

NORTHERN LGPS JOINT OVERSIGHT COMMITTEE

6 October 2022

Commenced: 11.00am Terminated: 12.05pm

Present: Cllr Gerald P Cooney Chair, Greater Manchester Pension Fund
(Chair)
Elizabeth Bailey Deputy Chair, West Yorkshire Pension Fund
Councillor Pat Cleary Chair, Merseyside Pension Fund
Councillor Cherry Povall Deputy Chair, Merseyside Pension Fund

In attendance

Sandra Stewart	Director of Pensions, GMPF
Peter Wallach	Director of Pensions, MPF
Rodney Barton	Director of Pensions, WYPF
Euan Miller	Assistant Director of Pensions, Funding and Business Development, GMPF
Tom Harrington	Assistant Director of Pensions, Investments, GMPF
Paddy Dowdall	Assistant Director of Pensions, Local Investments and Property, GMPF
Steven Taylor	Assistant Director of Pensions, Special Projects, GMPF
Neil Cooper	Head of Pension Investment, GMPF
Dan Hobson	Head of Real Assets
Alex Jones	Investments Officer
Owen Thorne	Merseyside Pension Fund
Greg Campbell	Merseyside Pension Fund
Adil Manzoor	Merseyside Pension Fund
Colin Standish	West Yorkshire Pension Fund
Simon Edwards	West Yorkshire Pension Fund
Alan McDougal	PIRC
Janice Hayward	PIRC
Tom Powdrill	PIRC
Conor Constable	PIRC

Apologies for Absence: Councillor Oliver Ryan – GMPF and Councillor Andrew Thornton - WYPF

13. DECLARATIONS OF INTEREST

There were no declarations of interest.

14. MINUTES

The Minutes of the meeting of the Northern LGPS Joint Oversight Committee held on 7 July 2022 were agreed as a correct record.

15. POOLING UPDATE

Consideration was given to a report of the Assistant Director, Funding and Business Development, GMPF, which provided an update on pooling activity since the previous Northern LGPS Joint Oversight 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 had 6 sections covering; structure and scale, governance, transition of assets to the pool, making new investments outside the pool, infrastructure investment and reporting.

Members were advised that Government was yet to publish a response to the consultation (it appeared that it would be superseded) and the 2015 guidance therefore, remained in force.

DLUHC civil servants had indicated that a consultation on several key policy areas for the LGPS was expected to be issued in autumn 2022. 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 (further details of which were provided in the report) and no further information had been released regarding pooling.

In early September Liz Truss replaced Boris Johnson as Prime Minister and appointed Simon Clarke as Secretary of State for Levelling Up, Housing and Communities. Paul Scully, who was originally appointed as Minister of State at DLUHC in July, was retained in post and was expected to be the Minister responsible for overseeing the LGPS. Given the recent ministerial changes, there could be further delay and/or material changes made to the proposed LGPS consultation referred to previously.

As reported at the previous meeting of the Joint Committee, DLUHC had once again issued its annual request for a further progress update from each of the Pools, setting out the assets transferred to the pool as at 31 March 2022 and an estimate of costs savings achieved and those expected in future.

DLUHC was keen for all pools to be reporting cost savings on a consistent basis. A consistent LGPS-wide methodology was agreed in principle between the pools last year and the proposals were endorsed by DLUHC. The main area of contention at some pools was regarding whether indirect transition costs such as bid/offer spreads should be included in the headline costs figures or disclosed separately, with pools having adopted different approaches in the past. Northern LGPS' costs savings had been calculated using the same methodology as in 2021 and it was expected that other pools had also used a consistent approach.

The Northern LGPS submission was sent to DLUHC on 23 September. Copies of sections A and C of the Northern LGPS submission, which set out the assets pooled and cost savings achieved and projected in future, were attached in appendix to the report.

Northern LGPS' net cost savings for 2021/22 had been calculated as £40.7m (increasing from approximately £30m in 2020/21), giving total savings since inception of £112m. These figures were slightly higher than the future projections made last year (£37.9m). The increase in costs savings achieved was a result of the continued increase in commitments to the GLIL and NPEP vehicles, favourable movement in the \$/£ exchange rate and, in particular, a material increase in the net asset value of GLIL. At the time of writing the report, the cost savings of most other LGPS pools were not known. Government was expected to report aggregated figures across the LGPS as a whole.

Members were advised that each of the partner funds in the Northern LGPS Pool was currently in the process of producing 31 March 2022 year end accounts and an annual report. Guidance on preparing the annual report was provided by the accounting body CIPFA. This guidance currently

included a section on accounting for asset-pooling arrangements.

In 2020 and 2021 it was agreed by the Joint Committee that a Pool Annual Report be produced, which funds would have the option of including within their respective annual reports. This would act to provide some of the information to satisfy CIPFA guidance and could be used by the funds in their communications with stakeholders to provide evidence of the Pool's progress against its objectives. A current draft of the 2022 Northern LGPS Annual Report was appended to the report.

Members were further advised that on 1st September, DLUHC issued a consultation seeking views on proposals to require LGPS administering authorities in England and Wales to assess, manage and report on climate-related risks, in line with the recommendations of the Taskforce on Climate-related Financial Disclosures ('TCFD'). The consultation was closing on 24th November. Whilst the consultation proposals placed requirements on administering authorities rather than pools, section 4 of the consultation sought views on the role of LGPS pools in delivering the requirements. Each of the partner funds had already voluntarily reported in line with the recommendations of the TCFD. In light of the above, it was recommended that the pool submit a joint, generally supportive consultation response.

Updates on the progress of the main ongoing work-streams for the Northern LGPS together with LGPS Pooling developments nationally were provided in the report.

RESOLVED

- (i) That the content of the report be noted, in particular the annual pooling update provided to DLUHC;**
- (ii) That the draft Northern LGPS Annual Report for 2021/22, as appended to the report, be noted; and**
- (iii) That a Pool level collaborative response to the consultation on TCFD reporting, with final sign off delegated to the Chair, be endorsed.**

16. 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 on the 26 September 2022.

Details of the actions and agreements from the meeting held on 23 May 2022 were appended to the report.

The principal items on the agenda for the 26 September 2022 included:

- Code of Transparency Update;
- RIAG Chair's report; and
- DLUHC Regulatory Update.

RESOLVED

That the content of the report be noted.

17. UPDATE ON RESPONSIBLE INVESTMENT

Tom Powdrill and Conor Constable, PIRC Ltd, Responsible Investment Advisor to the Northern LGPS, presented a report 'Voting on Workforce Issues', which explained that, whilst the 'S' in ESG (Environmental, Social and Governance) had attracted more attention in recent years, it remained an area where investor stewardship activity was in its infancy, and the use of voting rights specifically was very limited. Some of PIRC's pension fund clients had their own voting policy which addressed some of the issues. However, to PIRC's knowledge, there were no UK major investors that were systematically taking workforce issues into account in the exercise of their

shareholder voting rights. Therefore, applying a voting strategy informed by workforce issues to a wide group of UK companies would be an unprecedented and significant step. For the last 6 months PIRC had been developing a new database of FTSE All Share companies covering 80+ workforce indicators. PIRC were seeking funding to undertake the development of a policy framework to generate voting recommendations on workforce issues as a stand-alone project. Once completed it could be applied to provide voting recommendations driven by analysis of workforce factors.

They further presented Northern LGPS' Stewardship Report for Quarter 2 2022. The report explored tackling climate change; effective engagement and voting on shareholder resolutions.

RESOLVED

- (i) That the presentation and the content of the latest quarterly Responsible Investment report be noted; and**
- (ii) That the expenditure, as set out in Appendix A to the report, for PIRC to undertake the development of a policy framework to generate voting recommendations on workforce issues, as a stand-alone project, be approved.**

18. PERFORMANCE MEASUREMENT

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

An extract from the Northern LGPS reporting for periods to 30 June 2022 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.

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 content of the report be noted.

19. 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 30 June 2022 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 content of the report be noted.

20. DIRECT INFRASTRUCTURE PLATFORM (GLIL) UPDATE

Consideration was given to a report of the Assistant Director, Local Investment and Property, GMPF, providing an update on the progress with the direct infrastructure investment platform (GLIL) and to sought approval for a consultation exercise amongst stakeholders and wider market into how GLIL should position itself.

It was explained that the facilitation of infrastructure investments was one of the four criteria in the Government's pooling agenda. The principle was that through pooling of assets and investment resources, the LGPS could enhance the capability and capacity to invest infrastructure. The Northern Pool, alongside Local Pensions Partnership, was the most advanced of the LGPS pools

in this regard. This was through the creation of GLIL a direct infrastructure investing platform that was established, but which could also be developed and expanded to through working with other pools.

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

The executive committee of GLIL engaged Triad consultancy to review the questions set out above. An executive summary of their report was attached as an appendix.

The key conclusions of the preliminary work were detailed and the GLIL executive team sought Members approval to progress the consultation exercise, engaging Triad to do further work as follows:

- Interviews and documentation thereof with advisers Members and other stakeholders of Member Funds as directed by the Director of each Fund to ascertain views;
- Structured Market research, and review of available benchmarking information into how large global asset owners deployed capital into infrastructure;
- Presentation of broad findings to special meeting of Northern LGPS JC in late November early December, date to be confirmed; and
- Support to GLIL EC in drawing up recommendations to bring forward to Northern LGPS JC on 3 February 2022.

The GLIL report to investors for the period ending 30 June 2022 was appended to the report. The key highlights, together with events and transactions after that date, were presented.

RESOLVED

- (i) That the report be noted; and**
- (ii) That the consultation exercise and timetable for review, as set out in the report, be approved.**

21. NORTHERN PRIVATE EQUITY POOL – REVIEW OF REGULATORY STATUS

The Assistant Director of Pensions Investments, GMPF, submitted a report, which presented a review of Northern Private Equity Pool's regulatory status by external legal advisers.

It was explained that Northern Private Equity Pool (NPEP) was inceptioned in May 2018 and following legal advice received at the time, it was concluded that it could operate without the inclusion of a management entity that was subject to regulatory approval and oversight. Such a conclusion relied on an analysis of the working arrangements of NPEP and the extent to which they were consistent with a "joint venture" interpretation rather than falling within the definition of a Collective Investment Scheme.

Officers believed it was sensible to revisit the analysis of the working arrangements of NPEP on a regular basis to ensure that there had been no changes in the regulatory or legal landscape that could change the conclusion of such analysis.

Officers engaged with Squire Patton Boggs to renew its analysis of the NPEP arrangements and activities and report on their regulatory status. Squire's report was appended to the report.

Members were advised that the external review concluded that there had been no legal or regulatory changes that were pertinent to NPEP and that it ought to continue to attract a "joint venture" interpretation and, therefore, its activities sat outside of the regulatory perimeter.

RESOLVED

That the content of the report be noted.

22. 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 2 February 2023.

CHAIR