

NORTHERN LGPS JOINT OVERSIGHT COMMITTEE

13 April 2023

Commenced: 11:00

Terminated: 12.20pm

Present:	Cllr Gerald P Cooney (Chair)	Chair, Greater Manchester Pension Fund
	Councillor Andrew Thornton	Chair, West Yorkshire Pension Fund
	Councillor Pat Cleary	Chair, Merseyside Pension Fund
	Elizabeth Bailey	UNISON
	Ken Drury	UNITE
	Alan Flatley	GMB
In attendance	Sandra Stewart	Director of Pensions, GMPF
	Peter Wallach	Director of Pensions, MPF
	Euan Miller	Managing Director, WYPF
	Tom Harrington	Assistant Director of Pensions, Investments, GMPF
	Paddy Dowdall	Assistant Director, Local Investment & Property
	Steven Taylor	Assistant Director of Pensions, Special Projects, GMPF
	Mushfiqur Rahman	Investments Manager for Public Markets, GMPF
	Alex Jones	Investment Officer, GMPF
	Owen Thorne	Merseyside Pension Fund
	Adil Manzoor	Merseyside Pension Fund
	Greg Campbell	Merseyside Pension Fund
	Leandros Kalisperas	Chief Investment Officer, WYPF
	Robert Hulme	West Yorkshire Pension Fund
	Alan McDougal	PIRC
	Tom Powdrill	PIRC
	Conor Constable	PIRC
Apologies for absence:	Councillor Cherry Povall - Deputy Chair, Merseyside Pension Fund	
	Councillor Oliver Ryan – Vice-Chair, Greater Manchester Pension Fund	

33. DECLARATIONS OF INTEREST

There were no declarations of interest.

34. MINUTES

The Minutes of the meeting of the Northern LGPS Joint Committee held on 2 February 2023 were agreed as a correct record.

35. 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 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 report and presentation be noted.

36. UPDATE ON INVESTMENT MANAGEMENT COST BENCHMARKING

Consideration was given to a report of the Assistant Director of Pensions Investments, which provided Members with an update on investment management cost benchmarking for 2021/22. John Simmonds and David Jennings of CEM Benchmarking also delivered a presentation.

Analysis of the interim 2020/21 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 £18.6 billion to £106.3 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' costs increased to 0.37% (£203 million relative to an average Pool value of £55 billion) in 2021/22.

When adjusting for the increase in assets and changes in strategic asset allocation over the last eight years, CEM calculated that Northern LGPS' like for like costs would be 0.55% (£299m) in 2021/22. On this basis, Northern LGPS had generated underlying savings of 0.18% (£96m) in 2021/22.

CEM had also benchmarked Northern LGPS' costs against a peer group of 19 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 0.52%. 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 2021/22 was 0.40% (£221m). On that basis, the Northern LGPS was 0.03% (£18m) lower cost than the benchmark.

RESOLVED

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

37. 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').

As per discussion at previous meetings, the draft statutory guidance appeared to blur 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. 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.

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. A forthcoming consultation would propose LGPS funds transfer all listed assets into their pools by March 2025, and set direction for the future. This may include moving towards a smaller number of pools in excess of £50 billion to optimise benefits of scale. While pooling had delivered substantial benefits so far, progress needed to accelerate to deliver and the Government was ready to take further action if needed. 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. At the time of the report, the consultation had still not been issued.

In respect of London CIV developments, it was explained that, in early January 2023 it was reported that the Royal Borough of Kensington and Chelsea ('RBKC') was seeking to exit the London CIV pool. This would be the first time that a LGPS fund had withdrawn from one of the eight LGPS pools. Shortly after this, it was also reported the London Borough of Bromley may also be seeking to exit the London CIV pool.

However, following a meeting of RBKC's Investment Committee on 15 March, it was announced that the pension fund had decided against leaving LCIV. In addition, following a meeting of Bromley's Pension Committee on 13 March, it was announced that Bromley Pension Fund had decided against leaving LCIV.

RESOLVED

That the report be noted.

38. 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. Actions and Agreements from the meeting on 28 November 2022 were appended to the report.

The principal items on the agenda for the 6 February 2023 meeting were:

- **Code of Transparency Update** - the standing item on compliance was reported.
- **The Byhiras reporting system was discussed.** To encourage greater use of the system by users and non-users, it was proposed that the system's capabilities be explained and free training be provided.
- **Climate Risk awareness survey** - Limited responses from London funds. A number of responses indicated limited preparation for requirements of TCFD reporting. Options for raising awareness were mooted.
- **Sharia Compliance Report** - The implications of the legal opinion were discussed along with options to move matters on.
- **DLUHC Regulatory Update** - No update was available.

RESOLVED

That the report be noted.

39. UPDATE ON RESPONSIBLE INVESTMENT

Consideration was given to a report and presentation of representatives of PIRC, which outlined

their proposed approach for reviewing the NLGPS approach to voting and set out the Q4 2022 Northern LGPS Stewardship Report (attached at Appendix 1 to the report).

Mr Powdrill and Mr Constable, PIRC Ltd, Responsible Investment Advisor to the Northern LGPS began by explaining that voting and engagement were a cornerstone of the Northern LGPS responsible investment activities. Whist formed bottom up from and by administering authorities, Northern LGPS had its own responsible investment principles and a shared approach to stewardship activities. The single approach was designed to increase the voice of the funds and maximise the impact they had in reducing ESG investment risks.

To understand how the single approach was playing out in practice, a short research report will be produced examining voting alignment across the three funds. This would aim to provide information on the level of alignment and highlight where there may be any differences. The objective was to provide Northern LGPS and the three funds with insights on voting alignment to inform discussions about how they could best meet their stewardship responsibilities both individually and collectively.

Members were advised that a report outlining the analysis would be submitted to the next meeting of the Joint Committee.

Mr Powdrill and Mr Constable then presented the Q4 2022 Northern LGPS Stewardship report, which focused on Shareholder Resolutions and explored further the following issues:

- the cost of living crises and executive pay;
- banks and the bonus cap;
- Ongoing discussions with a number of companies regarding Just Transition;
- Retail supply chains and Modern Slavery; and
- Focused on two shareholder resolutions in respect of healthy markets and workforce issues.

RESOLVED

That PIRC's proposed approach for reviewing the NLGPS approach to voting, and the Q4 2022 Northern LGPS Stewardship report, be noted.

40. 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.

It was explained 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.

An extract from the Northern LGPS reporting for periods to 31 December 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.

Portfolio Evaluation Ltd recently notified clients of their intention to cease trading on 14 September 2023. Portfolio Evaluation Ltd would produce Northern LGPS reports up to and including the period ending 30 June 2023. Officers had begun the process of reviewing potential alternative common providers.

RESOLVED

That the report be noted.

41. 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).

It was reported that GLIL had progressed well and had one external investor, NEST. 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 to review the operation of GLIL to ensure that it served the objectives of current owners. An external consultant had been engaged to review the consult with stakeholders and a timetable was agreed with the Joint Committee to review options.

The feedback from stakeholders had been substantive and constructive and required a significant revision of proposals. Pending asset allocation reviews, the outcome of which may also have had a significant impact on what a future GLIL should look like to best serve Northern LGPS Funds. For these reasons further delays were envisaged before the conclusion of the project. Progress would be reported to the Joint Committee as and when available.

The GLIL report to investors for the period ending December 2022 was appended to the report. The last quarter of 2022 was a busy one for GLIL, it concluded the previously highlighted transactions to acquire a stake in, Hornsea 1, which was at the time, the world's largest fully operational offshore wind farm, as well as the sale of assets managed by Iona Capital. GLIL also entered into an agreement to purchase a significant minority stake in the M6 toll road. The transaction completed post the period end.

The core priorities for GLIL over next quarter and 12 months were reported as follows:

- Management of investors' current allocations in accordance with the mandate;
- Continue to implement ESG strategies in line with investee Fund's objectives;
- Completion of consultation exercise and implement of resulting recommendations; and
- Continued Engagement with other LGPS Fund's and Pools and potential aligned non LGPS investors.

RESOLVED

That the report be noted.

42. PROPERTY FRAMEWORK

Consideration was given to a report of the Assistant Director, Local Investment and Property, which informed Members on the use of the Northern LGPS property Framework by GMPF and WYPF.

It was explained that the Northern LGPS Property framework covered the following lots:

1. For the management of a discretionary UK direct property portfolio investing predominantly in core property, mostly on an unleveraged basis.
2. For the management of an advisory UK direct property portfolio investing predominantly in core property, mostly on an unleveraged basis.
3. To provide property management services on a UK property portfolio (predominantly invested in core property on an unleveraged basis).
4. To appoint an adviser of management and consultancy services in relation to a regional investment portfolio focused on the North West of England and West Yorkshire. The appointed adviser would be expected to make recommendations to the member funds within the pool.
5. To provide property valuation services, potentially on a range of UK property portfolios, ranging in size from £300m to over £1bn.
6. For the management of a portfolio of UK properties deemed to require intensive asset management, for example, longstanding vacancy, refurbishment/capital expenditure risk, short WAULTs with renewal risk.

Members were advised that WYPF were currently using the framework for lot 1 and GMPF were currently using the framework for lot 4, the timetables for both were detailed in the report.

RESOLVED

That the content of the report be noted.

43. 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 6 July 2023.

CHAIR