

Report of the Director, West Yorkshire Pension Fund, to the meeting of Joint Advisory Group to be held on 28 January 2021

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Subject: Northern LGPS

Summary

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 provides an update on the activities of the Northern LGPS.

Recommendation

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

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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 The first meeting of the Joint Committee took place on 9 July, and the items on the agenda are briefly summarised below. The minutes are attached as Appendix 1 (NFP).
- 2.2 The first report covered the cost transparency compliance and validation system for the Local Government Pension Scheme Advisory Board which is provided by Byhiras. Through this system, all the local authority pension scheme funds and pooling vehicles across the United Kingdom are able to access cost data disclosed by their asset managers in accordance with the SAB Code of Transparency. As the lowest cost pool NLGPS welcomes this transparency on costs.
- 2.3 A report was received on performance measurement provided by Portfolio Evaluation Ltd. The reporting on pool performance will assist in fulfilling reporting requirements to Government, and oversight obligations of the Joint Committee. Officers will work with Portfolio Evaluation to identify the performance of GLIL and

NPEP separately in future, given their importance to the Northern LGPS operating model.

- 2.4 The report on the Northern Private Equity Pool (NPEP) covered the current approach to investing in Private Equity, implementation during calendar year 2019, current position against current strategy, review of Strategy and review of Implementation. NPEP has been covered in the report on private equity to the Panel.
- 2.5 Further reports covered the progress on the establishment of a property framework for NLGPS, and progress on housing investment.
- 2.6 Reports on Stewardship, the Common Custodian and the preparation of an Annual NLGPS report were considered.
- 2.7 The Joint Committee met again on 1 October, when there were reports on the Pooling Update, the National Scheme Advisory Board Governance and Engagement Committee, Responsible Investment, Performance, the Property Framework, GLIL and Housing Investment. The draft minutes are attached as Appendix 2 (NFP).
- 2.8 Updates on the progress of the main projects for the Northern LGPS received at that meeting are set out below.
 - Northern Private Equity Pool - The Northern Private Equity Pool Limited Partnership (NPEP) was created on 25 May 2018. Northern Trust is the fund administrator. At 30 June 2020, NPEP had net assets valued at approximately £140 million, undrawn commitments of £850 million to funds, and £360 million reserved for co-investment. Investment has been consistent with targets since inception, with £990 million committed to 17 investment funds, and £380 million reserved for co-investment. One of the primary sources of fee savings identified during the formation of the Pool was through the use of private equity co-investment as a lower cost way of implementing private equity strategies. After a detailed process, NPEP partnered with HarbourVest to source and execute co-investment opportunities.
 - Direct Infrastructure – The existing partners in GLIL increased commitments from £1,275m to around £1,800m at the end of September 2018. GLIL's most recent transaction at 1 October, which was completed in January, was the £93 million acquisition of a 49 per cent stake in Cubico's portfolio of 250MW of solar and wind assets across the UK. GLIL's direct investment approach is estimated to have generated costs savings of over £20 million for the Pool over the 2019/2020 year
 - Responsible investment – The Northern LGPS funds are largely aligned on Responsible Investment matters and all play an active role in the Local Authority Pension Fund Forum ('LAPFF'). The Pool has appointed PIRC as its responsible investment adviser to undertake voting, engagement and other RI activity on its behalf and published its collective RI policy in early 2019. The three member funds coordinate their voting activity via the Pool and all votes are disclosed online in a searchable database two days ahead of company meetings.

- Property Framework – NLGPS is developing a pool property framework to deliver efficiencies in the management of property investments and related services.
- Housing investment - Following completion of the due diligence the Directors of the NLGPS funds agreed at a meeting on 14th September to make a collective investment into PGIM UK Real Estate UK Affordable Housing Fund. Further details on the fund are given in Appendix 3 (NFP).
- NLGPS branding and communications – The Pool website is being maintained by officers of Merseyside Pension Fund, where current information on the Pool can be found (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, which, as can be seen from the report, is being delivered.
- 3.2 As usual, MHCLG requested an update, which was duly provided. This was followed up with a call from the official responsible, but there remains a difference between their concentration on process and the NLGPS's pragmatic focus on delivery of the criteria.

4. Not for publication documents

Appendix 1 JC 09.07.20

Appendix 2 JC 01.10.20

Appendix 3 UK Affordable Housing Fund

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