

GMPF & LPFA Infrastructure LLP ('GLIL')

Executive Summary

- Both the Northern Pool and the Local Pensions Partnership ('LPP') believe that GMPF & LPFA Infrastructure LLP ('GLIL') can form part of the national arrangements for LGPS infrastructure investment. It can also be available for other pools to invest in before April 2018.
- Currently GLIL is a 50/50 joint venture between the two pension funds focused on infrastructure investments. The LLP currently has aggregate committed funds of £500m.
- GLIL is in the process of admitting additional partners from within Northern Pool and LPP and increasing existing partners' commitments with a view to reaching £1bn+ committed by Autumn 2016.
- GLIL is seeking to engage with other pools to be part of a national framework and the existing partners are open to flexible governance arrangements.
- This note covers the advantages of this approach supported by some details of the investment approach of GLIL, highlights achievements to date and sets out a potential flexible approach to governance arrangements going forward.

Advantages

There are a number of reasons why the direct investment approach of GLIL has significant advantages compared to the common approach of investing through collective funds controlled by investment managers or creating a new LGPS infrastructure manager.

- GLIL believes more effective implementation is possible through collaboration with aligned partners on an asset by asset basis, and specifically avoiding/mitigating the following:
 - High management costs of third party funds.
 - Blind pool risk.
 - Lack of governance rights.
- This is a vehicle with a long term buy & hold philosophy.
- The vehicle can leverage resources of funds/pools (i.e. people, sourcing opportunities, capital) for the benefit of all.
- GLIL already exists, has made investments and has an efficient cost base and therefore:
 - Implementation can be accelerated
 - Expected future net returns are superior to other viable alternatives

Investment Guidelines

- UK Focussed
- Ability to invest in both greenfield and brownfield assets
- Ability to invest across the capital structure
- Looks to invest across infrastructure sectors
- Assets should feature some or all of the following aspects:

- Consistent identifiable cashflows
- Inflation linkage
- Material yield component of the return (>50%)
- Long duration
- High barriers to entry
- Early income generation
- Strong management teams
- Targeted development contribution to economic growth

Investment Sourcing

- Co-investment
 - GMPF and LPFA have significant fund investment across infrastructure. Managers are aware of GLIL and approach with opportunities.
 - General Partners ('GPs') in fundraising mode will approach GLIL with investment proposals even where there is no existing fund relationship. GLIL does not invest in funds in order to secure co-investment.
 - GPs whose existing investor base is not able to provide sufficient capital for new investment.
- Co-Sponsor
 - Ability to be a named member of a consortia with influence on bid and governance terms
 - Build relationships with other large institutional investors in infrastructure to increase co-sponsor transactions
- Intermediaries
 - GLIL has a wide range of intermediary relationships to source investment opportunities. These include; investment banks, boutique advisory firms, law firms and accountants.
- Proprietary
 - GLIL is building relationships with other strategic investors in the sector; one example is the disposal programmes of utility companies as they look to improve balance sheets.
 - GLIL is also speaking with a number of the leading development/construction firms on greenfield/brownfield opportunities.

Investment Process



- One Page Summary: Identifies core aspects of the opportunity. A high level review on which the GLIL Investment Committee ('IC') can base their decision as to whether further

resources, including external costs, should be allocated to take the opportunity through to a full proposal.

- Due Diligence: Comprehensive due diligence on all aspects of the transaction. Will often include external advice on specific matters, such as financial modelling, tax, specialist commercial matters and legal. Culminates in detailed final investment proposal.
- Final proposal: Final investment proposal is presented by transaction team to the Investment Committee. Unanimous agreement amongst partners is required for investments to proceed as each partner has a veto. IC approvals are sometimes subject to conditions such as satisfactory final legal documentation. In these circumstances, the conditions are approved by an IC call or email before completion of the transaction.
- Asset Management: Each investment is allocated to a senior member of the GLIL team who leads the asset management process; this may include taking a board seat. Monthly reporting to the IC and ad-hoc updates are provided where required. Performance is compared to the bid model where relevant.

Achievements to date

- Demonstrated ability to execute investments: Committed £210m of £500m target during first 12 months of operation – of this c. £160m is “Money in the ground”.
- Established sourcing capabilities - Received in excess of 50 direct opportunities of which initial reviews were conducted on c. 30 with detailed due diligence on 7.
- Credible Investment Partner – GLIL has been an active co-investor within large and small investment consortia with tier 1 asset owner and asset manager market participants.
- Flexible/ delegated governance within a broad mandate – GLIL has proven a model of delegated governance operating within a well-defined mandate which includes UK focus and a mix of operational and greenfield assets across a wide range of sectors. Stage 2 due diligence processes have included regulated utilities, unregulated airports, operational renewables, new build renewables and new build transportation assets.

Flexible Governance Arrangements

- GLIL is at present a Limited Liability Partnership (‘LLP’) structure which does not require FCA registration as participants are taking part in a joint venture and therefore there is not a ‘collective investment scheme’. There are formal Investment and Management Committees which operate the LLP supported by a transaction team with support services such as accounting and secretarial provided from the respective administering authorities.
- Future arrangements need to facilitate both investors who wish to take part in decision making, and those who do not. Therefore a General Partner (‘GP’) / Limited Partner (‘LP’) structure appears more appropriate.
- Pools will be able to join as an LP and not take part in investment decision making if that is their preferred option
- A GP will be set up which will have a FCA registered operator to enable it to manage a collective investment scheme.
- Pools which wish to take part in decision making can have places on the Investment Committee and second staff to the transaction team of the GP.

- Early discussions with other pools have highlighted a desire for pools to have the option of either not participating in an investment or to veto the making of an investment. Further detailed work and negotiation is needed on the proposed final structure in order to balance the requirement for individual participating pools to have governance rights and the need for the future GLIL to be an effective investment vehicle.
- There can be a supervisory committee to oversee the running of the investment vehicle.
- There are significant timing advantages to Local Pensions Partnership ('LPP') being the registered operator and this option is put forward to enable early implementation as LPP is already FCA approved. More work is required to ensure that rights of other pools participating in the GP are preserved.