

NORTHERN LGPS JOINT OVERSIGHT COMMITTEE

11 April 2024

Commenced: 11:00am

Terminated: 12.25pm

Present:	Councillor Gerald P Cooney (Chair)	Chair, Greater Manchester Pension Fund
	Councillor Jacqueline North	Vice Chair, Greater Manchester Pension Fund
	Councillor Andrew Thornton	Chair, West Yorkshire Pension Fund
	Councillor Julie McManus	Chair, Merseyside Pension Fund
	Ken Drury	UNITE
In attendance:	Peter Wallach	Director of Pensions, MPF
	Euan Miller	Managing Director, WYPF
	Tom Harrington	Assistant Director of Pensions, Investments, GMPF
	Paddy Dowdall	Assistant Director of Pensions, Local Investment and Property, GMPF
	Steven Taylor	Assistant Director of Pensions, Special Projects, GMPF
	Neil Cooper	Head of Pension Investment, GMPF
	Michael Ashworth	Principal Investments Manager, GMPF
	Mushfiqur Rahman	Investments Manager, GMPF
	Owen Thorne	Merseyside Pension Fund
	Adil Manzoor	Merseyside Pension Fund
	Alex Abela-Stevenson	Merseyside Pension Fund
	Leandros Kalisperas	Chief Investment Officer, WYPF
	Simon Edwards	Assistant Director, Alternative Investments, WYPF
	Joanna Wilkinson	West Yorkshire Pension Fund
	Robert Hulme	West Yorkshire Pension Fund
	Alan McDougal	PIRC
	Janice Hayward	PIRC
	Conor Constable	PIRC
	Paul Hunter	PIRC
	Mona Ackholm	PIRC
	John Simmonds	CEM Benchmarking (Agenda Item 7 only)
	David Jennings	CEM Benchmarking (Agenda Item 7 only)

Apologies for absence:

Cllr Povall – Merseyside Pension Fund
Elizabeth Bailey – Deputy Chair – West Yorkshire Pension Fund
Alan Flatley - GMB

30. DECLARATIONS OF INTEREST

There were no declarations of interest.

31. MINUTES

The Minutes of the meeting of the Northern LGPS Joint Committee held on 1 February 2024 were agreed as a correct record.

32. POOLING UPDATE

Consideration was given to a report of the Managing Director, WYPF, 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 include 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').

Government was yet to publish a response to the consultation (it appeared that it would be superseded) and therefore the 2015 guidance remained in force.

DLUHC civil servants had been indicating for some time that a consultation on several key policy areas for the LGPS was expected to be issued in the near future. The consultation was expected to cover LGPS pooling as well as other related matters such as the implementation of TCFD ('Task-force on Climate-Related Financial Disclosure') requirements for LGPS funds and investing LGPS assets to support the levelling-up agenda. However, a consultation on implementation of TCFD requirements was released separately on 1 September 2022. (DLUHC had recently confirmed that implementation of climate reporting obligations would be delayed at least until 2024/25).

At a speech on 9 December 2022, the Chancellor of the Exchequer announced that Government would also consult on requiring LGPS funds to ensure they were considering investment opportunities in illiquid assets such as venture and growth capital, as part of a diversified investment strategy. It was once again reiterated that Government would be releasing new pooling guidance for consultation.

Members were advised that the Chancellor of Exchequer delivered his Budget on 15 March. It was stated that the Government was challenging the Local Government Pension Scheme in England and Wales to move further and faster on consolidating assets. The Government would also consult on requiring LGPS funds to consider investment opportunities in illiquid assets such as venture and growth capital, thereby seeking to unlock some of the £364 billion of LGPS assets into long-term productive assets.

On 11 July 2023 the long-awaited consultation, titled 'LGPS: Next Steps on Investments', was finally released, with a closing date for responses of 2 October 2023.

A summary of consultation proposals was provided in the report.

The NLGPS Pool issued a response to the consultation, as did each of the three partner funds. The NLGPS Pool response repeated many of the messages from the response to the 2019 consultation, in particular:

- Government needed to focus on delivering successful outcomes;
- LGPS funds are diverse – a 'one size fits all' approach was not appropriate; and
- Funds' fiduciary duty was paramount.

Alongside the Chancellor's Autumn Statement, the response to the "next steps on investments" consultation was published by DLUHC on 22 November 2023. The consultation largely adopted the measures the Government originally consulted on despite significant negative feedback to several of the proposals. The measures the Government was due to adopt were set out in the report.

Members were advised that the Directors of the three NLGPS Partner Funds recently met with the lead Civil Servant for the LGPS at DLUHC to discuss the measures and their potential implications for the NLGPS. Whilst it is clear that DLUHC's preferred model of pooling will be very different to NLGPS, indications were that Government would take more of a 'comply or explain' approach than

seeking to use its direction powers under the LGPS Investment Regulations.

Much of the detail would be set out in statutory guidance which was not expected to be released until the summer. In the meantime, whilst no immediate changes to the operation of the NLGPS Pool appeared to be required as a result of the consultation being finalised, it was suggested that it may be a good time for the Pool and its stakeholders to consider the strategic direction of the Pool.

Members were further advised that the Chancellor delivered his budget on 6 March 2024, with three relevant issues for the LGPS being raised:

- a) Encouragement for the LGPS to hold more UK equities and for the holdings to be clearly stated in the fund accounts;
- b) Reiterating the requirement for LGPS funds to pool assets by 2025 unless there was a value for money case not to do so;
- c) A desire for the LGPS to fund new children's homes with the potential for some sort of financial incentive from Government. There were no further details in the paperwork accompanying the budget, but it was understood that a working group to explore this was being organised by DLUHC.

On 28 March updated guidance for preparing the fund annual report was released. The guidance was the first publication which had been reviewed and jointly approved by the SAB's Compliance and Reporting Committee (CRC), the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Department for Levelling Up, Housing and Communities (DLUHC). It replaced the 2019 guidance produced by the CIPFA Pensions Panel, which was disbanded in 2021.

The new guidance applied to 2023/24 annual reports which were due for publication by 1 December 2024, and later years. The guidance states that funds should use their best endeavours to comply fully with the requirements for 2023/24 but exercise judgement where, because of changes to the previous content, to do so would require disproportionate effort or cost. The guidance would be kept under regular review.

Both the Pool and individual funds would need to consider whether any changes to their reporting of pooling activity was required in light of the guidance and consultation proposals. The consultation indicated that DLUHC would monitor fund annual reports whilst preparing further guidance.

At the previous Joint Committee meeting, the idea of preparing a Pool Business Plan for 2024/25 was discussed. A draft of the Business Plan was attached as an appendix to the report for the Joint Committee's review. Once the content was finalised it would be formatted and Northern LGPS Branding applied.

Information was also given in respect of a proposed 'Stakeholder Day' for the Committees and Local Pension Boards of the three partner funds be held at Bradford City Hall on Friday 21 June 2024. Final details were still to be confirmed but it was expected to start around 10.30am and close around 3.30pm.

Discussion ensued in respect of the content of the report and, in particular, the proposals for the Stakeholder Day and it was agreed that an invitation to the event be extended to the DLUHC Minister, Simon Hoare MP.

RESOLVED

That the content of the report be noted and the Northern LGPS Pool Business Plan and outline agenda for the Stakeholder Day on 21 June 2024, be approved and an invitation to the event be extended to DLUHC Minister, Simon Hoare MP.

33. SCHEME ADVISORY BOARD UPDATE

Consideration was given to a report of the Managing Director, WYPF, providing an update on the last meeting of the Investment, Governance & Engagement (IG&E) Sub-Committee that had taken

place on the 26 February 2024.

Actions & Agreements from the meeting on 20 November 2023 were appended to the report.

The Director of Pensions, MPF, attended the meeting on 26 February 2024 and provided a verbal update on the principal items on the agenda as follows:

- Sharia Compliance Update;
- Code of Transparency Update;
- Update on Economic Activity of Public Bodies (Overseas matters) Bill;
- Terms of Reference changes; and
- Investment Strategy Statement and Pooling Guidance.

RESOLVED

That the report be noted.

34. COMMON CUSTODIAN UPDATE

The Assistant Director of Pensions Investments, GMPF, submitted a report, which provided details of key performance indicators and key milestones and deliverables for the quarter to 31 December 2023 in relation to Northern Trust (NT) in their capacity as the common custodian to the Northern LGPS pool, as attached in an appendix to the report.

RESOLVED

That the report and presentation be noted.

35. UPDATE ON INVESTMENT MANAGEMENT COST BENCHMARKING

This report provides members of the Northern LGPS Joint Committee with an update on investment management cost benchmarking for 2022/23. John Simmonds and David Jennings of CEM Benchmarking also delivered a presentation.

Mr Simmonds explained that updated information had been received since the report was issued and therefore he presented updated information as follows:

Analysis of the interim 2022/23 data indicated that the Northern LGPS remained low cost and was below the median (average) cost of its peer group (which consisted of 19 global pension funds (inclusive of Northern LGPS) ranging from £13.2 billion to £126.0 billion).

In 2014/15, CEM calculated Northern LGPS' benchmarked costs to be 0.35% (£112 million relative to an average Pool value of £29 billion). The Northern LGPS' benchmarked costs increased to 0.38% (£211 million relative to an average Pool value of £57 billion) in 2022/23.

When adjusting for the increase in assets and changes in strategic asset allocation over the last nine years, CEM calculated that Northern LGPS' like for like costs would be 0.60% (£331m) in 2022/23. On this basis, Northern LGPS had generated underlying savings of 0.22% (£120m) in 2022/23.

CEM had also benchmarked Northern LGPS' costs against a peer group of 18 relatively similar sized global funds (including 1 other large UK LGPS fund and 2 other LGPS pools (based on the data submitted by the pools and available to CEM)). The peer group actual cost was 0.57%. To calculate the benchmark cost, CEM applied peer median costs at an asset class level to the Northern LGPS' asset mix. The benchmark cost in 2022/23 was 0.42% (£231m). On that basis, the Northern LGPS was 0.04% (£20m) lower cost than the benchmark.

RESOLVED

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

36. UPDATE ON RESPONSIBLE INVESTMENT

Consideration was given to a report and presentation from representatives of PIRC, which set out the Q4 2023 Northern LGPS Stewardship Report (attached as an appendix to the report).

Mr Powdrill and Mr Hunter of PIRC, presented the Q3 2023 Northern LGPS Stewardship report, which focused on and explored:

- Shareholder Proposals;
- Water Stewardship;
- Workers Rights;
- Executive Remuneration;
- Voting statistics.

Representatives of PIRC also presented a proposal for a new enhanced “Climate Governance Service” which aimed to further support the way clients addressed climate change by providing a new deep-dive, standalone, 1.5C aligned climate governance voting service.

Separately, an update on the Northern LGPS’ Institutional Investor Group on Climate Change (IIGCC) Net Zero commitment was also provided.

Members were advised that, in February 2021, the Joint Committee resolved that the Northern LGPS Pool become a signatory to the IIGCC Net Zero Asset Owner commitment (minute 30 refers). At the 7 October 2021 meeting of the Northern LGPS Joint Committee, Members endorsed a joint approach to the expedient setting of interim targets under the IIGCC Net Zero commitment, upon receipt of detailed IIGCC guidance. At the 3 February 2022 meeting of the Northern LGPS Joint Committee, Members endorsed the draft “Paris Aligned Asset Owners: Target Disclosure Template”, subject to any minor updates which were delegated to Officers. The template set out interim climate targets. At the same meeting, Members endorsed the appointment of Trucost, as common carbon footprinting service provider, to facilitate, inter alia, the measurement of progress against the interim climate targets.

Details the Northern LGPS progress against those targets and other IIGCC Net Zero Asset Owner commitments was provided in an appendix to the report.

Discussion ensued in respect of the content of the report and presentation and it was:

RESOLVED

- (i) That the content of the presentation and the Q4 2023 Northern LGPS Stewardship report be noted, including Northern LGPS progress against IIGCC Net Zero Asset Owner commitments and targets;**
- (ii) That the PIRC proposal for a new enhanced ‘Climate Governance Service’ be approved and incur the associated costs, as set out in the report.**

37. PERFORMANCE MEASUREMENT

Consideration was given to a report of the Assistant Director, Investments, GMPF, which provided Members with an update on performance measurement.

It was explained that, following Portfolio Evaluation Ltd’s notification of their intention to cease trading, at the Joint Committee meeting of 6 July 2023, it was agreed that the Directors would finalise arrangements for a common performance measurement provider for Northern LGPS, such that a provider was in place for reporting periods commencing 30 September 2023.

The Northern LGPS Directors approved the appointment of Hymans Robertson as the common performance measurement provider for the Pool for reporting periods commencing 30 September 2023 at the September meeting of the Northern LGPS Directors.

Members were advised that the transition of Northern LGPS performance reporting from Portfolio Evaluation Ltd, to Hymans Robertson was substantially complete. Officers continued to work with Hymans Robertson to finalise the benchmarking arrangements for property. The performance of property had not been benchmarked in the appendix, pending resolution of index licensing queries.

An extract from the Northern LGPS reporting for periods to 31 December 2023 was attached as an appendix to the report. The reporting assisted in fulfilling both reporting requirements to Government, and any oversight obligations of the Joint Committee.

RESOLVED

That the performance reporting for periods to 31 December 2023 be noted.

38. GLIL UPDATE

Consideration was given to a report of the Assistant Director for Local Investment and Property, GMPF, updating members on progress with the Northern Pool's direct infrastructure investment platform (GLIL).

Members were advised that, GLIL had progressed well and had one external investor. There had been some engagement with other pools, but this has not progressed as well as hoped. Officers had reflected on this and sought to analyse why; and to review the operation of GLIL to ensure that it served the objectives of current owners.

The broad conclusions of the review were to recommend changes to the legal agreements to give responsibility for delivery of the management of GLIL to the executive team at GLIL. The executive team was employed by LPPi and therefore the active day to day oversight of this would be with LPPi rather than the Northern LGPS EC and IC members. This may well be seen as satisfactory but was a significant cession of control compared to current arrangements from a Northern LGPS perspective, which required protections within the revised agreements. Directors of LGPS Funds were given delegation to review these documents and execute on behalf of Northern LGPS Funds at a previous meeting of the Joint Committee.

The GLIL report to investors for the period ending 31 December 2023, was appended to the report and key highlights detailed and discussed.

The core priorities for GLIL over next quarter and 12 months remained:

- Implementation of revised management arrangements;
- Management of investors' current allocations in accordance with the mandate;
- Continue to implement ESG strategies in line with investee Funds' objectives; and
- Continued Engagement with other LGPS Funds and Pools and potential aligned non LGPS investors.

RESOLVED

That the content of the report be noted.

39. DATE OF NEXT MEETING

RESOLVED

It was noted that the next meeting of the Northern LGPS Joint Oversight Committee was scheduled to take place on 18 July 2024.

CHAIR