



Presentation to LGC Celtic Manor 2017

Collaborative Infrastructure and Housing
Investment

NorthernPool
The Collective Asset Pool for Greater Manchester
Merseyside and West Yorkshire Pension Funds



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GLIL - Our Mission

Reduce cost of investing
in infrastructure



Become a credible &
deliverable partner on flagship
UK infrastructure projects

Manage our investments to
ensure maximum long term
value

GLIL - Our Partners

- GLIL Infrastructure LLP was founded by Greater Manchester Pension Fund and London Pensions Fund Authority in April 2015, with each partner committing £250 million



- In December 2016, the partnership welcomed three new funds:



- This development saw GLIL's commitments increase to £1.3 billion.

Definition of Infrastructure

Our Investment mandate defines infrastructure broadly, allowing us to be flexible in the market. The focus is on the characteristics of the assets rather than an academic definition of infrastructure.

Key risks that are considered include:

- **Asset Lifecycle:** Operational vs greenfield
- **Capital Structure:** Equity vs debt (and amount of leverage)
- **Revenue Profile:** Availability vs usage (and general sensitivity to the macro-economy)

Key Characteristics

Consistent Identifiable Cashflows

Inflation linkage

Material yield component of the return (>50%)

Long duration assets

High barriers to entry

Early income generation

Strong Management Teams

Targeted Development contribution to economic growth

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GLIL Portfolio: Infrastructure Characteristics

Characteristic	Bioenergy Portfolio	Clyde Wind Farm	Rock Rail
Consistent Identifiable Cashflows	Yes	Yes	Revenue reset every franchise period
Inflation linkage	Yes	Yes	Not directly
Material yield component of the return (>50%)	Yes Once out of construction 10 yr yield >10%	Yes 10 year yield >8%	Yes Once out of construction 10 year yield >10%
Long duration assets	Yes	Yes	Yes
High barriers to entry	Average	Average	Yes
Early income generation	Once out of Construction (6-12 months)	Yes	Once out of Construction (18 - 36 months)
Strong Management Teams	Yes	Yes	Yes
Targeted Development contribution to economic growth	No	No	Yes

Rock Rail East Anglia

- The financing of new rolling stock for the East Anglia Franchise. In total 378 new vehicles will be bought to replace the old rolling stock on the franchise, creating millions of faster, more frequent and less polluting journeys.
- The new trains will operate on the Stanstead Express, Intercity (London to Ipswich and Norwich) and Regional routes.
- GLIL invested in excess of £40m for 49% of the East Anglia holding company, partnering with Standard Life and Rock Rail.
- GLIL enjoys strong governance with board representation and material shareholder reserve matters.
- Expected investment return exceeds upper end of GLIL target, with a strong cash yield generated early in the investment life.

Clyde Wind Farm



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Clyde Wind Farm

- Large UK onshore wind farm with further capacity in construction
 - Operational Clyde Wind Farm: 350 MW
 - Clyde Extension COD Q1 2017: 172 MW
 - Total: 522 MW
 - Attractive net load factor of 33%
- GLIL invested £150m for 21.7% of the Clyde asset with SSE retaining 50.1% and Greencoat UK Wind holding 28.2%.
- The expected investment return to GLIL is about 1% per annum above market returns at the time, with a strong cash yield available from day one.
- Clyde wind farm is ROC accredited (1 ROC per MWh) with operational history. Clyde Extension will be one of the last ROC accredited wind farms in the UK.

Bioenergy Assets

- £60 Million committed to the construction and operation of renewable energy assets within the UK.
- Five further sites are being developed across the UK, the team are taking each site from planning through to construction and management of the plant.
- Strategic partnership with Iona management team to develop the portfolio.
- Low teen target IRR, with low gross to net spread.

Strong Pipeline for 2017

Sector	Sub-sector	Potential GLIL Ticket Size
Transport	Rail	£250m
Transport	Rail	£40m
Energy	Hydro	£70m
Transport	Airport	£150m
Energy	Biomass	£80m
Utilities	Water	Various opportunities
Utilities	Transmission	Various opportunities
Energy	Solar	£100m
Energy	Wind	Various opportunities

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Housing

- Is it infrastructure?
- Identified by Government as a priority
- Taken on board by GMPF and now Northern Pool as a priority
- Has positive Investment Characteristics
- Execution of strategy is key, needs an active approach
- Implementation require significant resources
- Different Options available
- GMPF Experience

Need for Rented Housing: National Picture

- Owner occupation has been in decline since 2003, with a corresponding increase in the private rented sector,
- Household formation is fastest among groups who have difficulty becoming home owners
- Changing employment patterns make owner-occupation more difficult to access.
- Higher levels of personal debt restrict ability to gain mortgages

Returns from Housing Investment for a Pension Fund

- Healthy returns on a risk adjusted basis
- Strong Income Generation - Regular Cash Flows
- Strong Collateral
- Potential to structure investments to focus on risk control or return generation
 - Equity or fixed income instruments
 - Payment Profile
 - Seniority in Capital Structure

Direct Financial Model

- Joint venture with Council
- Investment is initially Fixed Income with a set interest rate and fixed repayment cash-flows
- For rented homes there is a long term lease to a head tenant who manages the properties
- Fund is not exposed to void and bad debt risks or other operational risks
- There is a sale at the end of the lease to head tenant which provides final cash-flow and return on equity to Council and Pension Fund. This is the only part of investment return dependant upon property prices

GMPF housing example – Matrix Homes



Issues for future

- Locality is important driver of value
- Local knowledge can help in investment selection
- Local Authorities have land and expertise
- LGPS Funds have capital and expertise

Thoughts on Geographic Considerations

- Is part of Asset Allocation and therefore is a Fund Decision Considerations include usual portfolio construction issues
 - Return Requirements
 - Volatility tolerance
 - Diversification benefits
- GMPF has particular views which are fed into its strategic asset allocation
- For GMPF there is the local investment angle and the “Twin Aims”
- Each Fund will have its own requirements and it is for pools to create solutions
- Direct overseas investment is more difficult than UK to implement

Collaboration

- We are part of the Cross Pool Group
- Very open to working with other Pools
- Considering appropriate governance and regulatory structures for GLIL and any other initiatives that may come forward
- Partnership working requires a desire to make it work flexibility and compromise
- Balance between scale and control/specificity

Next Steps

