

NORTHERN LGPS JOINT OVERSIGHT COMMITTEE

2 February 2023

Commenced: 11:00

Terminated: 12:20

Present:	Cllr Gerald P Cooney (Chair) Councillor Oliver Ryan	Chair, Greater Manchester Pension Fund Vice-Chair, Greater Manchester Pension Fund
	Councillor Andrew Thornton Elizabeth Bailey	Chair, West Yorkshire Pension Fund Deputy Chair, West Yorkshire Pension Fund
	Councillor Pat Cleary	Chair, Merseyside Pension Fund
In attendance	Sandra Stewart Peter Wallach Euan Miller Rodney Barton Tom Harrington	Director of Pensions, GMPF Director of Pensions, MPF Managing Director, WYPF Retiring Director of Pensions, WYPF Assistant Director of Pensions, Investments, GMPF
	Steven Taylor	Assistant Director of Pensions, Special Projects, GMPF
	Neil Cooper Mushfiqur Rahman	Head of Pension Investment, GMPF Investments Manager for Public Markets, GMPF
	David Olliver Alex Jones Owen Thorne Adil Manzoor Colin Standish Simon Edwards Alan McDougal Janice Hayward Tom Powdrill Conor Constable	Senior Investments Manager, GMPF Investment Officer, GMPF Merseyside Pension Fund Merseyside Pension Fund West Yorkshire Pension Fund West Yorkshire Pension Fund PIRC PIRC PIRC PIRC
Apologies for Absence:	Councillor Cherry Povall	Deputy Chair, Merseyside Pension Fund

23 DECLARATIONS OF INTEREST

There were no declarations of interest.

24 MINUTES

The Minutes of the meeting of the Northern LGPS Joint Committee held on 6 October 2022 were agreed as a correct record.

25 COMMON CUSTODIAN UPDATE

Consideration was given to a report of the Director of Pensions (GMPF) / Assistant Director for Investments (GMPF). 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.

The Committee received a presentation from the Relationship Manager for Northern Trust. The presentation set out Key Performance Indicators, measuring trade settlement, income collection and straight through trades.

The Key Milestones and Deliverables that were completed and in progress for GMPF, MPF and WYPF were presented to the committee.

RESOLVED

That the report and presentation be noted.

26 COMMON CUSTODIAN - CONTRACT EXTENSION AND FEE REVIEW

Consideration was given to a report of the Director of Pensions (GMPF) / Assistant Director for Investments (GMPF). The report recommend that the three underlying Northern LGPS Funds appoint Thomas Murray Ltd (TML) to carry out a fee review and custodian monitoring exercise of their contractual arrangements with Northern Trust.

It was reported that officers believed it was now appropriate to begin considering whether the appointment of the Northern Trust should be extended for a further 5 years. This would be considered against a background of i) the three underlying Northern LGPS Funds being broadly satisfied with the current common custodial arrangements; and ii) the knowledge that transitioning custodians was a very substantial and resource intensive undertaking.

Before deciding whether to extend for a further 5 years, officers believed it was important to ensure that the current contractual arrangements with Northern Trust continued to provide value for money. As such, it was proposed that the three underlying Northern LGPS Funds sought to appoint TML to carry out a fee review and custodian monitoring exercise. TML were best placed to undertake this work, given their status as the pre-eminent custodian selection and monitoring specialist, and having been heavily involved in the initial procurement project leading to Northern Trust's appointment. TML's fee was not expected to be material.

Once the proposed fee review was completed, this would be considered alongside an assessment of the custodian's performance during the initial contractual period. It was planned that a further report would be brought back to a future meeting of the Northern LGPS Joint Committee recommending that the option to extend the appointment of Northern Trust for a further 5 years be exercised, or otherwise.

RESOLVED

That the three underlying Northern LGPS Funds appoint Thomas Murray Ltd (TML) to carry out a fee review and custodian monitoring exercise of their contractual arrangements with Northern Trust.

27 POOLING UPDATE

Consideration was given to a report of the Managing Director (WYPF), the report provided an update on pooling activity since the previous Northern LGPS Joint Committee meeting and summarised relevant national pooling developments.

In regards to the revisions to guidance on LGPS asset pooling it was reported that on the 9 December 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 will be releasing new pooling guidance for consultation. This was expected in 'early 2023'.

Lee Rowley MP was the new minister for Local Government and would therefore take up responsibility for the LGPS.

As set out on the LGPS Scheme Advisory Board website, the Board Chair, Cllr Roger Phillips, and Board Secretary Jo Donnelly had a meeting with the Minister on 7 December 2022. Topics discussed included pooling, government progress on the Good Governance recommendations, climate risk and reporting regulations for the LGPS and the impact of National Living Wage increases in the coming years on local government.

In early January 2023 it was reported that the Royal Borough of Kensington and Chelsea was seeking to exit the London CIV pool. This would be the first time that a LGPS fund had proposed withdrawal from one of the eight LGPS pools.

Given the further ministerial changes and the Royal Borough of Kensington and Chelsea activity, there could clearly be further delay and/or material amendments made to the proposed LGPS consultation.

RESOLVED

That the report be noted.

28 SCHEME ADVISORY BOARD UPDATE

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

The principal items on the agenda for the 28 November meeting were:

- Code of Transparency Update. Contractual arrangements with Byhiras were discussed. It was proposed that a user group comprising frequent and infrequent users of the system be established to consider proposed enhancements to the Byhiras reporting system and their value to users.
- RIAG Chair's (Director of GMPF) report. An update on the most recent RIAG meeting was provided. The meeting focused on TCFD reporting and a variety of views had been expressed around targets, methodologies, the role of Pools and the challenges of Scheme-wide reporting. It was important that the statutory guidance from DLUHC provided clarification on the various matters.
- DLUHC Regulatory Update. The consultation on TCFD reporting had closed. More than 120 responses. Constructive approach. A consultation on Pooling and Levelling Up would be issued when feasible. Climate risk regs needed to be in place by 1 April 2023. Considering whether the annual council report on spend known as the SF3 return could be expanded to include more information on Investments such as 'Broad asset categories and Pooling'.

RESOLVED

That the report be noted.

29 UPDATE ON RESPONSIBLE INVESTMENT

Consideration was given to a presentation of representatives of PIRC, which set out the Q3 2022 Northern LGPS Stewardship Report (attached at Appendix 1).

The Committee were advised of PIRC were encouraging companies to adopt the global reporting initiatives on tax standards. This was initially filed at Amazon and was also approved by the SEC. The Tax Transparency Shareholder Proposal was then filed at subsequent companies including

Microsoft and Cisco. It was reported that other investors have now taken this model resolution and filled it at companies.

An update was provided on the resolutions brought by GMPF. Following GMPF co-filing a resolution during 2022, Unilever agreed to publish nutrition scores for its food portfolio against external health metrics and set new targets. Prior to the engagement Unilever had been disclosing volumes of 'healthy' vs 'unhealthy' products it sold based on its own nutrient profiling model, making it less resilient to regulatory changes. Co-Fillers agreed to withdraw the resolution providing the company set targets to reduce the proportion of 'unhealthy' products it sold.

Further, GMPF submitted paperwork relating to a proposed resolution requesting that Nestle, the largest food and beverage manufacturer in the world, provided strategic plans and targets to increase sales derived from healthier food and beverage products. The co-filing group advised Nestle of the intention to submit a resolution two weeks ago. A series of engagement meetings with the company had been scheduled ahead of the filing deadline (early March) during which a negotiation between the investor group and the company would take place.

In regards to Freedom of Association resolutions, there were a number of these resolutions being filed as US companies this year. Shareholders urged the Board of Directors to commission and oversee an independent, third-party assessment to Starbucks adherence to its stated commitment to workers' freedom of association and collective bargaining rights as contained in the International Labour Organisation's Core Labour Standards and as explicitly referenced in the company's Global Human Rights Statement.

RESOLVED

That Members note the Q3 2022 Northern LGPS Stewardship report.

30 PERFORMANCE MEASUREMENT

Consideration was given to a report of the Director of Pensions (GMPF), the provided members of the Northern LGPS Pool Joint Committee with an update on performance measurement.

An extract from the Northern LGPS reporting for periods to 30 September 2022 was attached as an Appendix (note that returns for the three year period are un-annualised). The reporting assisted in fulfilling both reporting requirements to Government, and any oversight obligations of the Joint Committee.

Officers continued to work closely with Portfolio Evaluation to separately identify NPEP and GLIL returns in these performance reports, given their importance to the Northern LGPS proposition.

RESOLVED

That the report be noted.

31 GLIL UPDATE

Consideration was given to a report of the Assistant Director for Local Investment and Property (GMPF). The report updated members on progress with the Northern Pool's direct infrastructure investment platform (GLIL) and to give an interim update on the consultation exercise amongst stakeholders and wider market into how GLIL should position itself.

With regard to the consultation exercise, there had been significant engagement by the stakeholders and the GLIL team have learnt a great deal from the feedback about their expectations from GLIL and their perspective on the way forward. This had been extremely helpful but had required significant re-drafting of plans. This should result in a better plan for the way forward and one with a shorter implementation timetable. The broad themes were that there was not a perceived need for structural change and creation of new entities but that managerial changes, tax

efficient charging mechanisms and enhanced governance procedures could drive necessary improvements. Engagement continued with advisers and other stakeholders and it was anticipated that preliminary proposals would be available in the new financial year.

Members were updated on investment progress. Attached to this report was the GLIL report to investors for the period ending 30 September 2022. The key highlights of this report and of activity post the issuing of the report to date, were:

- Fund NAV stood at £2.65bn, slight reduction from £2.7bn at 30 June. IRR since inception of 11.1% and 22% over the last 12 months. £266m of distributions returned to investors since inception.
- Following the date of the report GLIL had deployed in excess of £550m with the majority invested in 2 assets. On 1 November £200m for a 6.25% stake in Hornsea 1, one of the largest operational offshore windfarms in the world powering over 1 million homes. 20 January 2023, £306m for a 25% stake in the M6 Toll road, the UK's only true toll road that helped to reduce congestion on the heavily used M6 through Birmingham, smaller follow on investments had been made via GLIL's holding in Semperian
- GLIL also completed the exit of its portfolio of Biomass asset managed by Iona Capital following the issuing of the report, this investment was no longer considered appropriate for GLIL given that fees were being paid to a manager. The assets were sold to a group of Scottish LGPS funds led by Lothian Pension Fund.
- Market for Infrastructure investments remained strong as the attraction of assets benefitting from inflation linked revenues was increasingly felt. Increase in Gilt yields could lead to a repricing of assets however the strong demand and availability of capital chasing scarce opportunities could limit this. Price caps and windfall taxes had had an effect of renewable energy assets that had performed strongly as a result of the elevated power prices.

RESOLVED

That the report be noted.

32 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 13 April 2023.

CHAIR