

Teresa Clay
Department of Communities and Local
Government
Fry Building
2 Marsham Street
London SW1P 4DF

9 November 2017

Dear Ms Clay

Local Government Pension Scheme pooling: Autumn progress report

We are pleased to enclose an update on the Northern Pool's progress to 30 September 2017.

We fully support and endorse the pooling criteria and guidance issued by DCLG in November 2015 and each of the funds in the Northern Pool and their respective administering authorities are confident that the changes to investment management arrangements being implemented will achieve the Government's aims and the right outcomes for our members, employers and taxpayers alike.

The Northern Pool remains firmly on track to deliver immediate and long-term cost savings, a significant increase in investment in UK infrastructure and further strengthening of governance arrangements.

As reported in our April progress update, since the announcement of the Government's pooling objectives in summer 2015, the assets of the 3 funds in the Northern Pool have increased to over £42bn, over 50% above the Government's £25bn scale target.

In addition to maintaining our long history of excellent investment returns and low costs, the funds in the Northern Pool have already achieved the following:

- ✓ Established a £1.3 billion infrastructure pot (known as 'GLIL'), with £250m of this already invested in direct UK infrastructure. GLIL is in the process of appointing an operator authorised by the Financial Conduct Authority to enable others pools to join and provide fast, low cost access to infrastructure investment across the LGPS.
- ✓ Committed to allocate at least 10% of fund assets to infrastructure investment;
- ✓ Cost savings of c£10m p.a. as a result of making direct infrastructure investments via the GLIL vehicle and negotiating lower investment fees to reflect our increased scale.
- ✓ Alignment of responsible investment approaches at the fund level to enhance the stewardship of Pool assets.

In addition work is well underway to achieve the following in advance of the April 2018 deadline:

- ✓ Appointment of Pool custodian – An OJEU procurement exercise is in progress to appoint a single, permanent FCA regulated entity at the heart of the Northern Pool. The Pool



custodian will significantly enhance the Pool's reporting capabilities as well as increasing accountability and oversight.

- ✓ Establish a collective private equity vehicle similar in structure to GLIL. This vehicle will make all the Pool's private equity investments on a collective basis going forwards which will drive much of the Pool's projected cost savings.
- ✓ Further develop our simple democratic governance arrangements, which deliver Government's aims of accountability for the tax payer.

The Northern Pool remains firmly on track to achieve annual cost savings of over £28 million once the pool is fully established, primarily achieved via the increased resource of the Pool enabling alternative asset classes to be accessed in a more cost effective way.

We would like to take this opportunity to reaffirm our collective strong support for the principles the government has identified to deliver better outcomes, in particular your commitment to increase infrastructure investment in the LGPS. We would also like to highlight how the Northern Pool has developed since making its July 2016 submission, primarily in order to enable the enhanced delivery of the Value for Money and Infrastructure Investment criteria set out in the November 2015 Pooling Criteria and Guidance. This is explained in more detail in the enclosed progress update.

As you will be aware, the funds in the Pool have a long-history of making significant direct local infrastructure investments such as the Matrix Homes initiative referenced in the Government's Pooling Criteria. This initiative unlocked difficult brownfield sites to build hundreds of much needed houses. Building on the excellent work to date **the Northern Pool has set itself the challenging target of financing the construction of 10,000 new homes over the next 3 years**, using a wide range of funding approaches.

Significant progress has already been made towards meeting this target. Up to 30 September 2017, GMPF has financed 284 completed homes, with a further 1,738 under construction. Due diligence is currently being undertaken on 9 further projects which would deliver another 2,270 homes. Discussions are also underway to extend the Matrix Homes model via joint ventures with other funds in the Pool.

We are proud to be at the forefront of LGPS investments in these areas and firmly believe that such investment can meet the twin aims of providing superior risk adjusted pension fund returns and having a positive impact on the local and national economy.

We believe strongly that through collaboration, the local government pension sector can be a world leader in infrastructure investment, which is why we have been developing the GLIL platform and working with other institutional investors to finance homes.

We are also keen to share our knowledge and experience to work successfully with other Local Government Pension Schemes and large pension funds to deliver the best possible value for money.

As we have spoken about previously, we would be very happy to facilitate a meeting to demonstrate some of our work on housing. Firstly our Matrix Homes initiative, which through financial partnership with local authorities enables new homes to be built on brownfield sites that

commercial developers acting alone would not develop. Secondly our provision of mezzanine finance to commercial developers that whilst providing a solid risk adjusted return, fills the funding gap left by banks to enable building of new homes to take place. This demonstration could include site visits to existing and future sites.

I hope that Ministers can accept this invitation and we look forward to the Northern Pool continuing to lead on meeting the Government's objectives in its reform of LGPS investments.

We will look forward to further discussion with Government and our stakeholders over the forthcoming months.

Yours sincerely,



Cllr Kieran Quinn
Greater Manchester Pension
Fund



Cllr Andrew Thornton
West Yorkshire Pension Fund



Cllr Paul Doughty
Merseyside Pension Fund