

# Agenda Item 3

## NORTHERN LGPS JOINT COMMITTEE

4 February 2021

(Meeting held remotely via Zoom Pro platform)

Commenced: 11.00am

Terminated: 12.15pm

**Present:**

<b>Cllr Gerald P Cooney (Chair)</b>	<b>Vice Deputy – Greater Manchester Pension Fund</b>
<b>Councillor Brenda Warrington</b>	<b>Chair – Greater Manchester Pension Fund</b>
<b>Cllr Andrew Thornton</b>	<b>Chair - West Yorkshire Pension Fund</b>
<b>Councillor Pat Cleary</b>	<b>Chair – Merseyside Pension Fund</b>
<b>Councillor Cherry Povall</b>	<b>Vice Chair – Merseyside Pension Fund</b>
<b>Liz Bailey</b>	<b>West Yorkshire Pension Fund</b>

**In attendance:**

<b>Rodney Barton</b>	<b>Director of Pensions - West Yorkshire Pension Fund</b>
<b>Peter Wallach</b>	<b>Director of Pensions - Merseyside Pension Fund</b>
<b>Sandra Stewart</b>	<b>Director of Pensions, GMPF</b>
<b>Euan Miller</b>	<b>Assistant Director of Pensions, Funding and Business Development, GMPF</b>
<b>Tom Harrington</b>	<b>Assistant Director of Pensions, Investments, GMPF</b>
<b>Paddy Dowdall</b>	<b>Assistant Director of Pensions, Local Investments and Property, GMPF</b>
<b>Steven Taylor</b>	<b>Assistant Director of Pensions, Special Projects, GMPF</b>
<b>Neil Cooper</b>	<b>Head of Pension Investment (Private Markets), GMPF</b>
<b>Greg Campbell Owen</b>	<b>Merseyside Pension Fund</b>
<b>Thorne</b>	<b>Merseyside Pension Fund</b>
<b>Colin Standish</b>	<b>West Yorkshire Pension Fund</b>
<b>Debra Hopkins</b>	<b>West Yorkshire Pension Fund</b>
<b>Joanna Wilkinson</b>	<b>West Yorkshire Pension Fund</b>
<b>Alan McDougall</b>	<b>PIRC</b>
<b>Janice Hayward</b>	<b>PIRC</b>
<b>Tom Powdrill</b>	<b>PIRC</b>
<b>Conor Constable</b>	<b>PIRC</b>
<b>Phil McCloy</b>	<b>Northern Trust</b>
<b>Claire Misata</b>	<b>Northern Trust</b>

### 24. DECLARATIONS OF INTEREST

There were no declarations of interest declared by Members.

## 25. MINUTES

The Minutes of the meeting of the Northern LGPS Joint Committee held on 1 October 2020 were agreed as a correct record.

## 26. POOLING UPDATE

Consideration was given to a report of the Assistant Director of Pensions, Funding and Business Development, GMPF, providing an update on pooling activity since the previous Northern LGPS Joint Committee meeting and summarised relevant national pooling developments.

It was reported that, on 3 January 2019 MHCLG released new draft statutory guidance on LGPS asset pooling for 'informal' consultation. Parties that were consulted included pools, administering authorities and local pension boards. The guidance was intended to replace previous pooling guidance, in particular the LGPS Investment Reform Criteria and Guidance issued in November 2015 ('the 2015 guidance').

As per discussion at previous meetings, the draft statutory guidance had blurred the original four criteria in the 2015 guidance. In its place the guidance has 6 sections covering; structure and scale, governance, transition of assets to the pool, making new investments outside the pool, infrastructure investment and reporting.

On 25 November 2020 Government set out a commitment to consult on strengthening the framework for pooling in the Balance Sheet Review (published alongside the Spending Review) at <https://www.gov.uk/government/publications/the-balance-sheet-review-report-improving-publicsector-balance-sheet-management>, (pages 34-35). This referred to stronger governance, improved reporting, and greater transparency on investment performance, including benchmarking against UK and international comparators.

The Balance Sheet Review referred to pools having made cumulative savings of £300m by September 2020. Northern LGPS' understanding from discussions with MHCLG was that costs of £270m had been incurred in generating these savings, creating a net saving of £30m. Northern LGPS' net saving was approximately £40m.

MHCLG had also issued the slides (attached as Appendix 1 to the report), to the LGPS pools, which indicated that a new consultation on pooling guidance and potentially changes to the LGPS Investment Regulations was expected sometime later in the year. MHCLG civil servants had also been working with the Chair of the Client-side Cross-Pool Group to produce a questionnaire to be completed by funds to help MHCLG draft new guidance and/or regulations. To date, this was yet to be issued.

MHCLG stated in their slides that "*around £300m in savings to date largely from lower investment and custody costs due to greater scale (£30m net)*". Northern LGPS submitted an update report which provided that, total savings, net of costs, as at 31 March 2020 were £40.64m (as detailed in Appendix 2 to the report).

Updates on the progress of the main ongoing workstreams for the Northern LGPS together with LGPS Pooling developments nationally provided in the report.

### **RESOLVED**

**That the content of the report be noted, in particular, the references to LGPS pooling in the Government's Balance Sheet Review.**

## **27. UPDATE FROM THE COMMON CUSTODIAN**

Phil McCloy and Claire Misata, representatives of Northern Trust, presented an update on the key milestones, deliverables and high level KPIs applicable to their appointment as the common custodian to the Northern LGPS pool.

### **RESOLVED**

**That the content of the report and presentation be noted.**

## **28. UPDATE ON INVESTMENT MANAGEMENT COST BENCHMARKING**

The Assistant Director of Pensions Investments, GMPF, submitted a report providing members of the Committee with an update on investment management cost benchmarking for 2019/20.

Analysis of the interim 2019/20 data indicated that the Northern LGPS remained low cost and was below the median (average) cost of its peer group (which consisted of 21 global pension funds (inclusive of Northern LGPS) ranging from £12.7 billion to £90.7 billion).

In 2014/15, CEM calculated Northern LGPS' benchmarked costs to be 0.35%. Average Pool value of £29 billion). The Northern LGPS' costs increased to 0.39% in 2019/20 reflecting the increasing diversification of the underlying funds.

When adjusting for the increase in assets and changes in strategic asset allocation over the last six years, CEM calculated that Northern LGPS' like for like costs would be 0.50% in 2019/20. On this basis, Northern LGPS had generated underlying savings of 0.11%.

CEM had also benchmarked Northern LGPS' costs against a peer group of 21 relatively similar sized global funds (including 1 other large UK LGPS fund and 3 other LGPS pools (based on the data submitted by the pools and available to CEM). The peer group actual cost was 0.42%. To calculate the benchmark cost, CEM apply peer median costs at an asset class level to the Northern LGPS' asset mix. The benchmark cost in 2019/20 was 0.40%. On this basis, the Northern LGPS was 0.02% lower cost than the benchmark.

### **RESOLVED**

**That the content of the report be noted.**

## **29. PERFORMANCE MEASUREMENT**

The Assistant Director of Pensions Investments, GMPF, submitted a report providing Members of the Northern LGPS Joint Committee with an update on performance measurement.

It was reported that, at the Shadow Joint Committee meeting of 10 January 2019, Members endorsed the appointment of Portfolio Evaluation Ltd as the common performance measurement provider for the Pool.

Details of Northern LGPS reporting for periods to 30 September 2020 was attached as an appendix to the report. It was explained that the reporting would assist in fulfilling both reporting requirements to Government, and any oversight obligations of the Joint Committee.

It was noted that Officers continued to work closely with Portfolio Evaluation to separately identify NPEP and GLIL returns, given their importance to the Northern LGPS proposition.

**RESOLVED**

**That the content of the report be noted.**

**30. UPDATE ON RESPONSIBLE INVESTMENT**

Consideration was given to a report of the Assistant Director of Pensions Investments, GMPF, explaining that the Northern LGPS Pool Responsible Investment policy was adopted in January 2019 (a link to the policy was provided in the report). Committee Members were informed that the Responsible Investment advisor would review the policy and prepare a revised draft for consideration at the next meeting of the Joint Committee, in particular the thematic aspects of the policy would be reaffirmed and/or refreshed.

Members were further informed that each of the three underlying Northern LGPS Funds were members of the Institutional Investor Group on Climate Change (IIGCC). The IIGCC had recently invited all members to become signatories to a Net Zero commitment statement (attached as Appendix B to the report). It was noted that GMPF was minded to become a signatory and the Committee discussed West Yorkshire and Merseyside Pension Funds' individual position on this matter in order to facilitate the Northern LGPS Pool becoming a signatory.

Tom Powdrill, PIRC Ltd., Responsible Investment advisor to the Northern LGPS, then provided an update on their Responsible Investment activity during the quarter and presented their Quarterly Stewardship Report, a copy of which was appended to the report.

Discussion ensued in respect of the content of the reports and presentation, in particular, the review of the Responsible Investment policy and members highlighted recent communications from the Palestine Solidarity Campaign and the need to consider human rights issues within the next iteration of the Responsible Investment policy.

**RESOLVED (i) That the content of the latest quarterly Responsible Investment report be noted; (ii) That the Responsible Investment advisor bring an updated draft of the Responsible Investment policy to the next meeting for endorsement by the Joint Committee, having regard to the discussion in the meeting in respect of human rights issues; and (iii) That the Northern LGPS Pool become a signatory to the IIGCC Net Zero commitment statement.**

**31. MERSEYSIDE PENSION FUND – PROPOSALS TO REVISE INVESTMENT STRATEGY**

The Director of Pensions, Merseyside Pension Fund, submitted a report explaining that, at MPF's Pensions Committee meeting in November 2020, Committee instructed officers to develop and implement the investment strategy proposals outlined in report to that Committee. In the report (attached as Appendix 1 to the report), Aon, MPF's advisers, suggested ways in which fund governance could be simplified, returns enhanced without a commensurate increase in risk and recommended consideration of additional assets and investment products that delivered these objectives with an emphasis on sustainability.

The Committee was advised that, amongst other things, this would require an investment manager selection/procurement exercise, which would be conducted in accordance with the NLGPS inter-authority operating agreement.

**RESOLVED**

**That the content of the report be noted.**

### **32. UPDATE ON THE SCHEME ADVISORY BOARD'S INVESTMENT, GOVERNANCE AND ENGAGEMENT SUB-COMMITTEE**

The Director of Pensions, MPF, submitted a report explaining that the Investment, Governance and Engagement Sub-Committee was established by the Scheme Advisory Board and the Directors of the West Yorkshire and Merseyside Pension Funds were members of the sub-committee.

It was also mentioned that the Shadow Advisory Body had invited the Director of GMPF to chair the new Responsible Investment Advisory Group (RIAG), which would report to the Investment, Governance and Engagement Sub-Committee.

An update of the sub-committee meetings held on 12 October 2020 and 18 January 2021 was provided.

#### **RESOLVED**

**That the content of the report be noted.**

### **33. DIRECT INFRASTRUCTURE PLATFORM (GLIL) UPDATE**

The Assistant Director of Pensions, Local Investments and Property, GMPF, updated members on progress with the Northern Pool's direct infrastructure investment platform (GLIL).

The latest quarterly report for GLIL to September 2020 was appended to the report. The priorities for GLIL over the next quarter and 12 months were detailed and discussed.

#### **RESOLVED**

**That the content of the report be noted.**

### **34. HOUSING INVESTMENT: APPROVAL OF COLLECTIVE INVESTMENT IN PGIM**

Consideration was given to a report of the Assistant Director, Local Investment and Property, GMPF, providing information of collective investment of £150m into PGIM UK Real Estate UK Affordable Housing Fund.

It was reported to the Committee on 1 October 2020 that; following completion of the due diligence, the 3 Directors of Northern LGPS agreed at a meeting on 14 September, to make a collective investment into PGIM UK Real Estate UK Affordable Housing Fund split as follows: £100m GMPF, £25m each WYPF and MPF. The final implementation was subject to any procedures required for execution of delegated authority by the 3 Fund Directors of Northern LGPS.

It was explained that the implementation was now complete, and the fund had its first close in December 2020 with Northern LGPS acting as cornerstone investors.

The income-focused UK Affordable Housing Fund targeted a stable total return of 6-9% per annum, net of fees and costs, by investing in and developing affordable homes for working people and families across the UK.

Officers were particularly impressed with the fund's ESG credentials, both in terms of its ambitions of creating high quality sustainable homes and the social impact that would be achieved. The fund had a strong pipeline of opportunities across the UK including a number of significant schemes within the Northern LGPS geographical area.

Officers were reviewing further investment opportunities in other fund products and strategies tailored towards affordable housing.

**RESOLVED**

**That the content of the report be noted.**

**35. PROPERTY FRAMEWORK**

Consideration was given to a report of the Assistant Director of Pensions, Local Investments and Property, GMPF, updating Members on the procurement exercise for a Property Management Framework.

It was reported that the framework was now complete and available for use. The details of the lots were contained in Appendix 1 to the report, which were the minutes of a Directors' meeting to confirm the appointments to the framework.

**RESOLVED**

**That the content of the report be noted.**

**CHAIR**