

15 July 2016

Dear Sirs,

## **NORTHERN POOL - Pooling of Local Government Pension Scheme investments**

We are delighted to enclose the Northern Pool's submission to Government on the progress that Greater Manchester Pension Fund, West Yorkshire Pension Fund and Merseyside Pension Fund, have made in forming a Collective Asset Pool of £35 billion, which represents approximately 20% of the LGPS' investment power, and meets the criteria issued by Government on 25 November 2015.

We set out in the submission how through effective but simple democratic governance we will achieve:

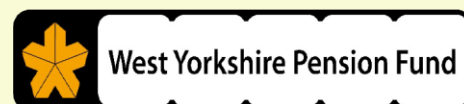
- ✓ £1 billion plus infrastructure pot in coming weeks, which we believe can be scaled up for others to join and obtain the benefits, which have resulted from the Pool being created from some of the most successful funds in the LGPS;
- ✓ 10% commitment to infrastructure investment;
- ✓ cost savings to emerge from Summer 2016 onwards, with estimated annual savings of £28 million - representing an ongoing saving of 25%;
- ✓ clear recognition as the lowest cost pool in the LGPS on a like-for-like basis; and
- ✓ simple democratic governance arrangements, which deliver Government's aims of accountability for the tax payer.

### **Most cost effective structure**

In order to meet the Government Criteria, against which, we are advised that all funds will be required to meet, the collective pool assets will be managed by an operating company, which will seek authorisation from the Financial Conduct Authority to operate as an Alternative Investment Fund Manager (known as an 'AIFM'). The three participating funds will own equal share capital in the Investment Management Company. Considerable thought has been given to determining the most appropriate legal structure for the ownership of the Pool's listed assets and specialist external legal and financial advice has been sought.

Whilst we acknowledge it is appropriate that the majority of other LGPS pools will be establishing an Authorised Contractual Scheme (known as an 'ACS'), we do not believe this would be expedient for the Northern Pool. The scale of the existing mandates (GMPF has a circa £6bn external balanced mandate and WYPF internally manages circa £9bn of listed assets), with limited overlap between mandates and low-cost, low turnover approach of the Northern Pool, mean that holding listed assets in an ACS would not be the most cost effective or efficient approach for the Northern Pool. Our approach reduces set up costs between £4.2m and £8.4m and reduces the ongoing costs by £1.35 million per annum compared to using the ACS vehicle.

Therefore, in line with our fiduciary duty to both LGPS members and taxpayers we are proposing to retain segregated mandates for listed assets to achieve the overriding interests set out in the Governments Criteria. The oversight body of democratically elected members with the support of external advisors representing the 20 Metropolitan Councils and Ministry of Justice together with the 1,000 plus employers will hold the AIFM to account to ensure that the Northern Pool maintains



the good investment returns and low costs that have resulted in low contribution rates for the benefit of taxpayers generally.

### **Cost savings**

The savings arise predominantly from the increased resource of the Pool enabling many alternative asset classes to be accessed in a more cost effective way. Over the implementation period, our ambition is to:

- ✓ Move from private equity fund of funds to single funds/co-investments
- ✓ Move from hedge fund of funds to single strategy funds.
- ✓ Reduce the proportion of indirect property relative to direct property
- ✓ Reduce the proportion of indirect infrastructure relative to direct infrastructure

Additional cost savings will be achieved from moving the management of a proportion of the equities and bonds which are currently externally managed to in-house management over a period of time, as appropriate internal capacity is developed.

In many respects, the funds in the Pool start from an advantageous position of already having many of the economies of scale that other pools are seeking. As a result, the potential cost savings are likely to be lower than in other pools. That said, we believe that a 25% reduction is significantly ambitious and represents real value to taxpayers.

### **Infrastructure**

We are keen to create a significant investment pool, which will enable us to compete with global wealth funds to invest in major regional and national infrastructure projects such as airport expansion, major new road and rail schemes, housing developments and energy production growth.

We have a long-history of making significant direct local infrastructure investments such as the Matrix Homes initiative as referenced in the Government's Criteria, which unlocked difficult brownfield sites to build hundreds of much needed houses.

Recognising this, we seek to build on the existing strengths of the participating funds, further developing internal capacity, skills and resilience and sharing this across other LGPS pools on a collaborative basis. This is where we strongly believe that greatest value can be added by the large LGPS funds such as ourselves. The pooled fund will add to and strengthen the investment already taking place.

With such a large investment pool comprised of partners from across the North, the fund will deliver both the commercial returns required and social value to the regions that each of the funds represent. Pooling arrangements would help increase this capacity for infrastructure investment and further increase the proportion of investment in this asset class achieving a minimum 10% investment within 3-5 years with the ambition to increase this investment further to 15% in the long term.

In particular, we are currently in the process of creating a £1 billion infrastructure funding pool by expanding the existing Greater Manchester / LPFA infrastructure (GLIL) vehicle. This will enable investment in larger infrastructure investments on a direct basis and achieve our ambitions for growth. Access to investments of this scale is often out of the reach of individual pension funds, and certainly some of the smaller funds. We believe this infrastructure vehicle provides an

opportunity to create a national fund with a focus on long term economic growth and social benefit, which could provide a national solution to all the newly created LGPS Pools should they wish to access.

We will look forward to further discussion with Government and our stakeholders over the forthcoming months.

Yours sincerely,



**Cllr Kieran Quinn**  
**Greater Manchester Pension**  
**Fund**



**Cllr Andrew Thornton**  
**West Yorkshire Pension Fund**



**Cllr Paul Doughty**  
**Merseyside Pension Fund**

## Proposal for asset pooling in the LGPS – 15 July 2016

Name of pool	Northern Pool ('the Pool')
Participating authorities	<p><b>City of Bradford MDC</b> – administering authority for West Yorkshire Pension Fund ('WYPF');</p> <p><b>Tameside MBC</b> – administering authority for Greater Manchester Pension Fund ('GMPF')</p> <p><b>Wirral MBC</b> – administering authority for Merseyside Pension Fund ('MPF')</p>

### Criterion A: Asset pools that achieve the benefits of scale

#### 1. The size of the pool once fully operational.

(a) Please state the total value of assets (£b) to be invested via the pool once transition is complete (based on asset values as at 31.3.2015).	<p>£35.416bn</p> <p>All assets other than day-to-day cash will be invested via the pool once transition is complete.</p> <p>Day-to-day cash assumed to be 1% of total assets.</p>
--	---

#### 2. Assets which are proposed to be held outside the pool and the rationale for doing so.

(a) Please provide a summary of the total amount and type of assets which are proposed to be held outside of the pool (once transition is complete, based on asset values at 31.3.2015).
<p>Total Value £0.357bn</p> <p>Asset types:</p> <ol style="list-style-type: none"> <li>Cash used for day to day scheme administration purposes (contributions received, payment of pensions, retirement lump sums, invoices etc...)</li> </ol>

<p>(b) Please attach an ANNEX for each authority that proposes to hold assets outside of the pool detailing the amount, type, how long they will be held outside the pool, reason and how it demonstrates value for money.</p>	<p>Attached as: ANNEX A1a) WYPF ANNEX A1b) GMPF ANNEX A1c) MPF</p>
--	--

### 3. The type of pool including the legal structure.

(a) Please set out the type of pool, including legal structure, and confirm that it has been formally signed off by all participating authorities:

- Details of the FCA authorised structure that will be put in place, and has been signed off by the participating authorities.

All Pool assets will be managed by an operating company (the ‘Investment Management Company’) which will seek authorisation from the Financial Conduct Authority (‘FCA’) to operate as an Alternative Investment Fund Manager (‘AIFM’). Authorisation as and AIFM will allow the Pool to operate collective investment vehicles in alternative asset classes. The Pool may also seek MiFID-type permissions from the FCA as appropriate. The 3 participating authorities will own equal share capital in the Investment Management Company.

- Outline of tax treatment and legal position, including legal and beneficial ownership of assets.

For the immediate future after inception of the Pool, listed assets will continue to be held in segregated mandates owned directly by the participating authorities, but managed by the Investment Management Company. A single custodian will be appointed by the Pool, which will simplify the future consolidation of mandates.

In preparing this submission considerable thought has been given to determining the most appropriate legal structure for the ownership of the Pool’s listed assets in order to best achieve all four criteria set by Government. Our understanding is that many other LGPS pools will be establishing an Authorised Contractual Scheme (‘ACS’). However, due to the scale of the existing

mandates (GMPF has a c£6bn external balanced mandate and WYPF internally manages c£9bn of listed assets), limited overlap between mandates and low-cost, low turnover approach of the Pool, holding listed assets in an ACS is not currently the most cost effective approach for the Pool.

The report from PwC (attached as ANNEX A2 to this submission) provides an analysis of the cost differentials between:

- a) establishing and operating an Authorised Contractual Scheme ('ACS') and;
- b) the Pool's preferred segregated mandate approach.

The set up costs of option b) are between £4.2m and £8.4m lower than option a), with ongoing costs of option b) £1.35m p.a. lower.

This approach will be reviewed periodically going forwards, particularly following any changes to funds' strategic asset allocations, pool management arrangements or taxation policy in the UK or internationally.

All non-listed assets will be managed by the Pool from 1 April 2018. New investments (i.e. those entered into after 1 April 2018) in non-listed assets will be made on a shared ownership basis, via either collective investment vehicles or limited partnerships. Legacy (i.e. those entered into prior to the formation of the Pool) non-listed assets will be run-off on a segregated basis.

- The composition of the supervisory body.

An Oversight Board will be established to:

- i) provide oversight of the Investment Management Company and its directors; and
- ii) act as a forum for the participating authorities to express the views of their pension committees.

The Oversight Board's primary roles are to ensure that the Investment Management Company is effectively implementing the participating authorities' strategic asset allocations and to oversee how the Investment Management Company reports to the participating authorities' pension committees.

The legal structure of the Oversight Board is expected to be a joint committee. There will be clear separation of duties between the Oversight Board and the Investment Management Company. The Oversight Board will not be undertaking any regulated activities.

Each participating authority will nominate 3 representatives (which may include representatives of trade unions) to sit on the Oversight Board, in order to create a Board of 9 members. The Oversight Board needs at least one representative of each participating authority to be present in order to be quorate. The Board elects a chair and a vice chair on an annual basis.

No independent members are included as voting members, but external advisors will be appointed and leading pensions officers at each participating authority will attend Board meetings.

Please confirm that all participating authorities in the pool have signed up to the above. If not, please provide in an Annex the timeline when sign-off is expected and the reason for this to have occurred post July submission date.

All authorities participating in the Pool have signed up to this submission to Government. Once feedback on this submission is received the participating authorities will be formally asked to sign-off the resulting changes to governance arrangements.

**4. How the pool will operate, the work to be carried out internally and services to be hired from outside.**

Please provide a brief description of each service the pool intends to provide and the anticipated timing of provision.

(a) To operate in-house (for example if the pool will have internal investment management from inception):

1. Implement the strategic asset allocations of the participating authorities (with effect from April 2018)

- The Investment Management Company and its investment committee(s) will select

investment managers (either internal or external) to manage assets on behalf of the Pool and the participating authorities and approve the investment management agreements and investment guidelines for the chosen mandates.

2. Management of UK and Overseas equities and bonds (with effect from 1 April 2018).
  - Participating authorities in the Pool currently internally manage around £10bn of listed assets. The expectation is that the proportion of listed assets which are internally managed by the Pool will increase over time.
3. Selection of private equity, infrastructure & property funds (with effect from 1 April 2018)
  - All 3 participating authorities currently internally select a substantial proportion of their new fund commitments in these asset classes. The expectation is that following the inception of the Pool a greater proportion of the investment in these asset classes will be internally selected (including co-investment) rather than invested via a 'fund-of-funds' approach.
4. Direct UK infrastructure investment via 'GLIL' vehicle - (Merseyside Pension Fund and West Yorkshire Pension Fund to join Greater Manchester Pension Fund in GLIL vehicle from autumn 2016)
  - See response to criterion D for further details.
5. Legal and accounting support (with effect from 1 April 2018)
  - The existing legal and accounting support at the participating authorities will be amalgamated in order to increase the scope of services provided internally and increase resilience. Legal work which is expected to be carried out internally includes the review of investment management agreements, partnership agreements and the conveyancing on purchase and sale of direct property investments. Investment accounting will also be carried out internally.

(b) To procure externally (for example audit services):

1. External fund management for certain mandates (with effect from 1 April 2018)
  - Two of the participating authorities in the Pool currently use external fund managers for listed assets. Following its inception the Pool will continually review whether internal or external management is most appropriate for each investment mandate. It is likely that direct property investments will continue to be managed externally on an advisory basis.
2. Common custodian for Pool (plus depositaries & fund administrators for the pooled funds



that are established for non-listed assets) (with effect from 1 April 2018)

- A procurement exercise will be undertaken to appoint a common custodian for the Pool with effect from April 2018. In addition, depositaries and fund administrators will be appointed for pooled funds that are established for non-listed assets (property and/or private equity)
3. Investment management systems (with effect from 1 April 2018)
- Prior to the Pool's inception a detailed review will be undertaken of systems requirements and appropriate investments management systems will be externally procured.
4. Audit (with effect from 1 April 2018)
- The Pool will appoint an external auditor with extensive experience of auditing FCA regulated investment management firms. Consideration will also be given to outsourcing the Pool's internal audit function.
5. Performance analytics (with effect from 1 April 2018)
- The Pool will use the services of an experienced external provider to benchmark the performance of the Pool (both investment performance and cost).
6. Responsible Investment services (with effect from 1 April 2018)
- In addition to internal resources, the Pool will use the services of an experienced external provider to provide information and advice on Responsible Investment matters.
7. Value for money review of structure (shortly after 1 April 2018)
- Following the Pool's inception an independent external review of the Pool's structure will be commissioned to provide assurance to the Participating Authorities that the Pool is providing optimum value for money.

Please indicate the extent to which the service allocations listed above are indicative at this stage and subject to alteration either during or after the implementation of the pool.

The service allocation as listed is based on the best advice and information received to date, but may be subject to alteration

- During the implementation phase should it become apparent that an alternative solution will provide better value for money.
- After implementation where alternative solutions could deliver better value for money (see 6 above).

**5. The timetable for establishing the pool and moving assets into the pool. Authorities should explain how they will transparently report progress against that timetable and demonstrate that this will enable progress to be monitored.**

(a) Please provide assurance that the structure summarised in 3 above will be in place by 01.04.2018 assuming: x, y and z (add caveats).

Confirmed: YES

If NO please state the expected date the structure will be in place and attach an ANNEX detailing the reasons for not being able to have the structure in place by 01.04.2018.

Anticipated date structure will be in place: 1 April 2018 (subject to receiving swift feedback from Government on this submission)

(b) Please provide as an ANNEX a high level timetable for the establishment of the structure and transition of assets as well as the proposed methodology for reporting progress against this timetable.

Attached as ANNEX A3

(c) Please provide as an ANNEX an outline of how you will approach transition over the years and where possible by asset class (any values given should be as at 31.3.2015.)

Attached as ANNEX A4

(d) Based on the asset transition plan, please provide a summary of the estimated value of assets (in £b and based on values as at 31.3.2015 and assuming no change in asset mix) to be held within the pool at the end of each 3 year period starting from 01.4.2018.

Total value of assets estimated to be held in pool as at

31.3.2021: £35.416bn

31.3.2024: £35.416bn

31.3.2027: £35.416bn

31.3.2030: £35.416bn

31.3.2033: £35.416bn

## Criterion B: Strong governance and decision making

### 1. The governance structure for their pool, including the accountability between the pool and elected councillors and how external scrutiny will be used.

(a) Please briefly describe the mechanisms within the pool structure for ensuring that individual authorities' views can be expressed and taken account of, including voting rights.

Each of the participating authorities will nominate 3 representatives to the Oversight Board to express the views of their pensions committees. The Oversight Board's primary roles are to ensure that the directors of the Investment Management Company are effectively implementing the participating authorities' strategic asset allocations and to oversee how the Investment Management Company reports to the authorities' pension committees. All members of the Oversight Board have equal voting rights.

(b) Please list and briefly describe the role of those bodies and/or suppliers that will be used to provide external scrutiny of the pool (including the Pensions Committee and local Pension Board).

- **Pensions Committees of the participating authorities** – The pensions committees will regularly receive performance information from the Pool, which they will consider in conjunction with professional external advice. The pensions committees nominate representatives to the Oversight Board and can change their representatives if they believe that they are not adequately performing their role.
- **Local Pension Boards** – The Local Boards of the Participating Authorities have a duty to ensure their respective authorities comply with all relevant legislation, the requirements of the Pensions Regulator and to ensure the effective and efficient governance and administration of the Scheme. The pensions boards are comprised of representatives of employers and representatives of members of the funds.
- **Valuation and performance analytics** – The Pool will use the services of an experienced external provider to benchmark the performance of the Pool (both investment performance and cost).
- **Advisors to Oversight Board** – the Oversight Board will seek external advice as appropriate to ensure it is effectively carrying out its roles as described in part (a) above.
- **External audit** – the Investment Management Company will appoint an external auditor with strong credentials in the investment management sector. The scope of the audit will

follow industry best practice.

- **Internal audit** – the Pool will consider the most effective way of providing a strong internal audit function. Options include appointing an external provider to carry out this service or using the services of one of the Participating Authorities.
- **Financial Conduct Authority ('FCA')** – The Pool will meet all requirements in order to acquire and maintain FCA approval.

**2. The mechanisms by which authorities can hold the pool to account and secure assurance that their investment strategy is being implemented effectively and that their investments are being well managed in the long term interests of their members.**

(a) Please describe briefly the type, purpose and extent of any formal agreement that is intended to be put in place between the authorities, pool and any supervisory body.

Prior to the February submission to Government, the 3 participating authorities signed a memorandum of understanding which set out the proposed operation of the Pool. This memorandum of understanding will be revised and strengthened to reflect the finalised Pool structure. The MoU will set out how representatives of the participating authorities are appointed to the Pool Oversight Board and define the key strategic objectives and operational governance of the Pool. In addition to the MoU, Terms of Reference will be prepared for both the Oversight Board and the Investment Management Company, which will clearly set out the remit of each entity.

(b) If available please include a draft of the agreement between any supervisory body and the pool as an ANNEX.

Not yet available

(c) Please describe briefly how that agreement will ensure that the supervisory body can hold the pool to account and in particular the provisions for reporting back to authorities on the implementation and performance of their investment strategy.

The Memorandum of Understanding grants the Oversight Body certain powers regarding the operation of the Investment Management Company, which can be used to ensure the effective performance of the Investment Management Company.

Reporting processes will include regular written reports on the performance of Pool

investments to the Oversight Body, which will be discussed at formal meetings. Officers of the Pool Investment Management Company will also report to and present directly to participating authorities' pension committees and local pension boards as appropriate.

Participating Authorities' pension committees and local boards will also have access to the external benchmarking reports.

**3. Decision making procedures at all stages of investment, and the rationale underpinning this. Confirm that manager selection and the implementation of investment strategy will be carried out at the pool level.**

(a) Please list the decisions that will be made by the authorities and the rationale underpinning this.

The pension committees of the Participating Authorities will retain responsibility for:

- Meeting their funds' liabilities.
- Setting the strategic asset allocation of their fund.
- Preparing the funding strategy statement and other appropriate strategy documents.

This will enable the Participating Authorities to demonstrate that they are exercising their democratic, statutory and fiduciary duty.

Subject to continuing to meet best practice and mandates being of sufficient size to ensure low cost, Participating Authorities will also retain the ability to select asset class (equity, bonds, property etc...including multi-asset), territory (UK, Europe, US etc.. or global) style (value, growth etc...) and whether managed actively or passively. The participating authorities view these choices as asset allocation decisions.

(b) Please list the decisions to be made at the pool level and the rationale underpinning this.

The Investment Management Company's role is to independently and professionally deliver the participating authorities' strategic asset allocation. This will involve making the following decisions:

- Whether to manage a mandate internally or whether to appoint an external manager for

that mandate.

- For externally managed mandates, whether the mandate is on an advisory or discretionary basis.
- Whether to remove an existing manager and/or appoint a new manager.
- For internally managed mandates, whether to buy or sell an individual asset.
- The legal form of any investment vehicles used (e.g. limited partnership, unit trust etc...).
- The appointment of external support such as custodians, depositaries, specialist advice as required.

This scope of decision making is designed to retain democratic accountability and fiduciary duty at the participating authorities whilst ensuring all investment decisions are undertaken by those individuals with appropriate knowledge and experience in compliance with FCA regulations and the continued efficient operation of the Pool.

(c) Please list the decisions to be made by the supervisory body and the rationale underpinning this.

The Oversight Board will oversee all aspects of the operation of the Investment Management Company, but will not perform any FCA regulated functions. Its primary role is to ensure the Investment Management Company is effectively implementing the participating authorities' strategic asset allocations and is complying with their Investment Strategy Statements.

The Oversight Board will also undertake the following activities:

- Monitoring and benchmarking of performance and reporting back to the Participating Authorities' pension committees;
- Overseeing Responsible Investment activities
- Engagement with the pension committees of participating authorities to help drive efficiencies (for example providing details of what mandates already exist in the Pool and the potential for new mandates);
- Nominating representatives to national structures as appropriate (for example any national infrastructure board);
- Monitoring staffing requirements of the Investment Management Company and budgets.

#### 4. The shared objectives for the pool and any policies that are to be agreed between participants.

(a) Please set out below the shared objectives for the pool.

The long-term vision of the Pool is to provide participating authorities with access to a range of internal and external investment management and related services at low cost, to enable their LGPS funds to continue outperforming their individual benchmarks.

Liabilities influence the asset structure; funds exist to meet their liabilities. Asset allocation is the dominant determinant of portfolio risk and return. Markets can be inefficient. Risk premia exist for equity, credit, duration, illiquidity, inflation and volatility. The key principles of the Pool investment approach are a long-term perspective and to maintain simple arrangements with a relatively low number of managers and low manager and portfolio turnover.

(b) Please list and briefly describe any policies that will or have been agreed between the participating authorities.

Prior to the February submission to Government the participating authorities signed a Memorandum of Understanding setting out the proposed operation of the Pool. This Memorandum of Understanding will be updated and strengthened where appropriate to reflect the final structure of the Pool.

(c) If available please attach as an ANNEX any draft or agreed policies already in place.

MoU Attached as ANNEX B1

#### 5. The resources allocated to the running of the pool, including the governance budget, the number of staff needed and the skills and expertise required.

(a) Please provide an estimate of the operating costs of the pool (including governance and regulatory capital), split between implementation and ongoing. Please list any assumptions made to arrive at that estimate. Please include details of where new costs are offset by reduced existing costs.

Implementation costs £1.8m  
Ongoing costs £4.7m p.a.  
(with a commensurate reduction in investment staffing costs at the Funds of c£4.0m)

Assumptions

i) Implementation costs

Estimated costs are in respect of:

- Advice on FCA authorisation process.
- Legal advice on proposed fund structures.
- Procurement and implementation of systems, common custodian and depositaries.

ii) Ongoing costs

Existing investment staffing costs are approximately £4m p.a. across the 3 participating funds. An increase of £0.5m is assumed following pooling. The additional staffing costs are in respect of:

- Risk and compliance roles required to meet FCA authorisation requirements.
- Additional legal responsibilities of key staff.
- Specialist systems support.
- Non-executive directors on Investment Management Company Board.

Additional ongoing costs arise in respect of:

- Additional training and monitoring of staff to meet FCA compliance requirements
- The cost of servicing FCA regulatory capital

It is assumed that the costs of specialist investment management systems and the administration of collective investment vehicles created by the Pool will be offset by the efficiencies of moving from 3 custodians to a common Pool custodian.

Further details of assumed implementation and ongoing costs can be found on pages 10 and 11 of Annex A2.

Comments

Implementation costs of the Northern Pool are assumed to be lower than typical due to significant internal resource available.

(b) Please provide an estimate of the staff numbers and the skills/expertise required, split between implementation and ongoing. Please state any assumptions made to arrive at that estimate.

The participating funds currently employ around 60 investment and support staff. During the implementation of the Pool this is expected to increase to around 65,



	<p>reflecting the additional resource outlined in part a)ii) above. As additional listed assets are brought in house, there will be an increase in investment staff. However, the cost savings achieved will significantly outweigh the additional staff costs.</p>
<p>Assumptions: It is assumed that the additional resource which will be created by amalgamating the participating authorities' investment teams will enable the scope of activities undertaken by the Pool to be broader than those currently undertaken by the participating authorities. For example, it is expected that the proportion of listed assets that are internally managed will increase over time and a greater proportion of the investment in private equity will be internally selected (including co-investment) rather than invested via a 'fund-of-funds' approach. Please see the response to Criterion C, 3(b) for further details.</p>	
<p>Comments</p>	

**6. How any environmental, social and corporate governance policies will be handled by the pool. How the authorities will act as responsible, long term investors through the pool, including how the pool will determine and enact stewardship responsibilities.**

(a) Please confirm there will be a written responsible investment policy at the pool level in place by 01.4.2018.

<p>Confirmed: <b>YES</b></p> <p>If no please attach an ANNEX setting out how the pool will handle responsible investment and stewardship obligations, including consideration of environmental, social and corporate governance impacts.</p>	<p>N/A</p>
--	------------

**7. How the net performance of each asset class will be reported publicly by the pool, to encourage the sharing of data and best practice.**

(a) Please confirm that the pool will publish annual net performance in each asset class on a publicly accessible website, and that all participating authorities will publish net performance of their assets on their own websites, including fees and net performance in each listed asset class compared to a passive index.

Confirmed: **YES**

If no please attach an ANNEX setting out how the pool will report publically on its performance.

N/A

**8. The extent to which benchmarking is used by the authority to assess their own governance and performance and that of the pool.**

(a) Please list the benchmarking indicators and analysis that the participating authorities intend to implement to assess their own governance and performance and that of the pool.

The participating authorities (via the Pool Oversight Board) will agree a common reporting framework for the Pool. Indicators which are expected to be analysed include:

- Net returns and net value added.
- Returns and value added by asset class
- Risk adjusted returns
- Risk analysis
- Cost analysis including comparison of asset management costs by asset class
- Comparison of oversight, custodial and other investment costs

### Criteria C: Reduced costs and excellent value for money

#### 1. A fully transparent assessment of investment costs and fees as at 31 March 2013.

(a) Please state the total investment costs and fees for all funds in the pool as reported in the Annual Report and Accounts for that year ending 31 March 2013	£25.2m
(b) Please state the total investment costs and fees for all the funds in the pool as at 31 <sup>st</sup> March 2013 on a transparent basis. A breakdown of this figure by fund may be requested if it its deemed necessary for clarification purposes but is not required at this point.	£92.5m
(c) Please list below the assumptions made for the purposes of achieving the transparent costs quoted	
CEM benchmarking figures have been used to compile this information. Where data is incomplete, CEM has applied industry standard cost data to calculate the overall baseline costs.	

#### 2. A fully transparent assessment of current investment costs and fees, prepared on the same basis as 2015 for comparison

(a) Please state the total investment costs and fees for all funds in the pool as reported in the Annual Report and Accounts for that year ending 31 March 2015	£28.2m
(b) Please state the total investment costs and fees for all the funds in the pool as at 31 <sup>st</sup> March 2015 on a transparent basis. A breakdown of this figure by fund may be requested if it its deemed necessary for clarification purposes but is not required at this point.	£115.1m

(c) Please list below any assumptions made for the purposes of achieving the transparent costs quoted that differ from those listed in 1(c) above

CEM benchmarking figures have been used to compile this information. Where data is incomplete, CEM has applied industry standard cost data to calculate the overall baseline costs.

### 3. A detailed estimate of savings over the next 15 years.

(a) Please provide a summary of the estimated savings (per annum) to be achieved by the pool at the end of each 3 year period starting from 1st April 2018. Please note these estimates should be net of implementation and running costs of the pool as stated in B 5(a) and (b) but excluding the transition costs shown in 4 below. For consistency please base these estimates on an assumption that the current asset mix will not change over the period. A breakdown of this figure by fund may be requested if it is deemed necessary for clarification purposes but is not required at this point.

Total value of savings (per annum) estimated to be achieved by the pool as at

31.3.2021: £ 5.1m

31.3.2024: £ 12.2m

31.3.2027: £ 17.2m

31.3.2030: £ 22.5m

31.3.2033: £ 28.3m

(b) Please list below the assumptions made in estimating the savings stated above (for example if you have used a standard assumption for fee savings in asset class please state the assumption and the rationale behind it)

The cost savings shown assume the Pool structure set out in Criteria A 3(a) is implemented.

The savings arise predominantly from the increased resource of the Pool enabling some alternative asset classes to be accessed in a more cost effective way. Over the implementation period it is assumed that the Pool will:

- Move from private equity fund of funds to single funds/co-investments
- Move from hedge fund of funds to single strategy funds.

- Reduce the proportion of indirect property relative to direct property
- Reduce the proportion of indirect infrastructure relative to direct infrastructure

The costs of direct property, direct infrastructure and private equity co-investment once the Pool is fully operational have been estimated at 20bps, 85bps and 50bps respectively. This is based on the participating authorities experience to date of investing in these asset classes.

For other asset classes, the savings are calculated by assuming the Pool achieves asset management costs which are 10% below the CEM global median costs for the relevant asset class mandate. This reduction reflects the scale of the Pool.

The phasing of the costs savings over the period up to 2033 reflects the anticipated expiry dates of existing illiquid investments and realistic expectations of when the Pool will have the necessary capacity and capability where required.

The cost savings figures shown are net of the additional running costs of the Pool which are estimated at £0.7m p.a. as set out in the response to Criteria B 5(a). Implementation costs are assumed to incur prior to the inception of the Pool and therefore have not been reflected in the cost savings figures shown.

Additional cost savings are anticipated (but not included in the figures above) from moving the management of a proportion of the equities and bonds which are currently externally managed to in-house management over a period of time as appropriate internal capacity is developed.

(c) Alternatively you may attach an ANNEX showing the assumptions and rationale made in estimating the savings shown

N/A

**4. A detailed estimate of implementation costs and when they will arise, including transition costs as assets are migrated into the pool(s), and an explanation of how these costs will be met.**

(a) Please provide a summary of the estimated total transition costs at the end of each 3 year period starting from 1st April 2018. For consistency please base these estimates on an assumption that the current asset mix will not change over the period.

Total value of transition costs estimated to be incurred by the pool by

31.3.2021: £ Nil

31.3.2024: £ Nil

31.3.2027: £ Nil

31.3.2030: £ Nil

31.3.2033: £ Nil

(b) Please list below the assumptions made in estimating the transition costs stated above (for example if you have assumed a standard cost for each asset class please state the assumption and the rationale behind it)

In view of the approach to pooling listed assets, the Northern Pool is assuming that it will not incur any transition costs. Any transition costs that are incurred will arise from asset allocation and investment management decisions independent of the pooling process – not simply from aggregating assets.

The estimated costs of establishing the Pool are shown in Criteria B Part 5.

As part of the process of preparing this submission, estimated transition costs have been obtained from Northern Trust for sample equity and bond mandate changes. These costs have been taken into consideration when formulating the proposals in this document.

(c) Alternatively you may attach an ANNEX showing the assumptions and rationale made in estimating the transition costs shown

N/A

(d) Please confirm that transition costs will be met by the participating funds

<p>Confirmed YES/NO <b>YES</b></p> <p>If no please attach an ANNEX setting out how the transition costs will be met</p>	<p>N/A</p>
---	------------

**5. A proposal for reporting transparently against their forecast transition costs and savings, as well as how they will report fees and net performance**

(b) Please confirm that the pool will publish its annually transition costs and net fees on its own website or a on the websites of all participating funds

<p>Confirmed YES/NO <b>YES</b></p> <p>If no please attach an ANNEX setting out how the pool will report transparently on transition costs and net fees</p>	<p>N/A</p>
--	------------

## Criterion D: An improved capacity to invest in infrastructure

### 1. The proportion of the total pool asset allocation currently allocated to / committed to infrastructure, both directly and through funds, or “funds of funds”

(a) Please state the pool’s committed allocation to infrastructure, both directly and indirectly, as at 31.3.2015.	See table below
(b) Please state the pool’s target asset allocation to infrastructure, both directly and indirectly, as at 31.3.2015.	See table below

		GMPF	MPF	WYPF	Pool
Direct	Allocated	1.5% £250m	0.5% £30m		0.8% £280m
	Committed	0.6% £105m	0.5% £30m		0.4% £135m
	At Work	0.5% £90m	0.2% £15m		0.3% £105m
Funds	Allocated	4.0% £680m	4.5% £320m	3.0% £325m	3.8% £1,325m
	Committed	2.8% £469m	4.2% £272m	3.3% £366m	3.0% £1,107m
	At Work	1.3% £224m	3.4% £220m	2.4% £271m	2.0% £716m
Total	Allocated	5.5% £930m	5.0% £345m	3.0% £325m	4.5% £1,600m
	Committed	3.4% £574m	4.7% £302m	3.3% £366m	3.5% £1,242m
	At Work	1.9% £314m	3.6% £235m	2.4% £271m	2.3% £820m

The figures in the table above reflect the definition of infrastructure agreed by the Cross Pool Collaboration Group Infrastructure Sub-Group.

### 2. How the pool might develop or acquire the capacity and capability to assess infrastructure projects, and reduce costs by managing any subsequent investments through the combined pool, rather than existing fund, or “fund of funds” arrangements.



<p>(a) Please confirm that the pool is committed to developing a collaborative infrastructure platform that offers opportunities through the utilisation of combined scale, to build capability and capacity in order to offer authorities (through their Pools) the ability to access infrastructure opportunities appropriate to their risk appetite and return requirements more efficiently and effectively.</p>	<p>Confirmed</p>
<p>(b) Please confirm that the pool is committed to continuing to work with all the other Pools (through the Cross Pool Collaboration Infrastructure Group) to progress the development of a collaborative infrastructure initiative that will be available to all Pools and include a timescale for implementation of the initiative.</p>	<p><b>Yes</b></p> <p>The Northern Pool is committed to working with the cross pool collaboration on infrastructure and as such has agreed to operate in accordance with the document attached as Annex D1.</p> <p>The Pool has a strong belief that the infrastructure partnership developed between GMPF and LPFA ('GLIL'), which WYPF and MPF will shortly be joining can form part of the solution for national LGPS collaboration on infrastructure investment. Indeed, use of this vehicle could accelerate the achievement of the objectives set out in this submission and Annex D1.</p>
<p>(c) [If different to above] Please attach an ANNEX setting out how the pool might develop the capability and capacity in this asset class, through developing its own resources and / or accessing</p>	<p>Attached as Annex D2 is a document setting out how GLIL can form part of the national solution for infrastructure investment</p>

shared resources of other Pools and include a timescale for implementation of the initiative.	
---	--

**3. The proportion the pool could invest in infrastructure, and their ambition in this area going forward, as well as how they have arrived at this position.**

(a) Please state the estimated total target allocation to infrastructure, or provide a statement of potential strategic investment, once the capacity and capability referred to in 2 above is in full operation and mature.	10% of Pool Assets
--	--------------------

<p>(b) Please describe the conditions in which this allocation could be realised.</p> <p>The two key conditions are</p> <ul style="list-style-type: none"> <li>i Investments are available that meet the required risk adjusted returns net of fees. The Northern Pool envisages that this requires a programme of both externally managed pooled vehicles and direct investments.</li> <li>ii The Pool has access to entities that have the capacity and capability to access this investment strategy. (For example GLIL for direct UK infrastructure.)</li> </ul>	
--	--

**Wirral MBC – Administering authority for Merseyside Pension Fund ('MPF')**

*Please attach an ANNEX for each authority that proposes to hold assets outside of the pool detailing the amount, type, how long they will be held outside the pool, reason and how it demonstrates value for money.*

MPF expects to hold some cash outside of the Pool on an ongoing basis. This is estimated to be 1% of total fund assets (£68m at 31.3.15 values). This cash will be used for the payment of benefits and administration expenses which can vary in their amount and timing.

Prior to the implementation of the pooling arrangements in April 2018 the Pool will undertake a review of cash management in order to establish the optimum level of cash for each fund to hold outside of the Pool.

Cash balances managed outside of the Pool are expected to achieve a similar rate of return to the cash managed by the Pool.