

# Report of the Director, West Yorkshire Pension Fund, to the meeting of Joint Advisory Group to be held on 30 January 2020

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**Subject: Northern LGPS**

## **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 LGPS (NLGPS).

This report sets out the progress in establishing the Northern LGPS (formerly the Northern Pool), covering:-

- Drafting the Northern LGPS Operating Agreement, including the Terms of Reference for the Joint Committee
- Procuring a joint custodian for all the assets of NLGPS
- 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**

It is recommended that the Joint Advisory Group note the progress to date.

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Rodney Barton  
Director

**Portfolio:**

**Overview & Scrutiny Area:**

Phone: (01274) 432317  
E-mail: [rodney.barton@bradford.gov.uk](mailto:rodney.barton@bradford.gov.uk)

## **1 Background**

- 1.1 The Northern LGPS (NLGPS) 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 The Joint Committee will be formed to 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, risk profile, and 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 NLGPS consists of
  - Drafting the NLGPS 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 Operating Agreement was approved by the February 2019 Council meeting. All three partners have now approved the Agreement. The Joint Committee will be operational from the beginning of the next financial year.

- 1.1 The NLGPS 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 NLGPS. The assets of the Fund were transferred to Northern Trust on 1 November. All transferred assets of NLGPS are now in one place, in the care of a company with FCA regulation.
- 1.2 GLIL, a vehicle established to invest in infrastructure, is fully operational, regulated by the FCA, 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 pools for private equity.
- 1.4 On 26 September the Shadow Joint Committee agenda included updates on pooling, performance benchmarking, private equity pooling, responsible investment and the common custodian. In addition, there was a report on the work done to date by officers looking at how the three property portfolios could benefit more fully from pooling.
- 1.5 The NLGPS website is now operational, and has current information on the Pool ( [www.northernlgps.org](http://www.northernlgps.org) ).
- 1.6 The minutes of the Shadow Joint Committee on 11 July 2019 and draft minutes for 26 September 2019 are attached as Appendix 1 and 2 (NFP docs). The next meeting is 6 February 2020.

### **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 LGPS has a clear plan to deliver on these criteria.
- 3.2 NLGPS submitted a further report on progress to the Ministry for Housing, Communities and Local Government in September. A formal response has not been received.

### **4. Informal Consultation on Statutory Guidance on Pooling**

- 4.1 On 3 January 2019 MHCLG began an informal consultation on statutory guidance on pooling. As reported in July we submitted a robust response. It is understood that there will be a further formal consultation, but that has been delayed due to other priorities at this time.

### **5. Not for publication documents**

Appendix 1	NFP Northern LGPS Shadow Joint Committee 11.07.19
Appendix 2	NFP Northern LGPS Shadow Joint Committee 26.09.19 (draft)