

GREATER MANCHESTER PENSION FUND - NORTHERN POOL SHADOW JOINT COMMITTEE

12 September 2017

Commenced: 10.30 am

Terminated: 11.45 am

Present:	Councillor Kieran Quinn	Greater Manchester Pension Fund (Chair)
	Councillor Paul Doughty	Merseyside Pension Fund
	Councillor Andrew Thornton	West Yorkshire Pension Fund
	Ian Greenwood	West Yorkshire Pension Fund
	Rodney Barton	Director - West Yorkshire Pension Fund
	Joe Blott	Managing Director - Wirral MBC
	Sandra Stewart	Director of Pensions - GMPF
	Paddy Dowdall	Assistant Director of Pensions (Local Investments and Property) - GMPF
	Euan Miller	Assistant Director of Pensions (Funding and Business Development) - GMPF
	Steven Taylor	Assistant Director of Pensions (Investments) - GMPF
	Tom Harrington	Senior Investments Manager - GMPF
	Neil Cooper	Senior Investments Manager - GMPF

Apologies for Absence: Peter Wallach - Director, Merseyside Pension Fund

1 MINUTES

The Minutes of the Northern Pool Shadow Joint Committee held on 25 July 2017 were agreed as a correct record.

2 RESPONSE FROM GOVERNMENT TO THE SPRING PROGRESS REVIEW

Consideration was given to a report of the Assistant Director of Pensions, Funding and Business Development, GMPF, setting out the Government's response to the Spring Progress Review of LGPS pooling developments.

It was reported that the Government had written to all LGPS pools in August 2017 regarding the progress updates provided in April 2017, a copy of the letter was appended to the report. The letter reaffirmed the Government's commitment to the pooling agenda and asked for a further update by 20 October 2017. The Department of Communities and Local Government had provided a template for the October progress update (as per appendix 2 of the report), which was similar to the template for the April submission.

The letter suggested that the update should include further details of savings achieved and planned as well as plans for reporting on fees and net performance by asset class. In addition, the letter made reference to achieving maximum savings and value for money.

It was again noted that the Northern Pool differed from other LGPS pools in that it consisted of three large funds with relatively simple management arrangements, which meant that the scope for savings was limited. The number of participants in the Pool was sufficient to allow collective investments to be made in alternative assets via joint ventures and each fund could be directly involved in the investment decision making process.

Appended to the report was a paper drafted for tabling at the combined authority meetings of each of the funds, which summarised the pooling agenda and sought support for the Northern Pool's agreed approach to meeting the pooling criteria. Comments on the draft report were received.

A discussion ensued and it was agreed that the Pool's progress update to Government should reiterate how the current vision for the Northern Pool met the Government's objectives in terms of maximising savings and providing value for money. In particular the Northern Pool continued to lead the way in the LGPS for direct infrastructure investment and was acting on behalf of the Local Authorities associated with each of the three funds in a cost effective way.

AGREED:

- (i) That the Shadow Joint Committee note the letter received from Government and the template of the October progress report;**
- (ii) That the update reiterate that the current vision for the Northern Pool met the Government's objectives in terms of maximising savings and providing value for money and the Pool continued to lead the way in the LGPS for direct infrastructure investment; and**
- (iii) The draft report for combined authorities be updated to reflect the comments received and updated.**

3 GOVERNANCE ARRANGEMENTS OF THE NORTHERN POOL

Consideration was given to a report of the Director of Pensions, GMPF, which set out details of the proposed governance arrangements of the Northern Pool. It had been agreed at the previous meeting of the Shadow Joint Committee to formalise the structure and governance arrangements of the Committee, including the role of Chair.

A draft Terms of Reference for the Northern Pool Oversight Board was appended to the report and was considered by the committee. The document had been drafted based on the Memorandum of Understanding that had been signed as part of the Pool's February 2016 submission to Government and also incorporated the agreement reached regarding trade union representation in the Pool. It was proposed that each participating fund nominated two representatives and three trade union representatives also be appointed.

It was explained that once the Terms of Reference had been agreed a provisional date could be set for the establishment of the Northern Pool Oversight Board. Approval would be needed at the full Council meetings of the participating authorities for the proposed governance arrangements.

In relation to the Chair, it had previously been agreed that Councillor K Quinn be nominated as Chair of the Northern Pool Oversight Board (and the shadow board in the interim), for an initial period of one year. West Yorkshire and Merseyside Pensions Funds would formally nominate Councillor K Quinn as Chair at their Pension Fund Committee meetings.

It was noted that to date Tameside MBC had provided the costs associated with the running of the committee. It was agreed going forward that the associated costs be equally split between the three funds with each fund contributing one third, which could be reviewed periodically.

AGREED:

- (i) That the draft Terms of Reference of the Northern Pool Oversight Board be agreed; and**
- (ii) That the administrative costs associated with the operations of the Northern Pool be equally split between the three funds with each fund contributing one third.**

4 CONSULTATION ON CROSS-POOL INFORMATION FORUM

Consideration was given to a report of the Assistant Director of Pensions, Funding and Business Development, GMPF, which outlined the LGPS Scheme Advisory Board consultation, which was launched on 17 July 2017 and ran until 29 September 2017.

It had been agreed at the previous meeting of the Northern Pool Shadow Joint Committee that the three funds in the Northern Pool would submit consistent responses to the consultation and the draft GMPF response was appended to the report and considered by the committee. It was explained that the questions to the consultation were yes/no answers and it was suggested that additional comments in relation to 1.8 and 1.12 be included in the covering email.

AGREED:

That the three funds submit consistent responses to the consultation and the covering email contains additional comments in relation to 1.8 and 1.12.

5 NORTHERN PRIVATE EQUITY POOL - UPDATE REPORT

Consideration was given to a report of the Assistant Director of Pensions, Investments, GMPF, which provided an update on the progress that had been made to date in the Northern Private Equity Pool and the planned next steps.

It was reported that all three funds currently invested separately in private equity investments. As part of the Northern Pool's final submission to Government in respect of proposals for LGPS pooling, a commitment had been made to implement a pooled approach to private market investments. LGPS assets would commence migration into pooled structures from 1 April 2018.

The pooling objectives for private equity were outlined as follows:-

- To capture fee savings as a result of larger commitment sizes in private equity investment.
- To provide a platform that will enable a lower cost implementation of private equity investment strategy through greatly lessened use of fund of funds and pursuit of co-investment opportunities.
- To increase the resilience and depth of the team and resources committed to private equity investment and broaden the scope of opportunities.

Squire Patton Boggs had presented a proposal to the three funds on 25 July 2017 to create an English Limited Partnership through which all three funds could channel their respective Private Equity commitments; each fund would own a proportion of the partnership. The partnership would be managed under a joint venture arrangement by a General Partner controlled by the three underlying local authorities in their capacity as shareholders in the General Partner company. A diagram showing the proposed private equity pool legal structure was detailed in the report and explained to the committee.

The operational aspects of how the pool would operate were outlined and eight areas had been identified that would require a level of service provision from either internal or external resource, as follows:-

- Banking
- Cash Management
- Accounting
- Reporting
- Tax Advice
- Legal Advice
- Investment Advice
- Secretariat

In relation to 'Accounting' and 'Reporting', the current practice across Northern Pool Funds was to use a combination of internal and external resource to capture appropriate data to enable accurate reporting and data analysis. A robust approach would need to be established for the Pool to achieve this and the pooling partnership would need to produce accounts to show how its assets and liabilities were divided between the three investing funds. There was discussion regarding the merits of using outsourced services that would be available from the jointly procured, pool-wide custodian. It was agreed to investigate this approach further reflecting a consensus view that this could well be a preferred approach.

With regard to 'Investment Advice', GMPF and Merseyside Pensions Fund currently received advice from a specialist adviser on certain aspects of private equity investing including manager selection. A decision was required on whether the pool needed the services of a specialist investment adviser or if there was sufficient experience and knowledge within the combined teams. Following discussion it was agreed that there was sufficient expertise amongst the pool-wide officers dedicated to Private Equity to make an ongoing, retained specialist advisor unnecessary. It was acknowledged, however, that officers ought to make use of specific research/advisory services as required on a case-by-case basis to address any specific requirements.

AGREED:

- (i) That the Committee endorses and supports the approach presented as the appropriate means to achieving Private Equity pooling;**
- (ii) That the Northern Private Equity Pool need not engage the services of a specialist adviser on a retained, ongoing basis; and**
- (iii) That the use of the joint custodian be further investigated as a potential preferred solution for the Northern Private Equity Pool's operating needs.**

6 MIFID II: CLIENT CATEGORISATION

Consideration was given to a report of the Assistant Director of Pensions, Investments, GMPF, which outlined the upcoming changes to the client categorisation of local authorities in regulated markets for investment products and services.

It was reported that The Financial Conduct Authority's implementation of MiFID II would categorise Local Authorities as Retail Clients, a change from the current Professional Client status. This change would have the potential to have a significant adverse impact of the Northern Pool's ability to implement current investment strategies.

Provision had been made for Local Authorities to "Opt-up" to Professional Client status subject to meeting appropriate quantitative and qualitative criteria. This would enable funds to continue to operate in the way that they had done to date and to continue to access the full range of investment products and services necessary to implement Investment Strategies.

The change to client categorisation would commence on 3 January 2018 and it was confirmed that there were no transitional arrangements. A report, which was presented at an Urgent Matters meeting of GMPF's Pension Fund Management Panel on 23 August 2017, was appended and considered by the committee. It detailed the issues involved and the steps that needed to be taken to enable the "opt-up" to Professional Client status with regulated managers and service providers.

AGREED:

That the report be noted.

7 DATES OF FUTURE MEETINGS

It was noted that future meetings be held as follows:-

- Tuesday 24 October 2017 at 10.00am, Guardsman Tony Downes House, Droylsden
- Tuesday 5 December 2017 at 1.30pm, Guardsman Tony Downes House, Droylsden
- Tuesday 23 January 2018 at 10.00am, Guardsman Tony Downes House, Droylsden
- Tuesday 13 March 2018 at 10.00am, Guardsman Tony Downes House, Droylsden
- Tuesday 24 April 2018 at 10.00am, Guardsman Tony Downes House, Droylsden

CHAIR