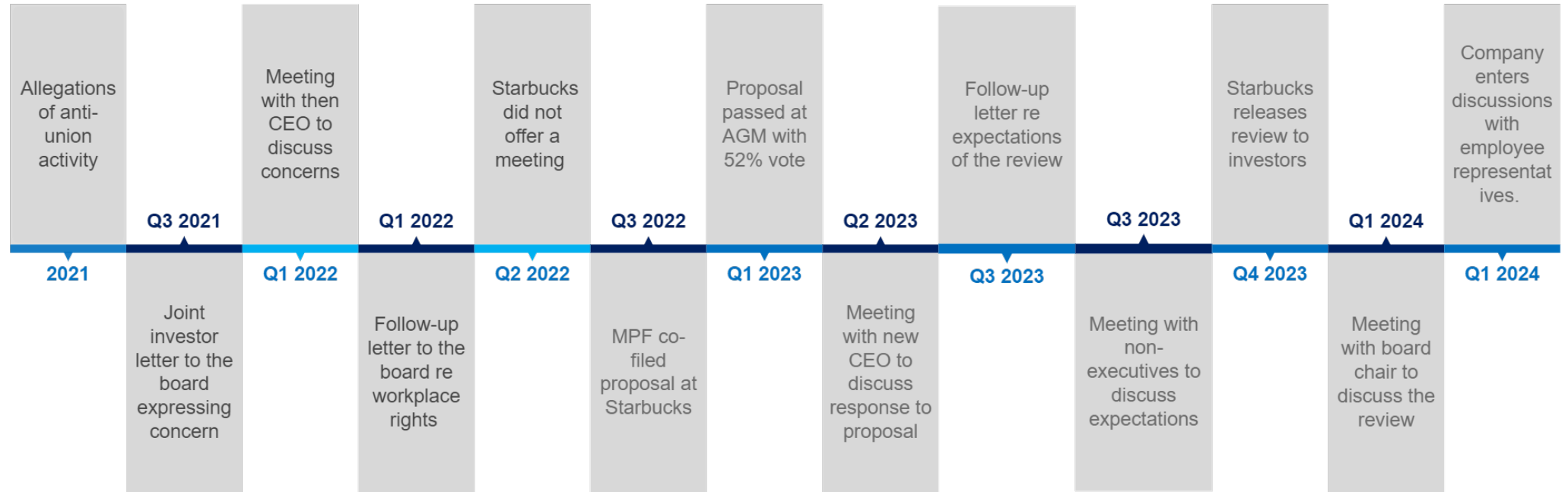
North America

Topic addressed

Freedom of Association



Delivering change in a Northern LGPS focus area: Starbucks' Freedom of Association Engagement timeline



Case Study: Chipotle

Northern LGPS RI policy:

“For investee companies that are highly dependent or derive significant value from natural water sources, regular mapping of the operational impact on ground and surface-water resources should be undertaken.”

Issue:

Chipotle had limited visibility of the impacts on water availability in water scarce areas across the sections of the value chain for which water is most material



Sector

Food & Beverage

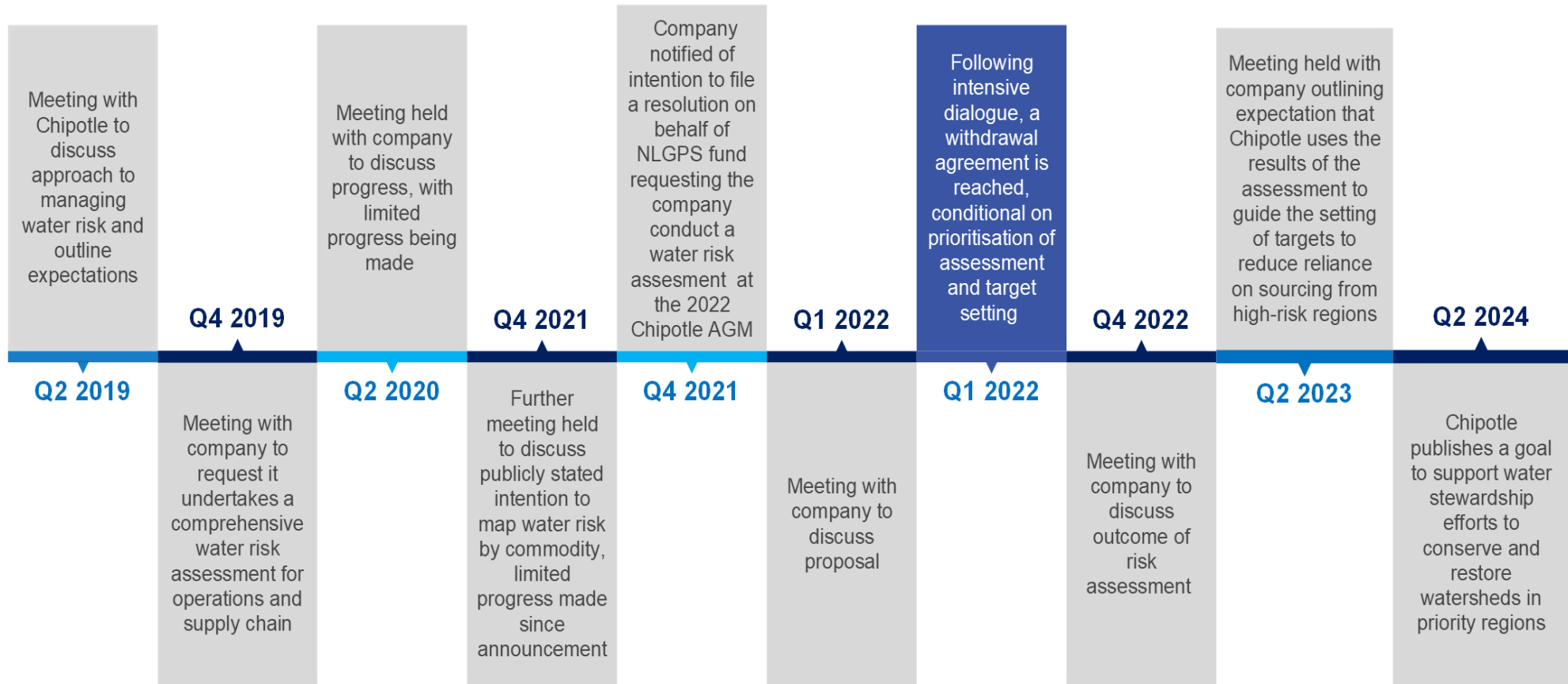
Region

North America

Topic addressed

Water Stewardship

Delivering change in a Northern LGPS focus area: Chipotle's Water Stewardship Engagement timeline



Looking ahead

Leading on Stewardship

Voting

Engagement with consequences

Delivering change

Where next?

Climate governance voting

Filing shareholder proposals

Updating Northern LGPS responsible investment guidelines

