Greater Manchester Pension Fund

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PRIVATE AND CONFIDENTIAL
Rishi Sunak MP
Ministry of Housing, Communities & Local Government
1st Floor NW, Fry Building
2 Marsham Street
LONDON
SW1P 4DF

Dear Minister,

Local Government Pension Scheme: LGPS (Management and Investment of Funds) Regulations 2016 (the "Regulations"). Draft Statutory Guidance on Asset Pooling

With regard to the above, I set out below the response of the Greater Manchester Pension Fund ('GMPF'), one of the LGPS funds participating in the Northern LGPS (formerly known as Northern Pool) and with assets at £23.5 Billion – the largest LGPS Fund in the UK.

The Fund serves the current and retired workers of the 10 Greater Manchester Authorities and other public sector services that support the area, across the airport, transport, further education colleges and schools together with the MOJ, National Probation Services for which GMPF was appointed by the Secretary of State to be the '*One Fund'*.

Throughout the pooling process, the GMPF Management Panel has considered in detail the proposals, expectation and legal framework at all of its meetings. We have had the benefit of independent financial and legal advice together with the views of the independent advisors to the Fund.

We fully endorse and support the concerns and objections set out in the response from Northern LGPS dated the 19 March 2019, and Leading Counsel's Opinion received today, and for that reason I do not intend to reiterate those concerns here, which we also adopt as our objections.

Firstly, we would like to reiterate once again that Greater Manchester Pension Fund is, and has always been, very supportive of the objectives set out in the November 2015 Investment Reform Criteria and Guidance (the '2015 Guidance'), and what the Minister is seeking to achieve. The 2015 Guidance set out a broad framework, which would help all LGPS funds achieve the economies of scale and opportunities that GMPF have been able to take advantage of.

Prior to Government's announcement of its pooling objectives in 2015, GMPF was already well progressed along the collaboration journey. Our direct infrastructure investment vehicle GLIL and the Invest 4 Growth initiative – all predate pooling.

Indeed, the 2015 Guidance at paragraph 3.63 specifically refers to our achievements and ambitions as leading in infrastructure and local investments:

> *In considering such investment, administering authorities might want to reflect on the wide range of assets that might be explored, such as railway, road or other transport*

facilities; utilities services like water and gas infrastructure; health, educational, court or prison facilities, and housing supply. Authorities should also examine the benefits of both:

- *Greenfield infrastructure – projects involving the construction of brand new infrastructure, such as a new road or motorway junction to unlock a housing development, or the recent investment of £25m by the Greater Manchester Pension Fund to unlock new sites and build 240 houses; and*
- *Brownfield infrastructure – investing in pre-existing infrastructure projects, such as taking over the running of (or the construction of a new terminal building at) an airport.*

GMPF and LPFA set up GLIL Infrastructure in 2015, and we have since been joined by our Northern LGPS funds. We have all previously invested in funds and grown increasingly uncomfortable with high fees and ownership cycles more linked to the interests of the investment manager than the pension fund. The manager aims to make a profit between buying and selling, but this incurs transaction costs whereas as a pension fund, we would like to hold them in perpetuity.

Accordingly, we created a vehicle that would reduce the fees and let us control our destiny – and influence the governance of infrastructure assets from an ESG perspective to ensure it is well run for all stakeholders. It invests in greenfield opportunities, both directly as it has done in biomass plants and in companies undertaking major investment programmes, for example Forth Ports' development of the Port of Tilbury. Local authority pension funds have a wider interest in society and the environment in which our stakeholders live and work.

GLIL has commitments totalling £1.8bn and £1bn has already been invested. Moreover, in the interests of enabling access to opportunities that in particular other LGPS funds and pools may not have immediate access to, in 2018 we restructured to become a regulated alternative investment fund, so it can admit limited partners (that do not participate in investment management) to join its general partners. We are trying to build a UK asset owner investment platform that compares with similar ones in Canada and Australia. There is potential for growth from the existing partners and there is very much a desire to work with the other LGPS pools.

We believe and assert that GMPF in its own right meets all the criteria to be a pool and clearly independent performance data demonstrates that we are operating and delivering favourably at a global level.

GMPF has for a considerable number of years undertaken regular performance and cost benchmarking against global comparators using the CEM Benchmarking service. The most recent report covering the year ending 31 March 2018 indicates that GMPF has costs, which are materially below the global peer group average (both before and after controlling for differences in asset allocation).

That said we recognise that as a Fund there were still asset classes where we could increase scale and resources and lower costs in order to improve net investment returns and in particular in the alternatives, which we have been diversifying, in recent years. So other than infrastructure, the most compelling case being for private equity and last summer as part of the Northern LGPS GMPF established the Northern Private Equity Pool ('NPEP') to make collective private equity investments. To date £325m of fund commitments have been made with a target of £1bn by June 2020. This collective approach is expected to generate costs savings in excess of £10m p.a.

We have been clear with Government throughout this process that GMPF mandates for listed assets are already at scale – it is acknowledged by CEM benchmarking and other independent performance experts that it is highly unlikely looking across the global universe that we will be able to achieve any further synergies or cost savings.

Further, we have demonstrated via the operation of GLIL, NPEP and other shared initiatives that a small number of well-resourced LGPS funds working together with agreed aims and values can invest on a joint basis whilst remaining fully compliant with all relevant financial services legislation.

The November 2015 guidance was clear that it was up to administering authorities to work together to develop pooling arrangements, which would enable each of them to meet the outcome based criteria set by Government without adversely impacting on ability to meet fiduciary duty to its stakeholders and deliver value for money.

Accordingly, GMPF has been happy to collaborate and work with our pooling partners, as the Northern LGPS, to deliver and drive forward on Government's expectations for reform, where we can clearly demonstrate that such collective working delivers better net investment returns than GMPF could deliver alone owing to increased capacity, reduced risk and access to co-investment and other opportunities.

We are therefore extremely disappointed and dismayed that the recent draft guidance appears to have completely lost sight of the desired outcomes and instead seeks to mandate a one-size fits all approach, which given GMPF's existing scale and achievements to date is clearly sub-optimal for our members, employers and local taxpayers.

Rather than raising standards, increasing performance and efficiency, there seems to be orthodoxy for uniformity that can only serve to reduce to the lowest common denominator, which would militate against the best interests of all stakeholders.

Based on independent advice we have received, we estimate that establishing an FCA regulated company would increase Northern LGPS' costs by approximately £10m - £15m p.a., of which GMPF would bare the significant burden. This will only add significant and unnecessary cost to GMPF without any benefit whatsoever either in the short or long term.

The S151 Officers across the 10 Local Authorities have made it clear this is not an additional burden they are prepared to accept on behalf of their taxpayers and nor should they.

Local Government has been subject to significant austerity cuts in budget particularly in the Northwest. We have worked relentlessly as a Fund to keep down our costs and to maximise returns to maintain stable and affordable contribution rates.

To conclude, we would once again like to reiterate GMPF's support for the objectives of the 2015 guidance and sincerely hope that Government listens to our concerns that implementing the new guidance as currently drafted would be a backward step for GMPF and clearly not in the best interests of stakeholders nor acceptable to them.

The assertion that individual funds should be prepared to suffer an increase in their costs in order to benefit other funds in the pool or the wider LGPS is clearly at odds with our fiduciary duty in managing our fund and we do not believe this can be lawful nor do our stakeholders.

We would urge the Minister to reconsider his latest Guidance, which we believe undermines the commendable principles set out in his 2015 Guidance and the purpose of what he is seeking to achieve in the interests of all stakes holders especially active members, employers and taxpayers nationally.

Yours sincerely,

Cllr Brenda Warrington - Executive Leader of Tameside Council – Administering Authority
<u>Chair of the Greater Manchester Pension Fund</u>