Report To:	**COUNCIL**
Date:	21 May 2018
Reporting Officer:	Councillor Brenda Warrington – Executive Leader & Chair of the Greater Manchester Pension Fund Sandra Stewart – Director (Governance & Pensions)
Subject:	**NORTHERN PENSION POOL CONSTITUTIONAL ARRANGEMENTS**
Report Summary:	This report explains proposals for pooling investments across the LGPS in England and Wales, and in particular the recent activities of the LGPS Funds forming the Northern Pool and seeks approval to go forward on the basis set out in the report as recommended by the Greater Manchester Pension Management Panel, who have considered this matter at least quarterly since 2016.
Recommendations:	That Council agrees and adopts the recommendations made by the Greater Manchester Pension Management Panel and in particular: 1) Agrees that the proposed structure and operation of the Northern Pool will meet the pooling criteria; guidance and regulations as currently drafted; 2) Approves the inter-authority agreement, known as the Northern Pool Operating Agreement, appended at 12 to this report, which will form part of the formal establishment of the Northern Pool Joint Committee and define its terms of reference; and authorise the Director of Governance and Pensions to amend as expedient or necessary in consultation with the Chair of the Pension Fund to meet the LGPS Investment Reform Criteria and Guidance was issued by DCLG in November 2015 and Revised LGPS Investment Regulations issued in 2016 and put in place any ancillary documentation; 3) Agree that Tameside MBC will be the host authority for the Joint Committee and notes the agreement sets out in detail the responsibilities of the host authority and how it will interact with the administering authorities of the other funds in the Pool; and 4) Agree that the Chair of the Greater Manchester Pension Fund, Cllr Brenda Warrington and the Vice Deputy Chair, Cllr Gerald Cooney, are the representatives for the Administering Authority and the Fund, noting that for the forthcoming Municipal Year, Cllr Ian Greenwood of the West Yorkshire Fund will be the Chair of the Northern Pool.
Policy Implications:	To meet the requirements of legislation.
Financial Implications: **(Authorised by the Section 151 Officer)**	The aim of pooling of assets is to improve net investment returns in the long term. The funds in the Northern Pool are designing a framework to make

pooled investments which facilitate this aim.

Legal Implications:

(Authorised by the Solicitor to the Fund)

Revised LGPS Investment Regulations were issued in 2016. The revisions are in part designed to facilitate the pooling of assets between LGPS funds and improve access to infrastructure investments. From a regulatory perspective, LGPS funds are required to pool their assets in order to meet Regulation 7(2)(d) of the 2016 LGPS Investment Regulations. This regulation requires administering authorities to set out their 'approach to pooling investments, including the use of collective investment vehicles and shared services' in their Investment Strategy Statement. The accompanying statutory guidance to the 2016 Investment Regulations states that:

"All authorities must commit to a suitable pool to achieve benefits of scale. Administering authorities must confirm their chosen investment pool meets the investment reform criteria and guidance published in November 2015, or to the extent that it does not, that Government is content for it to continue."

The LGPS Investment Reform Criteria and Guidance was issued by DCLG in November 2015. The 4 high-level criteria are:

a) Scale (pools should be in excess of £25bn at 31 March 2015)

b) Strong governance and decision making

c) Reduced costs and excellent value for money

d) Improved capacity to invest in infrastructure

Risk Management:

The Funds in the Northern Pool have been seeking legal advice where required on their pooling options and the structure and operations of investments vehicles.

Background & Referenced Papers:

The report refers to the following appendices throughout – the documents can be obtained from the web or a paper copy can be produced on request to Democratic Services.

Appendix 1:	full criteria and guidance for pooling is available via the link below
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479925/criteria_and_guidance_for_investment_reform.pdf	
Appendix 2:	February 2016 progress update
https://www.gmpf.org.uk/documents/pool/22february2016.pdf	
Appendix 3:	Minister's response
https://www.gmpf.org.uk/documents/pool/february2016.pdf	
Appendix 4:	Minister wrote to the ACCESS pool, which was also copied to other pools
Appendix 5:	Pooling Proposal July 2016 submission
http://www.gmpf.org.uk/documents/policies/pooling/northernpool.pdf http://www.gmpf.org.uk/documents/policies/pooling/northernpoolsubmission.pdf	
Appendix 6:	Letter from Minister to July 2016 submission
https://www.gmpf.org.uk/documents/pool/jan2017.pdf	
Appendix 7:	Spring 2017 update report
https://www.gmpf.org.uk/documents/pool/25april2017.pdf https://www.gmpf.org.uk/documents/pool/april2017.pdf	

Appendix 8	Letter from Minister August 2017
https://www.gmpf.org.uk/documents/pool/august2017.pdf	
Appendix 9	Autumn 2017 update report
https://www.gmpf.org.uk/documents/pool/october2017.pdf	
Appendix 10	Minister response to Autumn 2017 update report – March 2018
https://www.gmpf.org.uk/documents/pool/march2018.pdf	
Appendix 11	
https://www.gmpf.org.uk/documents/pool/april2018.pdf	
Appendix 12	Northern Pool Operating Agreement

The background papers relating to this report can be inspected by contacting Sandra Stewart Director of the Fund or Euan Miller, Assistant Executive Director, Greater Manchester Pension Fund.

Telephone: 0161 301 7141

e-mail: euan.miller@tameside.gov.uk

EXECUTIVE SUMMARY

Background

- Collective asset pool for the Greater Manchester, Merseyside and West Yorkshire Pension Funds
- £46 billion of funds under management – around 1/5th of total Local Government Pension Scheme assets
- 180% above the £25 billion scale target set by Government
- Participating funds have a long history of excellent investment returns and low costs
- Oversight by elected representatives and employee representatives

Strategic Objectives

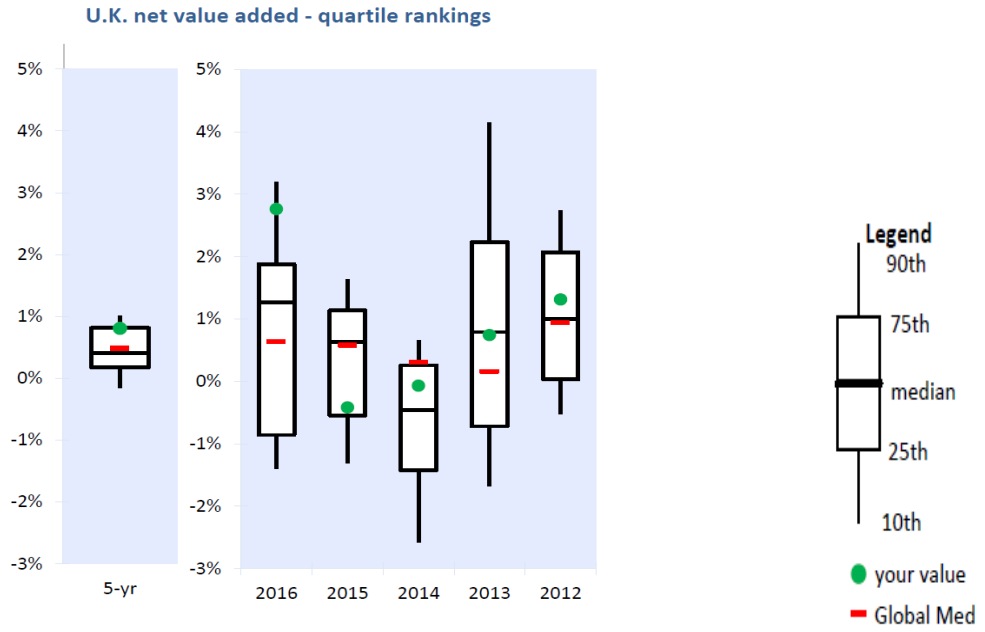
- Improve net investment returns of the funds in the Pool, whilst remaining highly cost effective
- Facilitate increased investment in UK infrastructure
- ensuring continued compliance with the LGPS Investment Regulations and the Pooling Guidance

Major progress milestones

- Northern Trust appointed as **FCA-regulated custodian** for the pool – ensuring all listed assets held within a single, FCA-regulated entity
- **Established £1.3 billion infrastructure vehicle**, GLIL - £765 million invested in both greenfield and brownfield direct UK infrastructure assets to date
- **Established a collective PE investment vehicle**, NPEP – commitments of c£1 billion to PE funds in 2018/19 and 2019/20

Delivering returns

- 5 year net total return is 10.6% (UK median 10.5%, Global media 8.3%)
- 5 year net value-add for Pool is 0.8% p.a. – roughly equivalent to £1.5 billion



Investing in communities

- **Long history of making significant direct local infrastructure investments**

  Matrix Homes initiative referenced in the Government's Pooling Criteria, unlocked difficult brownfield sites to build hundreds of much needed houses

- **Target of financing the construction of 10,000 new homes over the next three years**.
- **Significant progress has been made**
  - Up to 30 September 2017, 500 completed homes have been delivered
  - a further 2,000 under construction
  - Due diligence is currently being undertaken on further pipeline projects, which would deliver another 5,000 homes.
  - Scaling the Matrix Homes model via joint ventures with other Funds in the Pool across the geography of the Northern Pool
  - FCA regulated operator for GLIL 2.0 will allow **funds and pools without scale and/or expertise to participate passively**
  - LPP as AIFM will save time and costs for new investors – **lowering costs for participating pools and for the general benefit of taxpayers**

Governance and regulation

- **Developed simple democratic governance arrangements**, which deliver Government's aims of **accountability for the tax payer**
  - Oversight board established
  - Joint committee of six elected members – two from each fund, plus 3 scheme member representatives
- **Established a common proxy voting policy for its listed equity holdings**, delivered by an FCA-regulated voting advisory service provider
- Demonstrated that we are committed to robust and transparent governance, **currently ACS model will unacceptably increase costs without providing increased oversight or delivering better returns**
- **We will continue to review this position**

Meeting Government's criteria:

- ✓ Asset pool(s) that achieve the benefits of scale
  - Currently managing around 1/5th of total LGPS assets
- ✓ Strong governance and decision making
  - Oversight board, FCA regulated custodian appointed
- ✓ Reduced costs and excellent value for money
  - CEM benchmarking shows average costs significantly below global peer group, 5 year net value add is 0.8% or £1.5 billion
- ✓ An improved capacity to invest in infrastructure
  - GLIL vehicle is a proven success, target of 10,000 new homes over next three years

1. INTRODUCTION

1.1 The Local Government Pension Scheme ('LGPS') across England and Wales consists of around 90 regional funds with total assets of approximately £265 billion as at 31 March 2018. The average size of a regional fund is around £2bn, but there is wide variation between the largest funds (Greater Manchester, West Midlands and West Yorkshire), which have assets of well over £10bn, and the smaller funds, such as those operated by each of the London Boroughs, many of which have assets of approximately a £1bn.

1.2 The Department of Communities and Local Government, HM Treasury and the Cabinet Office have for some time been looking at options to reduce investment management costs and improve investment returns across the LGPS as a whole for a number of years. A recent example was consideration being given to the case for all LGPS funds to adopt a passive investment management approach to reduce investment management costs. A formal consultation on this was issued in the summer of 2014. The case for having fewer funds has also been considered in the past.

1.3 The then Chancellor, George Osborne, announced in the 2015 summer budget that he would be seeking proposals for pooling of assets by funds. The Budget statement was as follows:

> *"The government will work with Local Government Pension Scheme administering authorities to ensure that they pool investments to significantly reduce costs, while maintaining overall investment performance. The government will invite local authorities to come forward with their own proposals to meet common criteria for delivering savings. A consultation to be published later this year will set out those detailed criteria as well as backstop legislation which will ensure that those administering authorities that do not come forward with sufficiently ambitious proposals are required to pool investments."*

1.4 At the Conservative Party Conference on 5 October 2015, the Chancellor provided a further statement, which read as follows:

> *"At the moment, we have 89 different local government pension funds with 89 sets of fees and costs. It's expensive and they invest little or nothing in our infrastructure. So I can tell you today we're going to work with councils to create instead half a dozen British Wealth Funds spread across the country. It will save hundreds of millions in costs, and crucially they'll invest billions in the infrastructure of their regions."*

1.5 Further reference to these British Wealth Funds was made within the Government's Four-point infrastructure plan issued in Autumn 2015:

> *"The 89 local authority pension funds are to be pooled into half a dozen British Wealth Funds. This will reduce costs, saving the beneficiaries of the schemes millions of pounds every year. It will also change the way pension savings are invested. The funds will follow international norms for investment, meaning larger sums being invested in infrastructure.*
>
> *Currently, small local pension funds lack the expertise to invest in infrastructure. Overall, across £180 billion of assets, only 0.5% is invested in such projects. In countries with larger pooled public pension funds up to 8% of assets are infrastructure and 17% are housing and infrastructure."*

1.6 Subsequent to these announcements DCLG issued a letter to all LGPS funds providing reassurance that the Chancellor's comments were not a departure from the original proposals and the outcome of the process is not a 'fait accompli'. However, there was a strong suggestion that Government saw the outcome as groups of funds working together

across all asset classes and that the ability to invest in large scale infrastructure would be one of the criteria upon which proposals will be assessed.

2. LGPS INVESTMENT REFORM CRITERIA AND GUIDANCE

2.1 After several months of informal consultation, Government published its pooling criteria on 25 November 2015. The primary criteria are for pools, which create improvements in the following four areas:

(i) Scale

- Up to 6 pools, with at least £25bn in each
- All new investments to be made on a pooled basis
- Existing illiquid investments allowed to run-off

(ii) Value for money

- Pool costs to be benchmarked to 2013 levels
- Savings to be estimated over the next 15 years
- Active management should be used on where value can be evidenced
- Report performance vs passive management

(iii) Governance

- Pools should have the necessary resources and skills
- Administering authorities must be able to hold the pool to account
- Strategic asset allocation remains with the administering authorities pension committees'
- Manager selection to be carried out by the pool

(iv) Facilitating infrastructure investment

- Improved capacity and capability to invest in infrastructure
- Pools to state proportion invested in infrastructure now and future ambition

2.2 All pools were required to be operational by 1 April 2018. Funds were required to provide Government with an update of progress on their pooling plans by 19 February 2016, with full details of their pool's intended operation being submitted to Government by 15 July 2016.

2.3 A cross-department group consisting of HMT, Cabinet Office and DCLG would assess each proposal shortly after the February 2016 progress updates are received (which effectively required each fund to determine their pooling partners by February 2016) and provide feedback to the pools.

2.4 The criteria and guidance for pooling is available on the link below and referred to as **Appendix 1**:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/479925/criteria_and_guidance_for_investment_reform.pdf

2.5 At the same time as issuing the pooling criteria and guidance, Government issued its formal response to the 2014 consultation on increased use of passive investment.

2.6 Also released for consultation at this time were the new LGPS Investment Regulations that would introduce (via references to the pooling criteria and guidance) the formal requirements for administering authorities to pool assets and set out the action that Government could take should any authority not comply. Such action includes the ability for the Secretary of State (following consultation with relevant stakeholders) to direct how a

fund invests its assets. This consultation was completed on the 19 February 2016 and the new investment regulations came into force on 1 November 2016.

2.7 From a regulatory perspective, LGPS funds are required to pool their assets in order to meet Regulation 7(2)(d) of the 2016 LGPS Investment Regulations. This regulation requires administering authorities to set out their 'approach to pooling investments, including the use of collective investment vehicles and shared services' in their Investment Strategy Statement.

2.8 The accompanying statutory guidance to the 2016 Investment Regulations states that:

"All authorities must commit to a suitable pool to achieve benefits of scale. Administering authorities must confirm their chosen investment pool meets the investment reform criteria and guidance published in November 2015, or to the extent that it does not, that Government is content for it to continue."

2.9 Consequently, it is clear from this that it is up to administering authorities, rather than Government, to determine that they meet the investment reform criteria and guidance.

2.10 Subsequent letters from Government have sought to clarify the criteria, in particular that Government expects a 'single legal entity' at the heart of each of the pools and that all pools should have a FCA regulated operator. However, these requirements are not explicitly stated either in the Criteria and Guidance nor the subsequent regulations. It should also be noted that what does or does not constitute 'pooling' or 'a pool' is also not clearly defined.

3. CURRENT INVESTMENT MANAGEMENT ARRANGEMENT IN THE LGPS

3.1 At present, local authorities, which are also LGPS administering authorities typically delegate their decision making in respect of their LGPS fund to a pensions committee established under Section 101 of the Local Government Act 1972. In turn these pensions committees typically delegate powers to officers in order to effectively implement the committee's agreed strategy.

3.2 The committees and officers receive expert advice from advisers as appropriate and often there are sub-committees and in the case of Greater Manchester Pension Fund referred to as Working Groups formed to analyse specific aspects of a fund's strategy or operation in greater detail, particularly in relation to investment matters.

3.3 Broadly speaking, the key investment decisions for any LGPS fund are the allocation of fund assets between various assets classes, such as equities, bonds and property and the selection of managers to make the investments in the chosen asset classes. In some LGPS funds certain asset classes are managed by an in-house team rather than by appointing an external manager. Where external managers are appointed or removed, this decision has to date been taken by the pensions committee or, as is the case with some LGPS funds, delegated to a lead officer.

3.4 Assets typically take the form of:

- directly held securities or property, for example shares or bonds in listed companies or direct ownership of commercial property such as offices, warehouses or retail premises, or;
- units in collective investment vehicles where the LGPS fund invests alongside other institutional investors.

3.5 Examples of collective investment vehicles commonly used are:

- pooled funds for investing in equities, bonds and property (typically operated by an investment manager regulated by the Financial Conduct Authority);

- general/limited partnership structures for private market investments (such as private equity, debt and infrastructure) and;
- 'fund of funds' arrangements whereby a regulated investment manager manages a collective investment vehicle which has holdings in a range of underlying vehicles. This is designed to minimise the risk of an individual manager underperforming but is likely to increase the overall costs.

3.6 Given the range of options available there are a vast number of investment mandates in the LGPS, with a wide range of managers. There will be many instances of several LGPS funds having identical or almost identical mandates, each of which will be paying fees based on its own level of assets under management.

3.7 LGPS administering authorities have a fiduciary duty to manage their funds' assets in a cost effective manner and will regularly review their investment strategy, including the types of assets held and the management arrangements, to ensure this duty continues to be met.

3.8 Where in-house investment management is used there is currently no requirement for administering authorities to seek authoristaion from the Financial Conduct Authority ('FCA'), as from a legal perspective, the authority is managing its own money. However, were an administering authority to manage another authority's assets without obtaining the appropriate permissions from the FCA, it would be committing a criminal offence.

3.9 In advance of the pooling agenda, some administering authorities had been seeking approval from the FCA to manage other authorities' assets in certain circumstances. In addition, LGPS funds have previously made collective investments via joint ventures, which are not deemed to be unauthorised collective investment schemes if it can be demonstrated that each participating fund is taking an active role in the investment management. Clearly, this is only practical if there are a relatively small number of investors or administering authorities.

4. IMPACT OF POOLING ON INVESTMENT GOVERNANCE

4.1 For the majority of LGPS funds, in order to attempt to meet the Scale and Value for Money criteria they will be required to work with other funds to combine their existing mandates into larger mandates, which achieve economies of scale via the use of collective investment vehicles such as those described in paragraph 3.5 above.

4.2 Given the size of typical mandates for all but the largest LGPS funds, such as ourselves, this cannot be practically achieved via the use of joint ventures and as such many funds will be looking to create collective investment vehicles which require authorisation by the Financial Conduct Authority.

4.3 To obtain FCA authorisation the applicant would need to submit a regulatory business plan for approval which would demonstrate how it intends to meets the various criteria set by FCA. In practice, in order to meet these criteria and to invest collectively in many of the asset classes currently used by the LGPS the participating LGPS funds would need to create a regulated fund manager (typically a limited company) under the Alternative Investment Fund Manager ('AIFM') directive. Once established this AIFM manager would manage the collective investment vehicles in which the individual LGPS funds' invest.

4.4 Each of the participating administering authorities would typically hold shares in the AIFM manager, which would be run on a not-for-profit basis. Whilst there would be certain 'reserved matters' for shareholders, such as the ability to appoint and remove directors and to approve any changes to governance arrangements, many key decisions, such as the ability to appoint or remove the investment managers of the pooled vehicles would ultimately rest with the AIFM manager.

4.5 One of the governance challenges for many LGPS funds to overcome is how they can effectively hold these AIFM managers to account.

4.6 Clearly, creating and operating an FCA regulated fund manager is not without cost. The key individuals involved in the operation of the manager have personal liability and this is often used to justify salaries, which can be significantly in excess of those currently seen within the LGPS. There is also significant investment in systems and strengthening of processes required in order to continue to meet FCA requirements. Managers are also required to hold 'regulatory capital', which typically takes the form of a loan from the shareholders (i.e. the administering authorities).

4.7 Other costs exist depending on the type of collective investment vehicles operated by the AIFM manager. The vehicle widely expected to be used to hold listed securities is known as an 'Authorised Contractual Scheme' ('ACS'). An ACS requires the appointment of a depositary (typically a custodian bank), which amongst other things, undertakes a reconciliation of the vehicle's assets and unit price on a daily basis.

4.8 Where a pool continues to use external management of its assets it is clear that there is likely to be some duplication of cost as the external managers will themselves be FCA regulated.

4.9 Since the initial announcement of the pooling agenda it has been argued by many that significant cost savings can be achieved via a relatively simple joint-procurement of managers by LGPS funds. Using a joint-procurement approach would avoid the costs of establishing and operating FCA regulated managers. However, Government has been clear that it does not consider a joint-procurement approach acceptable.

4.10 The Chairman of the Essex Pension Fund put forward a case that creating regulated Collective Investment Vehicles is unnecessary in order to achieve the objectives of pooling and asks the Government to instead give funds 2 years to demonstrate that they have achieved the desired outcomes.

4.11 The Secretary of State for Communities and Local Government, Sajid Javid MP response argues that the reduction in fees that many funds have recently achieved are as a direct result of the pressure exerted on the investment management industry by the pooling programme and that scheme members and the local taxpayers have a right to expect the high level of assurance which is provided by FCA authorisation.

5. FORMING POOLS

5.1 In advance of the pooling agenda, the 33 London Boroughs were in collaboration to form the London Collective Investment Vehicle ('London CIV'). This was designed to generate economies of scale in order to reduce costs and improve net investment returns across the LGPS in London.

5.2 Following this the London Pensions Fund Authority and Lancashire Pension Fund announced plans to create the Local Pensions Partnership ('LPP'), which would pool both investment management and member administration. LPP and London CIV would both applied to the Financial Conduct Authority ('FCA') for approval to create a regulated fund manager under the Alternative Investment Fund Manager ('AIFM') directive.

5.3 During the autumn of 2015 and early 2016 discussions regarding potential collaboration took place across the remaining LGPS funds in England and Wales. In order to determine 'like-minded' funds with which they could form an asset pool it was necessary for funds to consider investment beliefs, investment management arrangements, key strengths and the 'red-lines', which would prevent a fund being party to any agreement.

5.4 Most funds were looking to enter a pool on a 'one-member one vote' basis, leading to many funds joining up with other funds of a broadly similar size. There were also existing regional and political links which formed a starting point for further discussion.

5.5 Whilst opinions vary and objective assessment is difficult, there is general acknowledgement that diseconomies of scale start to emerge when asset pools become very large. This is largely due to the impact on market pricing of trading in significant volumes and the difficulties of creating and maintaining a diversified portfolio. Very broadly, the upper bound for pool size in order to maximise efficiencies may be in the region of £60bn - £70bn.

5.6 There are currently, 8 pools, which virtually mirror the initial relationships formed in 2015/6 and are made up as follows:

- Northern Pool – Greater Manchester, Merseyside and West Yorkshire
- London CIV (the 33 London Boroughs)
- Brunel – Mainly South Western funds + Environment Agency
- 'ACCESS' - Most of the South Eastern County Council funds
- Central Pool – Most of the Midlands funds
- 'Border to Coast' - The remaining northern funds + a small number of others
- Wales
- Local Pensions Partnership – 'LPP' – LPFA, Lancashire + Berkshire

5.7 Government had previously stated that it was looking for around 6 pools, each of at least £25 billion. The Wales and LPFA/Lancashire pools do not meet the Government's scale criteria. However, the Welsh pool was granted an exemption from the scale criteria, presumably to avoid complicating any future Welsh devolution.

5.8 Since 2015, the Northern Pool has had links with the pool of LPFA and Lancashire via Greater Manchester Pension Fund's joint infrastructure vehicle with LPFA known as GLIL. As a result the Northern Pool has been working alongside LPP on direct infrastructure investment.

6. NORTHERN POOL

6.1 Prior to the submission of the February 2016 progress update (**Appendix 2** https://www.gmpf.org.uk/documents/pool/22february2016.pdf **refers**) , Greater Manchester Pension Fund, Merseyside Pension Fund and West Yorkshire Pension Fund developed a Memorandum of Understanding setting out the operation of the "Northern Pool" and the proposed steps in its formation.

6.2 The 3 funds had combined assets of around £35 billion at 31 March 2015, therefore clearly meeting the scale criteria (Government was looking for pools in excess of £25 billion at that date) and as at 31 March 2018, were at £45 billion.

6.3 A shadow joint committee was formed to oversee the creation of the pool, with each of the funds represented by their chair or vice-chair. This shadow joint committee has continued to meet regularly and this report seeks to formally establish the joint committee with Tameside MBC, the administering authority of the Greater Manchester Pension Fund as host authority.

6.4 Once formally established, there will also be scheme member representation on the joint committee and it is intended that the union representatives will be appointed by the trade unions with significant membership within the LGPS and the unions should ensure that the appointees:

a) have the appropriate technical skills and knowledge to represent scheme members' interests in investment matters;
b) should represent the interests of members from the Greater Manchester, Merseyside and West Yorkshire regions, with an appropriate balance of representatives from each region; and
c) diversity including gender balance.

6.5 As would be expected from the larger LGPS funds, collectively the 3 funds in the Northern Pool are relatively low cost, which was evidenced by a benchmarking exercise which all LGPS funds in England and Wales participated in as part of the pooling process. An implication of this is that significant additional cost savings (one of the pooling criteria) may be harder to achieve and the most effective structure for the Northern Pool may differ from that of other pools which consist of a larger number of funds.

7. OVERVIEW OF FUNDS IN THE NORTHERN POOL

7.1 Scale and cost savings achieved from pooling are to be assessed primarily against March 2015 data. An overview of the 3 funds in the Northern Pool is provided below. All 3 funds have strong long-term investment performance and at 31 March 2015 were ranked in the top quartile of LGPS funds on a 20-year basis and remain in this position some 3 years on. More importantly, independent analysis shows that when compared net of investment costs the relative performance will be stronger still due to the relatively low investment management costs of the funds.

Greater Manchester Pension Fund ('GMPF')

7.2 GMPF is the UK's largest LGPS fund. The Fund has assets of £22.5bn at 31 March 2018 (nearly at scale of a pool in its own right) up from £17.6bn at 31 March 2015, with over 340,000 members across more than 400 contributing employers. Listed-securities are generally managed externally via large low-cost multi-asset mandates. Private market assets, with the exception of property, are generally managed internally. GMPF employs approximately 16 designated investment staff plus legal and accounting support. GMPF has for many years made direct local infrastructure investments and more recently has experience of investing in collaboration with others funds (such as the infrastructure partnership with LPFA).

Merseyside Pension Fund ('MPF')

7.3 Merseyside Pension Fund has assets of £8.5bn at 31 March 2018 up from £6.5bn at 31 March 2015 and provides the Local Government Pension Scheme for the Merseyside region, delivering pensions' administration, investment and accounting on behalf of the 5 Merseyside District Councils, 145 other employers and over 128,000 scheme members. The Fund has a ten strong experienced and professionally qualified internal investment team which has delivered consistently good performance by employing a combination of internal and external management and active and passive strategies. This has been achieved with lower risk than the typical LGPS fund. The Fund has a long track record of investing in Alternatives, including infrastructure and has a substantial direct property portfolio.

West Yorkshire Pension Fund ('WYPF')

7.4 WYPF is the UK's 4th largest LGPS fund. The Fund has assets of £14.0bn at 31 March 2018 up from £11.3bn at 31 March 2015, with over 260,000 members across more than 400 contributing employers. WYPF is almost entirely in-house managed. The active, long term, low risk, low turnover approach has been central to the achievement of low cost outperformance, and high funding levels compared to the average LGPS fund. The team of 14 investment professionals actively manage equity portfolios in virtually all countries where markets are investable. Bond portfolios covering domestic and overseas government and corporate bonds are actively managed. In addition a diverse portfolio of alternative assets

including infrastructure, property, and private equity are managed by way of unitised investments. The WYPF also invests directly in property. The investment team is stable and investment managers typically have 20 years investment experience. Particular strength is found in the long term stock selection performance vs the market in several equity and bond portfolios whilst maintaining low risk.

8. FEBRUARY 2016 PROGRESS UPDATE

8.1 The February 2016 progress update built on the high-level principles set out in the Memorandum of Understanding and provided a summary of the Pool's expected operation.

8.2 The key points were as follows.

- The long-term vision of the Pool is to provide participating funds with access to a range of internal and external investment management at low cost. The proportion of assets in the Pool that are internally managed is expected to increase over time.
- The pension committees of the participating funds will retain responsibility for meeting the funds' liabilities and setting the strategic asset allocation of their fund.
- Subject to continuing to meet best practice and mandates being of sufficient size to ensure low cost, participating funds will also retain the ability to select asset class (equity, bonds, property etc…including multi-asset), territory (UK, Europe, US etc.. or global) style (value, growth etc…) and whether managed actively or passively. For an initial period, participating funds will have the discretion to determine whether a mandate is managed internally by the Pool – as the Pool contains significant capacity and experience in this area, or by an external manager. This will enable participating funds that have not previously used internal management to gain comfort of its operation and vice versa.

9. STRUCTURE AND GOVERNANCE

9.1 The proposed governance structure for the Pool is to form an oversight board, consisting primarily of elected representatives of the participating funds' pension committees, together with Trade Union employee representatives, which will define key strategic objectives. The oversight board will work closely with independent advisors.

9.2 It is intended that the oversight body will be a joint committee, with equal representation from each participating fund.

9.3 The flexibility of the joint committee approach will allow speedy implementation of the Pools' investment objectives, such as further investment into infrastructure and will allow collaboration with other pools or national initiatives.

9.4 The relative simplicity and familiarity with the joint committee approach will enable focus on the areas of pooled working which can deliver material financial benefits, primarily the management of alternative/illiquid assets.

9.5 Discussions with Government during the process suggest that Government had expected pools to use a legal vehicle known as an Authorised Contractual Scheme ('ACS') to pool assets. The ACS appears an appropriate vehicle for consolidating a number of relatively small investment mandates in order to generate scale and reduce fees and is expected to be used by most of the other pools.

9.6 However, due to the existing scale and simplicity of management arrangements, the funds in the Northern Pensions Pool already deliver low-cost management of listed securities either via internal management or via large external mandates (WYPF manages

approximately £11bn of listed securities internally and GMPF's largest external mandate is c£9bn – these mandates are significantly larger than any other LGPS pool will realistically achieve in the short to medium term). Very broadly, it is generally acknowledged that economies of scale are exhausted at mandates above around £2.5bn.

9.7 Whilst there may be some scope although so far very limited via pooling to reduce these costs further and potentially harness an additional governance dividend, it is expected and we are advised that the biggest benefits from pooling for the funds in the Northern Pool will be in the management of alternative/illiquid assets such as property, private equity and infrastructure (including local investments) and the ability to increase allocations to these asset classes via further developing capacity and capability. It should be noted that 50% of our costs relate to 10% of our assets. These costs will only increase as we seek to diversify from public equities to alternative assets such as private equity, property, and infrastructure as the Fund matures (more pensioners than actives) and we need to derisk the Fund.

9.8 Alternative/illiquid assets can be held more effectively outside of an Authorised Contractual Scheme ('ACS') structure (for example via limited partnerships), primarily due to their illiquid nature.

10. COSTS AND SAVINGS

10.1 Due to the scale of the participating funds and the simplicity of arrangements, the Northern Pool will likely have the lowest costs of any of the LGPS Pools at the outset and the independent cost information comparing us not only with other LGPS funds but also globally would indicate this to be the case. Given this, the scope for further savings, particularly in the management of liquid securities is limited and there will be a focus on saving costs in alternative assets.

10.2 Significant savings can be made in the management of alternative/illiquid assets by using improved in-house capability and the skills of the Pool to undertake more co-investment and direct investment.

11. COMMITMENT TO INFRASTRUCTURE INVESTMENT

11.1 The Funds in the Northern Pool are in broad agreement that:

- Infrastructure assets that are most attractive to pension funds are established infrastructure projects delivering steady income streams that rise with price inflation (since LGPS pension payments increase with inflation). There will also be demand for some higher risk-return assets as reflected in existing portfolios held by the funds in the pool.
- Improved access and lower cost is most likely to be achieved through a national platform accessible to all the LGPS asset pools.
- Further work is required to determine how the national platform should be established and whether it builds on or runs alongside any existing arrangements. Government can assist the investment in infrastructure by ensuring that there is a pipeline of projects that are suitable for investment by the LGPS.

11.2 The Northern Pool envisages that in addition to commitments to the national pool, there would be some investment by LGPS pools alongside the national pool, either as co-investment opportunities or separately, where appropriate due to location, scale, local knowledge, existing relationships or other factors, but with the national pool providing a clear lead.

11.3 Ahead of the pooling agenda, GMPF, which has a long track record of investing in infrastructure funds, developed the capacity to invest in direct infrastructure opportunities through its joint venture (known as 'GLIL') with the London Pension Fund Authority ('LPFA').

11.4 This vehicle was designed to be extended to accommodate other funds and could form part of the national solution. The intention of the Northern Pool and its existing collaborative partners is to promote the concept of an LGPS owned entity with both direct investment capacity and to facilitate the clearing house concept.

11.5 The starting point being that if the number of parties investing in GLIL became such that it is impractical for all parties to be actively involved in the decision making process then the vehicle will seek the appropriate level of FCA authorisation, which it has now recently undertaken.

11.6 The funds in the Northern Pool are open to further investment in infrastructure and will look to achieve an allocation of 10% of fund value in the medium term subject to identification of investment opportunities that meet the required risk adjusted returns to meet their liabilities.

12. GOVERNMENT FEEDBACK ON FEBRUARY 2016 PROGRESS UPDATE

12.1 In late March 2016, all pools received a response from Government to their February progress updates. The Northern Pool's response can be seen at https://www.gmpf.org.uk/documents/pool/february2016.pdf **Appendix 3 refers**. This was very similar to the responses received by several other pools.

12.2 The response confirmed that the Northern Pool clearly meets the scale criteria.

12.3 All pools received the same paragraph in their responses in relation to the infrastructure criteria. The Minister stated that he wished to see more detail of how pools intend to invest in infrastructure in the July submissions and for each fund to state their proposed allocation to infrastructure investment. This response was disappointing given that the Northern Pool provided much more detail than other pools and provided a clear objective for infrastructure investment.

12.4 In his letter, the Minister clearly states his preference for pools to create a new entity with responsibility for employing staff and selecting and contracting with managers, rather than pools using a 'shared-service' arrangement structure, similar to that outlined by the Northern Pool in its February 2016 progress update.

12.5 This view was strengthened further in a letter which the Minister wrote to the ACCESS pool, which was also copied to other pools. **Appendix 4 refers**. In this letter the Minister states that the Government's thinking has advanced considerably since the publication of the pooling criteria in November 2015. In particular, the letter gives a clear indication that the Government expects the pool to be regulated by the Financial Conduct Authority ('FCA').

12.6 Each pool was asked to present to a Government assessment panel on their progress towards completing the July 2016 submission. The Northern Pool's presentation took place on 16 June 2016.

13. NORTHERN POOL SUBMISSION TO GOVERNMENT - JULY 2016

13.1 After consideration of the feedback from Government and associated correspondence, the Northern Pool submitted its pooling proposal to Government on 15 July 2016. The submission and the covering letter have been published on each of the funds' websites and can be accessed via the links below at **Appendix 5**:
http://www.gmpf.org.uk/documents/policies/pooling/northernpool.pdf
http://www.gmpf.org.uk/documents/policies/pooling/northernpoolsubmission.pdf

13.2 One of the key features of the July 2016 submission was the creation of an investment management company, which would be wholly owned by the 3 funds and comply with Alternative Investment Fund Manager ('AIFM') Directive. This AIFM manager would be regulated by the Financial Conduct Authority ('FCA') and would manage segregated accounts for each of the administering authorities in respect of listed assets, but would have the ability to manage pooled funds in alternative asset classes as required.

13.3 This is a similar structure to those being implemented by the Borders to Coast and Central pools and the structures currently in place at the London CIV and Local Pensions Partnership. The Wales and ACCESS pools are proposing to procure an external operator to satisfy regulatory requirements.

13.4 However, one important difference between the Northern Pool's submission and those of the other pools is that the Northern Pool would be maintaining segregated accounts for listed assets rather than transferring these to a pooled vehicle such as an Authorised Contractual Scheme ('ACS'). Due to the current scale and low costs of the Northern Pool, there is not the scope to recoup the transition costs involved in such a change.

13.5 The Northern Pool reconfirmed its commitment to infrastructure investment in the July 2016 submission.

13.6 In October 2016, DCLG civil servants made contact with each of the pools in order to arrange meetings between DCLG Minister Marcus Jones MP and representatives of each of the pools. The purpose of the meetings was for the Minister to respond to each pool's final proposals and to set out his expectations for the rest of the pooling programme. The Northern Pool's meeting took place on 19 December 2016.

14. FEEDBACK FROM GOVERNMENT ON THE JULY 2016 SUBMISSION

14.1 Following the meeting with Government, the Northern Pool received a letter from the Secretary of State on 19 January 2017. This can be seen referenced at https://www.gmpf.org.uk/documents/pool/jan2017.pdf **Appendix 6 refers**.

14.2 The letter states that:

- The Minister has acknowledged that pooling is likely to increase costs in the early years.
- All assets should be invested via the pool unless there is a 'strong value for money case for delay'.
- The Minister has no plans to extend the deadline for pools to become operational in April 2018.
- The Minister will be reviewing progress of all the pools in spring and autumn 2017 and will expect to see a core team in place in spring 2017and an application for FCA authorisation (if not submitted already).

14.3 It is understood that these comments were also made of many of the other pools (some of whom shared their letters). It is the 3rd paragraph of the Northern Pool's letter, which differs from some of the other pools' letters. The Minister notes:

- his approval of the substantial funds committed to the GLIL partnership and the existing low investment costs of the funds in the Pool;
- that he expects the Pool to establish an investment management company authorised by the Financial Conduct Authority ('FCA') to 'manage all pool assets'.
- that he also expects the Pool to set out plans to achieve further savings building on the Pool's existing strength, including through increased internal management, and to demonstrate that you are continually testing the potential to achieve greater net savings over the short and longer term.'
- That, on the basis of the comments noted above, he is content for the pool to proceed as set out in its July 2016 proposal.

14.4 It is noticeable that there is no reference to an Authorised Contractual Scheme ('ACS') in the letter, which suggests that Government accepts the case made in the Northern Pool's July 2016 submission that an ACS would not add value for the funds in the Northern Pool.

15. ESTABLISHING THE NORTHERN POOL

15.1 One of the key features of the July 2016 submission is the creation of an investment management company, which would be wholly owned by the 3 funds and comply with Alternative Investment Fund Manager ('AIFM') Directive. This AIFM manager would be regulated by the Financial Conduct Authority ('FCA') and would manage segregated accounts in respect of listed assets, but would have the ability to manage pooled funds in alternative asset classes as required.

15.2 Government was slower than anticipated in responding to the proposals and as a result, many pools had been reluctant to commit to further significant spend in respect of progressing implementation of the proposals. It is generally accepted that a timescale of 15 to 18 months is required in order to create an AIFM investment management company and obtain FCA approval with the deadline of the 1 April 2018 remaining unchanged.

16.3 In order to make significant progress in advance of the April 2018 deadline, a decision was required in early 2017 regarding whether the July 2016 submission should be implemented as it was drafted or whether a further review of the proposals should be undertaken.

15.4 Before making any further decisions on the operation of the Pool, the Shadow Joint Committee agreed to receive further information on the implications of FCA authorisation via a 'work-shop' facilitated by the Pool's legal advisors Squire Patton Boggs and PwC, who had provided some financial analysis for the February and July submissions and had been working closely with some other pools. It was also agreed to extend the invite to this to include other key individuals involved in the operation of each fund, such as the funds' independent advisors, who role is to ensure that the fiduciary duty of the Funds are met.

15.5 A half-day event was arranged for 28 March 2017 and was attended by the chairs, vice-chairs and independent advisors of each of the funds in the Northern Pool. The purpose of the meeting was to consider in detail the Government's pooling requirements and how the funds can operate most effectively in this environment which meeting its legal duties including its fiduciary duty and the requirement to deliver value for money for employers and taxpayers alike.

15.6 The group received a report setting out the progress of the Northern Pool to date and enclosing DCLG's pooling criteria and guidance and all of the submissions made to Government since the inception of the pooling process.

15.7 Squire Patton Boggs delivered a presentation setting out the current legislative framework for LGPS investments and their understanding of the requirements imposed by the new LGPS Investment Regulations, pooling guidance and the related letters issued by DCLG

Ministers. An overview of Financial Services legislation and relevant exemptions was also provided.

15.8 The presentation covered the potential risks of adopting alternative structures to establishing an Alternative Investment Fund Manager ('AIFM') to manage all pool assets. Both regulatory and financial risks were considered and discussed by the group.

15.9 PwC delivered a presentation covering the implications of FCA authorisation on the investment operations of large LGPS funds and in particular the steps required to establish an AIFM and achieve FCA authorisation. Governance and staffing requirements, costs and timescales were key issues discussed by the group. It was noted that the estimated costs of establishing and operating an AIFM are significant compared to the current costs of the 3 funds. Concerns were also expressed by members and advisors on how an AIFM could be adequately held to account by relevant stakeholders.

15.10 It was agreed that the Pool objectives were as follows:

- To maintain strong performance and low cost
- Simplicity
- Accountability
- Commitment to infrastructure investment

15.11 It was also agreed that there are several differences between the Northern Pool and the other LGPS pools, which distinguished it. In particular:

- The Pool consists of 3 large funds with relatively simple and distinct management arrangements, which means that the scope for generating further economies of scale in respect of the management of listed assets is limited.

- On the basis of the independent legal and financial advice received, the number of participants in the Pool is small enough to allow collective investments to be made in alternative assets via joint ventures, as each fund can be directly involved in the investment decision making process (this approach has worked well to date on the GLIL infrastructure partnership) without breaching the law;

15.12 The majority of the benefits of pooling for the funds in the Northern Pool are in respect of alternative assets where there is greatest scope to generate further economies of scale and to combine resources to make increasingly direct investments. In order to best meet the cost criteria set by Government, it therefore makes sense for the Northern Pool to continue focusing resource in this area rather than establishing an AIFM as a pool operator in the short term.

15.13 The Scale and Governance criteria can be met by appointing an FCA regulated common custodian for the Pool. Pooled vehicles for alternative assets can be established as individual FCA regulated entities as and when required. It is intended that internal processes within the pool should be of a comparable standard to that required by the FCA.

15.14 It was noted that if other funds or pools were to seek to join the GLIL infrastructure vehicle then this would need to be FCA regulated in order to avoid the risk of being deemed to be operating a unauthorised collective investment scheme. As such, legal advice will be obtained by GLIL on how it can procure an FCA regulated operator and the implications of this on its activities.

15.15 This approach was agreed by the management Panel, who have agreed each steps at every Panel meeting.

16. SPRING 2017 PROGRESS REVIEW

16.1 Soon after a progress update was submitted to Government in April 2017, which set out the main ongoing areas of work in the Pool. These were as follows:

- Developing a vehicle to make private equity investments on a collective basis. The governance of this vehicle is expected to operate in a similar manner to the GLIL infrastructure vehicle.
- Procurement of a FCA regulated custodian for the Pool.
- Preliminary work being underway to procure an FCA regulated operator for the GLIL infrastructure vehicle, which would allow other pools to join.

The response can be found at **Appendix 7** and at:
https://www.gmpf.org.uk/documents/pool/25april2017.pdf
https://www.gmpf.org.uk/documents/pool/april2017.pdf

16.2 The Pool's progress update reiterated to Government how the current vision for the Northern Pool meets the Government's objectives in terms of maximising savings and providing value for money. It was clear that the Northern Pool continues to lead the way in the LGPS regarding direct infrastructure investment.

16.3 On 1 June 2017 officers of the Northern Pool participated in a conference call with DCLG civil servants. The main purpose of the call was for DCLG to obtain further details in relation to the progress update submitted by the Pool in April. In general the civil servants seemed very satisfied with the responses given.

16.4 Officers provided a verbal summary of progress on:

- the development of the collective private equity vehicle and expected timescales for completion;
- formally establishing the joint oversight committee and scheme member representation on this joint committee
- pool custodian procurement.

16.5 The officials from DCLG were very interested in how the pool was investing in housing and suggested that 'housing colleagues' at DCLG would also be interested. The Pool's invite for the Minister to visit some of the pool's completed and in-progress local investment and housing projects was reiterated and it appears likely to be of interest.

16.6 Throughout the development of the Northern Pool, representatives of the participating funds' pension committees have been meeting to provide strategic oversight and direction. These meetings have taken the form of a Shadow Joint Committee, with secretariat services provided by Tameside MBC.

16.7 At the Shadow Joint Committee meeting in July 2017, the Chairs of West Yorkshire and Merseyside pension funds agreed to formally nominate Councillor K Quinn as Chair of the Northern Pool Oversight Board (and for him to chair the Shadow Joint Committee prior to its establishment). It was suggested that this appointment be for a 1 year period initially. The Management Panel of GMPF agreed to this approach

16.8 On 22 August 2017, all pools received a letter from DCLG, which was also signed by the Chief Secretary to the Treasury and the Cabinet Office. This is referred to at **Appendix 8**. and can be found here: https://www.gmpf.org.uk/documents/pool/august2017.pdf The letter reiterates the Government's previously stated objectives and confirms that pools will be asked to submit progress reports in October covering the period up to the end of September.

17. AUTUMN PROGRESS 2017 REVIEW

17.1 The Northern Pool's progress report and supporting documents can be found at https://www.gmpf.org.uk/documents/pool/october2017.pdf and referred to as **Appendix 9**. These documents summarise the Northern Pool's progress in meeting each of the Government's 4 headline pooling criteria.

17.2 The main ongoing work streams for the Northern Pool were progressing well and in particular:

- Developing a vehicle to make private equity investments on a collective basis. The governance of this vehicle is expected to operate in a similar manner to the GLIL infrastructure vehicle.
- Procurement of a FCA regulated custodian for the pool to ensure all listed assets of the pool (i.e. internally and externally managed equities and bonds) are held within a single permanent FCA regulated entity. The shortlist was down to 3 bidders with site visits taking place in the first week of November. The custodian will also manage the calls and distributions in the Northern Pool private equity vehicle.
- Work was underway to procure an FCA regulated operator for the GLIL infrastructure vehicle. This would allow other pools to join. GLIL currently has commitments of £1.3bn to direct infrastructure in the UK, with investments of almost £300m made to date. There is currently little evidence of other pools having made significant progress on developing the capacity for direct infrastructure investment.
- The democratic services functions of each of the administering authorities are progressing the creation of the Pool joint committee, with Tameside MBC acting as lead authority. This joint committee will oversee the Pool and provide a democratic link back to the individual funds. The legal agreements setting out the governance framework of the Pool are not yet finalised as work is being undertaken to ensure that they are aligned with the governance framework of the private equity vehicle.

17.3 In this progress update the pools were asked to split out costs between:
a) costs incurred to date;
b) expected costs between now and the date of implementation, and;
c) expected costs after implementation.

Northern Pool costs to date were approximately £200,000 compared to the original estimate of implementation costs of £1.8m.

17.4 Details of GMPF's housing investments were included in the infrastructure section of the response to demonstrate progress against the Pool's target of building 10,000 homes. Up to 30 September, GMPF has financed 284 completed homes, with a further 236 under construction. Due diligence is currently being undertaken on 9 further projects which would deliver another 3,863 homes. It is hoped that the rate of delivery can be increased via joint ventures with other funds in the Pool.

17.5 Following discussion with DCLG civil servants and Jeff Houston of the LGA (who attended part of the 24 October meeting of the Northern Pool Shadow Joint Committee), the progress update provided further clarity for Government on how the plans for the Northern Pool have evolved since the July 2016 submission was made to Government as we did not intend to set up an expensive AFIM structure and how, in the opinion of the participating funds, the pooling Criteria and Guidance are met.

18. MEETING THE POOLING CRITERIA

18.1 From a regulatory perspective, LGPS funds are required to pool their assets in order to meet Regulation 7(2)(d) of the 2016 LGPS Investment Regulations. This regulation requires administering authorities to set out their 'approach to pooling investments, including the use of collective investment vehicles and shared services' in their Investment Strategy Statement.

18.2 The accompanying statutory guidance to the 2016 Investment Regulations states that:

"All authorities must commit to a suitable pool to achieve benefits of scale. Administering authorities must confirm their chosen investment pool meets the investment reform criteria and guidance published in November 2015, or to the extent that it does not, that Government is content for it to continue."

18.3 This would appear to provide that it is up to administering authorities, rather than Government to determine that they meet the investment reform criteria and guidance. The Northern Pool administering authorities will be asked to confirm that they believe the criteria and guidance has been met when formalising the governing documentation of the pool.

18.4 The LGPS Investment Reform Criteria and Guidance was issued by DCLG in November 2015. The 4 high-level criteria are:

a) Scale (pools should be in excess of £25bn at 31 March 2015)
b) Strong governance and decision making
c) Reduced costs and excellent value for money
d) Improved capacity to invest in infrastructure

18.5 The full criteria and guidance for pooling is available at **Appendix A**.

18.6 Subsequent letters from Government have sought to clarify the criteria, in particular that Government expects a 'single legal entity' at the heart of each of the pools and that all pools should have a FCA regulated operator. However, these requirements are not explicitly stated in the Criteria and Guidance. It should also be noted that what does or does not constitute 'pooling' or 'a pool' is not clearly defined either.

18.7 The vast majority of the benefits of pooling for the funds in the Northern Pool are in respect of alternative assets where there is greatest scope to generate further economies of scale and to combine resources to make increasingly direct investments. Following detailed discussions with each of the fund's advisors and the professional advisors to the pool, it was agreed in March 2017 that in order to best meet the **Reduced Costs and Excellent Value for Money** criteria set by Government, the Northern Pool should focus resource on making collective investments in alternative assets (which will commence and start generating material cost savings from April 2018) rather than establishing an Investment Management Company established under the Alternative Investment Fund Managers Directive ('AIFM') as a pool operator in the short term.

18.8 The **Scale** and **Strong Governance and Decision Making** criteria can be met by appointing an FCA regulated common custodian for the Pool, which will have custody of all the pool's listed assets (i.e. internally and externally managed equities and bonds). Pooled vehicles for alternative assets will operate via joint-ventures, as per the current operation of the GLIL infrastructure vehicle, but are being designed in such a way that they can be converted to operate as FCA regulated entities as and when required.

18.9 Strategic asset allocation will be set by each fund's pension committee with the selection of individual investments and investment managers carried out by appropriately qualified and

experienced individuals, operating under the legal framework of specialist investment vehicles where appropriate (i.e. GLIL, Northern Pool private equity).

18.10 It is clear that the Northern Pool and LPP via the GLIL vehicle continue to lead the way in the LGPS regarding direct infrastructure investment. It should therefore be relatively straightforward for the participating administering authorities to determine that the **improved capacity to invest in infrastructure** criterion is met.

18.11 Regulation 8 of the 2016 LGPS Investment Regulations sets out the action that Government could take should any authority not comply with the regulations and associated guidance. Such action includes the ability for the Secretary of State (following consultation with relevant stakeholders) to direct how a fund invests its assets.

19. RESPONSE TO AUTUMN PROGRESS REVIEW

19.1 Rishi Sunak MP provided a response to the Northern Pool's autumn progress update which can be found at https://www.gmpf.org.uk/documents/pool/march2018.pdf **Appendix 10**.

19.2 The Minster has expressed his desire to meet with members of the Northern Pool Shadow Joint Committee to discuss plans for implementation. It is also understood that the Minister wishes to see increased investment in housing from the LGPS and has reiterated his desire to visit some of the Northern Pool's housing developments in his letter.

20. SPRING 2018 UPDATE

20.1 All LGPS pools have been asked to submit a further progress report to Government, covering the period up to 13 April. As was the case for previous progress reports, MHCLG have issued a template for pools to complete. The template for this update is more detailed than the ones issued for previous submissions. The template is broken down into 4 sections corresponding to the pooling criteria set by Government, namely:

(i) Scale
(ii) Value for money
(iii) Governance
(iv) Facilitating infrastructure investment

20.2 The progress update from the Northern Pool can be found herewith at: https://www.gmpf.org.uk/documents/pool/april2018.pdf as **Appendix 11** to this report and summarises the Northern Pool's progress in meeting each of the Government's 4 headline pooling criteria.

20.3 The Minster has expressed his desire to meet with members of the Northern Pool Shadow Joint Committee to discuss plans for implementation. This meeting is due to take place in Westminsteron Wednesday 23 May. Reference is likely to be made to the progress update, and key points which the Minster is likely to want to discuss at the meeting include, where the responsibility for selecting fund managers lies, the role of the Northern Pool custodian and the evidence obtained via the CEM benchmarking reports of the Northern Pool's low costs compared to its peer group.

20.4 It is also understood that the Minster wishes to see increased investment in housing from the LGPS and has reiterated his desire to visit some of the Northern Pool's housing developments in his letter.

21. LGPS POOLING NATIONAL DEVELOPMENTS

21.1 There are eight pools across the LGPS, which are made up as follows:-

- Northern Pool
- London CIV (the 33 London Boroughs)
- South West Funds + Environment Agency ("Brunel Pensions Partnership")
- 'ACCESS' (Most of the South-East County Council funds)
- Central Pool (most of the 'midlands' LGPS funds)
- 'Border to Coast' (The remaining northern funds + a small number of others)
- Wales
- LPFA/Lancashire ('the Local Pensions Partnership – LPP') + Berkshire

21.2 The eight pools are at different stages of development. Two of the pools, the London CIV and LPP, are currently operational and are in the process of transitioning assets into the pools. The London CIV has not yet pooled any alternative assets, has seen lower than expected levels of assets transfer from participating funds and is in the process of reviewing its governance structure following the recent changes of leadership including the Chief Executive and Chief Investment Officer.

21.3 The Welsh LGPS Pool and the ACCESS Pool have both procured Link Fund Solutions Ltd to act as their pool's FCA regulated operating company. The other pools under development are typically 'building' their own operator.

21.4 All pools are required to be fully operational by 1 April 2018 and the Secretary of State has been clear that all assets should be invested via the pool unless there is a 'strong value for money case for delay', however it is understood that some pools will not meet this deadline.

21.5 The Borders to Coast pool is expected to start pooling internally-managed listed assets with effect from June 2018 with externally managed assets being pooled from a later date.

21.6 With the exception of the Northern Pool and LPP, all of the other pools have at least 8 participating funds and therefore require their mandates for listed assets to be amalgamated in order to meet the scale criteria and for collective investments to be managed by a FCA regulated operating company in order to avoid being deemed to be operating an unauthorised collective investment scheme.

21.7 The number of participants in the Northern Pool is small enough to allow collective investments to be made in alternative assets via joint ventures, as each fund can be directly involved in the investment decision making process (this approach has worked well to date on the GLIL infrastructure partnership);

22. FORMATION OF NORTHERN POOL JOINT COMMITTEE

22.1 Attached at **Appendix 12** to this report is a draft of the inter-authority agreement, known as the Northern Pool Operating Agreement, which will form part of the formal establishment of the Northern Pool Joint Committee and define its terms of reference.

22.2 Tameside MBC will be the host authority for the Joint Committee and the agreement sets out in detail the responsibilities of the host authority and how it will interact with the administering authorities of the other funds in the Pool.

22.3 The Council as Administering Authority is requested to approve the terms of reference of the Joint Committee and procedure for Joint Governance Committee meetings and to authorise the Director of Governance and Pensions to amend as expedient or necessary in

consultation with the Chair of the Pension Fund to meeting the LGPS Investment Reform Criteria and Guidance was issued by DCLG in November 2015 and Revised LGPS Investment Regulations were issued in 2016.

22.4 Agree that the Chair of the Greater Manchester Pension Fund, Cllr Brenda Warrington and the Vice Deputy Chair, Cllr Gerald Cooney, are the representatives for the Administering Authority and the Fund, noting that for the forthcoming Municipal Year, Cllr Ian Greenwood of the West Yorkshire Fund will be the Chair of the Northern Pool.

23. RECOMMENDATIONS

23.1 As set out at the front of the report.