

Report of the Director, West Yorkshire Pension Fund, to the meeting of Joint Advisory Group to be held on 31 January 2019

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Subject:

Northern Pool

Summary statement:

In accordance with the guidance from Government, West Yorkshire Pension Fund (WYPF) together with Greater Manchester and Merseyside are working towards the creation of an investment pool, Northern Pool (NP).

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.

Recommendation and Reason for Recommendation

It is recommended that the Joint Advisory Group note the progress on pooling to date, and the autumn submission to the Ministry of Housing, Communities and Local Government.

Rodney Barton
Director

Portfolio:

Overview & Scrutiny Area:

Phone: (01274) 432317

E-mail: rodney.barton@bradford.gov.uk

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. It 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.

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
 - 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.
- 2.2 The draft Northern Pool Operating Agreement will have been considered by the Governance and Audit Committee, and referred to the February Council meeting.
- 1.1 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, with current progress covered in a separate item on this agenda.

- 1.2 GLIL, a vehicle established to invest in infrastructure, is fully operational, and is available to other Pools or individual funds to invest, thereby establishing a national solution for LGPS funds to increase commitments to infrastructure, the fourth pooling criterion.
- 1.3 A joint venture, NPEP, has been established to make private equity investments on a collective basis. The governance of this vehicle operates 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 on 22 October (Appendix 1). A formal response is awaited.

4. Informal Consultation on Statutory Guidance on Pooling

- 4.1 On 3 January 2019 MHCLG began an informal consultation on statutory guidance on pooling. This guidance differs considerably from the current guidance. The Northern Pool will be considering this carefully before responding to the consultation.

Appendices

Appendix 1 Northern Pool response to MHCLG