

# Report of the Director, West Yorkshire Pension Fund, to the meeting of Joint Advisory Group to be held on 30 July 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 have established an investment pool, Northern LGPS (NLGPS).

This report sets out the progress of the Northern LGPS (formerly the Northern Pool).

## **Recommendation**

It is recommended that the Joint Advisory Group note the report.

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Director

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**Portfolio:**

[Insert where appropriate]

**Overview & Scrutiny Area:**

[Insert where appropriate]

## **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 increasingly delegate the implementation of that policy to the Joint Committee.
- 1.2 The Joint Committee 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 consists 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 All three partners have now approved the Agreement. The Joint Committee became operational from the beginning of the financial year.
  - 1.1 The appointment of a common custodian is a key strategic milestone in setting up the NLGPS. The assets of WYPF were transferred to Northern Trust on 1 November, the last of the three to transfer. 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. By 31 March 2020 GLIL had commitments of £1.825 billion from NLGPS and one other pool, and had invested over £1.12 billion. These assets include on and off-shore wind turbines, modern rail rolling stock, and other assets which reduce reliance on fossil fuels.

- 1.3 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. It has committed £871.0m to 15 funds, and has established a co-investment platform which will substantially reduce the cost of private equity investment for the NLGPS partners
- 1.4 On 6 February the final meeting of the the Shadow Joint Committee included setting the budget for the coming year, approval of a joint commitment of £200-300m to the UK Affordable Housing sector, a GLIL update, a custodian update, an update on investment management benchmarking showing NLGPS to be in the lowest 25% of its peer group (21 global funds with values ranging from £11 billion to £68 billion), an update on performance measurement which is to be supplied by Portfolio Evaluation Limited and a report on Responsible Investment from PIRC. Of note in this report was the collaborative engagement with Drax, which covered the impact of switching from coal to wood pellets in their boilers, carbon capture and storage as well as the Just Transition.
- 1.5 The minutes of the Shadow Joint Committee on 6 February 2020 are attached as Appendix 1 (NFP).
- 1.6 The first meeting of the Joint Committee took place on 9 July, so the minutes are not yet available. They will be presented at the January 2021 meeting.
- 1.7 The NLGPS website has current information on the Pool ( [www.northernlgps.org](http://www.northernlgps.org) ).

### 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.

### 4. **Not for publication documents**