

Conference highlights



LGC Investment Seminar (14-15 March 2024)

An interesting and informative couple of days at Carden Park, which was well attended and included topics such as impact investing, a ministerial update and the allocation of assets towards the UK.

Day 1: Welcome from Chair and from Local Government Chronicle

Martin George, LGC; Dawn Turner, Independent Adviser

- Martin welcomed everyone to the event. He discussed how the economy had changed since last year, as well as commenting on the accuracy of predictions made last year and how he'd like to focus on pioneering change in the investment landscape.
- Dawn introduced the day and first session.

Economic market scene-setter: latest trends and future outlook

Stephen Millard, The National Institute for Economic and Social Research; James Ashley, Goldman Sachs Asset Management

- Stephen gave forecasts on several key economic issues, most notably that global economic growth is resilient but slow (and stalling in the UK), that we're past the peak of inflation, and interest rates will begin to fall in mid-2024. Geopolitical risks will be key to 2024/25.
- James discussed how different a position the economy is now in compared to the previous 15 years, most notably due to inflationary pressures returning caused by the reversal of globalisation.
- Both agreed that interest rates are likely to need to remain higher to keep inflation around the 2% target.

Implications of the latest economic position on investment strategy

Matthew Trebilcock, Gloucestershire Pension Fund; Richard Marshall, DWS Infrastructure; Jill Davys, Redington

- Richard began by discussing the benefits of infrastructure investments, particularly in the current market conditions, noting the stable values, inflation-linked cashflows and diversification they can provide.
- Matthew noted the impact the current strong funding level may have on the Gloucestershire Fund's cash flow position if contribution rates are reduced. He explained how the Fund was focussing on generating inflation-linked cashflows in preparation.

- Jill discussed the various challenges of geopolitics, inflation leading to cashflow challenges and the increase in political influence on the LGPS.

Run up to the 2025 valuations

Rob Bilton, Hymans Robertson; Richard McIndoe, Strathclyde Pension Fund

- Rob considered how the fundamental inputs of a typical LGPS fund have increased over the last 24 years, resulting in the LGPS being in a strong funding position. He then looked ahead to the 2025 valuations and what the change in economic environment and strong funding position may mean for investment strategy, contribution rates and prudence levels. Actions taken at 2025 will depend on a fund's beliefs about the economic environment and other risks, so funds should start considering these now.
- Richard then took us through the results of the Strathclyde valuation at 2023. This valuation was carried out in the current economic environment, and Richard discussed how they approached setting employer contribution rates, including a one-off reduction in years 1 and 2, and the associated implications and considerations.

Achieving diversification through a liquid, market neutral investment approach

James Murray, Jupiter

- Jupiter is offering a global equity absolute return fund (GEAR) which aims to offer uncorrelated fund returns.
- The GEAR is also very liquid so can help with cashflow needs.
- It has 400 long and 400 short holdings, trades every day and includes automation of some of the selection process to remove behavioural biases.

The double whammy of decarbonisation and de-risking in developing economies.

Lauren Juliff, Storebrand Asset Management UK

- Lauren explained the challenges that climate metrics can create for trying to build a portfolio that's truly aligned to the Paris agreement.
- Some metrics could steer capital towards less aligned companies and away from the best positioned, so a more considered approach is needed.

US private credit: an integral, all-weather allocation during any market cycle

Blair Faulstich, Benefit Street Partners

- Blair considered the large growth in this area over last few years explaining that it offers exposure across a variety of different strategies.
- He set out the benefits of US private credit: high income, attractive risk-return profile, diversification.
- Opportunities for LGPS funds to get involved – offer fee discount, higher returns and diversification.

Financing the future: energy transition, energy independence and the hidden role of impact bonds

Tony Appiah, Nuveen

- Tony discussed the benefits impact bonds can provide in having a positive impact and addressing major societal challenges, such as climate change.
- The potential returns were discussed, as well as the ability to measure the positive impact generated.

Impact private credit – moving the dial: how investors can make a positive impact with private credit

Diane Mak, AllianzGI; Ricardo Cavilliotti, Allianz Global Investors

- Diane explained how impact private credit seeks to provide answers to society's most pressing concerns. It invests in companies whose core business is to provide solutions in areas such as climate change, planetary boundaries and inclusive capitalism.
- Allianz believe it offers a strong market opportunity and attractive risk adjusted returns for LGPS funds.

Residential real estate unpacked

Alex Greaves, M&G Real Estate

- Alex discussed the need for different types of housing for different stages of life, and the importance of holding a portfolio spread across each of these areas.
- The growing demand/supply imbalance of housing was set out as a supportive backdrop for the asset class.
- It was noted how much smaller the typical UK institutional investor's allocation to residential property is compared to overseas peers.

Welcome to the revolution: time for UK science and technology to change the world

Chris Hopkins, Legal & General Capital (LGC)

- Chris discussed the growing sector of venture capital investments into companies being created out of UK universities, with overseas investors now showing interest.
- Investment platforms have now been set up to facilitate investment, making it easier to do.
- The potential for positive impact was also noted, particularly on economic growth and job creation.

The best strategies for inflationary times: a golden opportunity for LGPS to protect and profit from the return of inflation

Ben Crawford-Porter, Ruffer; Jos North, Ruffer

- An interactive session considering the new inflation environment and how LGPS funds are managing this.
- It was noted how inflation has an impact on both the assets and the liabilities, particularly the impact inflation has had on cashflow. They noted that diversification and stability is important.

Bank risk sharing: a new era of financial collaboration benefitting LGPS funds on their diversified income journey

Olivier Renault, Pemberton

- Olivier comments that bank credit risk sharing can offer attractive risk adjusted returns and a highly diversified portfolio.
- It's a large and rapidly growing market which LGPS funds should consider as a way of diversifying.

Is net zero investing aligned with natural capital?

Ros Smith-Maxwell & Mark Burrows, Quinbrook Infrastructure Partners

- The amount of fossil fuel power generation assets in the UK nearing the end of their operational life was discussed, noting that the cheapest way to replace these is with renewables, such as wind.

- The potential to then use these infrastructure assets to regenerate old brownfield sites as well as increase local biodiversity was also noted.

Fiduciary duty – the cornerstone of the LGPS or something to hide behind?

Becky Clough, Local Government Pension Scheme Advisory Board; Paddy Dowdall, Greater Manchester Pension Fund; Struan Fairburn, LGPS Central

- Becky covered the various legal opinions and guidance that has been provided around fiduciary duty, noting how its relevance remains today under the new challenges the LGPS faces.
- Paddy explained how GMPF address the challenge of meeting their fiduciary duty in their local impact portfolio, noting they require a level of return commensurate to the level of risk taken on all investments.
- Struan noted that the purpose of the LGPS was clear. Additional requirements, such as supporting the UK economy, created a challenge to committees to do so in a way whilst meeting their fiduciary duties.

Being bold and leading the way – more than just a pension scheme

Alistair Coyle, ACCESS; Rachel Brothwood, West Midlands Pension Fund; William Bourne, Linchpin Advisory; Adrian D’Enrico, Edmond de Rothschild

- Adrian began by providing some examples of investments made by Edmond de Rothschild that generate a return and positive impact, including homeless shelters and affordable housing.
- Rachel stated a belief that the LGPS should challenge itself to do more for society, noting some local impact investments WMPF makes, such as in local housing, whilst still generating a return.
- Alistair noted the growing demand he was seeing at ACCESS from partner funds wanting investments that also generated positive impact, such as timberland and affordable housing. He stated that cross-pool collaboration would be beneficial to prevent the LGPS competing with itself for opportunities.
- William gave an additional definition of fiduciary duty, stating it should only focus on financial outcomes, and that recent government pressure to support the UK economy was against this. He did note support for SME finance, with an ability to generate strong returns and positive impact, whilst being relatively easy to scale. He added that the pools were not yet well enough resourced to do this themselves.

Day 2: Chair’s opening remarks

Nick Buckland, Kent County Council

- Nick introduced us to day 2 of the conference and commented that all officers/committee members/advisers etc are doing a great job of keeping the LGPS afloat in a time of great change.

Next steps on investments (and the pooling consultation)

Teresa Clay, DLUHC; Sean Collins, Oxfordshire Pension Fund; Anthony Parnell, Carmarthenshire County Council; Jo Donnelly, Local Government Pension Scheme Advisory Board

- Teresa gave an update on the progress with pooling and on plans and changes to guidance and regulations. She outlined the benefits delivered by pooling including significant and growing net savings.
- Jo briefly covered the changes that will be made to the SAB annual report, and how the increased level of disclosure should make the report more useful. She noted that the guidance around this increased reporting should be published by the end of March.
- Anthony discussed the investment structure of the Welsh pool and the great progress that had been made. He expressed a preference for there to continue to be a pool for Welsh funds.

- Finally, Sean gave his opinion that there are too many LGPS funds and that this would need to be addressed before further pooling reforms can take place. He commented that it's becoming increasingly difficult to allow for differing funds' views on RI without having separate funds for them with pools.

The role of the LGPS in effectively leading US securities fraud litigation: lifting the veil on identifying cases, measuring success and overseeing cases from across the pond.

Mark Solomon RGRD; Alex Younger, Norfolk Pension Fund

- Mark outlined how US securities fraud can arise and how it's important to complete due diligence before choosing a legal firm to partner with if embarking on any recovery action.
- Alex outlined the part he has played with Norfolk Pension Fund in pursuing securities fraud and referenced the recent settlement with Apple for \$490million.

Views from the minister

Simon Hoare, MP

- Simon introduced his session by stating that whilst there will be a general election this year, he believes there is cross-party support for the current political direction on pensions that will continue even with a change in government.
- He set out an expectation for pooling to continue, stating that eventually the "comply or explain" requirement would likely become "comply or compel".
- Simon explained a desire that all LGPS funds would invest in ways that support the UK but must apply the same financial criteria as is done for any investment. He warned against treating it as a "box-ticking exercise". Work on how LGPS funds can invest in children's homes is underway, with a deadline of the end of April.
- The governance structure and administration of the LGPS was also discussed, stating he wished to see these costs fall, with a reduced number of funds being key to this. He also confirmed that future guidance would see the skills and training requirements for Committee members brought into line with those applicable to Board members.

Workforce challenges – getting a broader range of voices within the investment community

Helen Price, Church of England Pensions Board; Dawn Turner, Independent Adviser

- Dawn outlined academic studies demonstrating the value that truly diverse workforces add to companies.
- Helen set out the asset owner diversity charter, setting out what it's, its aims and how it tries to achieve this.
- Helen set out the data that asset managers can provide on diversity so far and the need for improvement in both the metrics and the quality of the data.

Boosting investment in the UK

Dillon Anderiesz, Macquarie Asset Management; Simon Cunnington, British Business Bank; Peter Wallach, Merseyside Pension Fund; Aoifinn Devitt, London CIV

- Peter discussed some of the benefits and difficulties of investing in the UK, noting the areas where the UK excels, but also some challenges, such as the difficulty and high costs of building infrastructure and connecting to the National Grid.

- Dillon explained infrastructure debt and the benefits it can have in financing the improvements in UK infrastructure, which are required to achieve Net Zero targets, as well as improve and increase the current stock.
- Simon set out the purpose of the British Business Bank and the types of investments it makes. An investment vehicle is being worked on that will be open to pension fund investments.
- Aoifinn set out the work the London CIV had done to invest in the UK, in areas such as housing and infrastructure. She noted surprise about how little investment in venture capital there is in the UK.

Planning for the future – what the political landscape tells us

Nick Watt, BBC Newsnight

- Nick gave an entertaining speech, giving insights and some predictions on a wide range of political issues, covering public finances, the next general election and a potential return of Boris Johnson.