

Report of the Director, West Yorkshire Pension Fund, to the meeting of Joint Advisory Group to be held on 26 July 2018.

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Subject:**Northern Pool****Summary statement:**

This report sets out the progress in establishing the Northern Pool, covering:-

- Drafting the Northern Pool Operating Agreement, including the Terms of Reference for the Joint Committee
- Procuring a joint custodian for all the assets of the Pool
- Developing the GLIL Infrastructure vehicle (including FCA regulation to facilitate it becoming the national LGPS vehicle for infrastructure investment)
- Developing a joint private equity vehicle.

It seeks the approval of the Northern Pool Operating Agreement which is attached at Appendix A, subject to review by the City Solicitor.

Recommendation

It is recommended that the Joint Advisory Group note the progress on pooling to date, and approve the inter authority agreement, subject to review by the City Solicitor, known as the Northern Pool Operating Agreement (Appendix A) for submission to the Governance and Audit Committee, and in due course Council, and authorise the Director, WYPF, to amend it as expedient or necessary and put in place any ancillary documentation.

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1 Background

- 1.1 The Northern Pool (NP) partners are Merseyside, Greater Manchester and West Yorkshire Pension Funds, three large, cost effective Metropolitan funds. Individual funds will retain their current role of setting asset allocation and investment policy, and will delegate the implementation of that policy to the Joint Committee.
- 1.2 A Joint Committee will be formed which will have responsibility for ensuring the appropriate structure and resources are in place to implement the policy required by each fund, those resources to be provided by the three Funds. Staff will be employed by one fund, but will be seconded to act for the other funds where that is required.
- 1.3 The Joint Committee will consist of two Members appointed by each Fund plus a total of three trade union representatives, will not have any direct involvement in the appointment of managers, or selection of investments. These matters will be fully delegated to professional officers. Its role will be to determine the asset class and risk profile, as well as whether management is internal or external, in accordance with the investment policy set by each fund.
- 1.4 The long term vision for the pool is to provide access to
- a range of internal and externally managed listed assets at low cost
 - collective investment in alternatives, while building skill to enable cost reduction by increasing direct access
 - working arrangements with other pools where greater size may add value.
- 1.5 The investment philosophy is to maintain simple arrangements, with a relatively low number of managers, low manager and portfolio turnover, an increasing proportion of assets managed internally within the pool, with individual funds retaining the ability to select asset class, territory, and active or passive management.
- 1.6 A meeting was held in March with the advisors to all three funds and the NP shadow Joint Committee to consider options for developing the pool. The unanimously supported conclusion was to stick to our original plans for a simple, low cost pool that will continue delivering the performance the funds expect.

2. Progress to Date

- 2.1 The programme for establishing the NP consists of
- Drafting the Northern Pool Operating Agreement, including the Terms of Reference for the Joint Committee (2.2 -2.3)
 - Procuring a joint custodian for all the assets of the Pool (2.4 – 2.7)
 - Developing the GLIL Infrastructure vehicle, including FCA regulation to facilitate it becoming the national LGPS vehicle for infrastructure investment (2.8 – 2.9)
 - Developing a joint private equity vehicle. (2.10)



- 2.2 The draft Northern Pool Operating Agreement is attached to this report as Appendix A, and sets out how the Northern Pool will operate, with the three partners having equal voting rights, being responsible for costs on an equal basis (except investment management costs which will be attributed in proportion to the assets being managed). The Agreement also appoints Tameside Borough Council (the administering authority for Greater Manchester Pension Fund) as the host council. The key items to note are those contained in the first three schedules to the agreement, which determine the:-
- Matters reserved to the Pooling Partners
 - Joint Committee Matters
 - Terms of Reference for the Joint Committee.
- 2.3 This draft will be considered by the City Solicitor before it is submitted to the Governance and audit Committee, and any recommended changes will be made.
- 2.4 In March 2018, after a complex competitive tender process, the Northern Pool Shadow Joint Committee approved the appointment of a common custodian bank, Northern Trust, to provide custodial services for all funds in the pool. The appointment of a common custodian is a key strategic milestone in setting up the Northern Pool
- 2.5 Northern Trust is contracted to provide:
- Global securities custody
 - Stock Lending
 - Private equity fund administration and custody
 - Performance monitoring
 - Pool reporting on:
 - Compliance
 - Carbon reporting
- 2.6 The tender process focused on quality of service, asset safeguarding, and cost of services. Northern Trust will replace the current custodian bank JP Morgan for GMPF and HSBC for WYPF. MPF is currently with Northern Trust, therefore MPF will not need to change.
- 2.7 WYPF plan to transfer to Northern Trust in September 2018, and GMPF will be transferring between December 2018 and February 2019.
- 2.8 As part of the preparation for NP, WYPF and Merseyside Pension Fund have approved commitments to GLIL, in the case of WYPF an initial £250m. GLIL is a joint venture between the West Yorkshire Pension Fund (WYPF) together with Greater Manchester, Merseyside and LPP (a partnership between the Lancashire Pension Fund and the London Pension Fund Authority) focused on UK infrastructure assets. GLIL's investment committee is made up of members from each funds' investment teams.



- 2.9 GLIL has obtained FCA approval, using LPPI as the host. This permits other Pools or individual funds to invest in GLIL, thereby establishing a national solution for LGPS funds to increasing commitments to infrastructure, the fourth pooling criterion.
- 2.10 A joint venture, NPEP, has been established to make private equity investments on a collective basis. The governance of this vehicle is expected to operate in a similar manner to the GLIL infrastructure vehicle, although there are no plans to obtain FCA approval, as we do not expect the demand from other funds for private equity.

3. **Meeting the Four Criteria**

- 3.1 Asset pools are required to achieve the benefits of scale, deliver strong governance and decision making, achieve reduced costs and excellent value for money, and achieve an improved capacity to invest in infrastructure. The Northern Pool has a clear plan to deliver on these criteria.
- 3.2 The Northern Pool submitted a report on progress to the Ministry for Housing, Communities and Local Government in May. There has been a subsequent brief meeting with the Minister. A formal response is awaited

4. **Recommendation**

- 4.1 Having confirmed at the last meeting that the Northern Pool meets the criteria, it is recommended that the Joint Advisory Group note the progress on pooling to date, and approve the inter authority agreement, subject to review by the City Solicitor, known as the Northern Pool Operating Agreement (Appendix A) for submission to the Governance and Audit Committee, and in due course Council.

5. **Appendices**

Appendix A Northern Pool Inter Authority Agreement draft

6. **Not for publication**

Northern Pool response to MHCLG

