

# Conference highlights

LGC Investment & Pensions Summit (Leeds) 8-9 September 2022



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The annual LGC Investment & Pensions Summit took place in Leeds this year. The conference covered a variety of topics, including the challenges of inflation, the future of pooling, and the road to net zero.

## Welcome from the Chair and from LGC

### Rachel Elwell, Border to Coast

- At last year's conference, 48% of attendees identified inflation as key risk. This year the theme would be delivering pensions in high inflationary, challenging, and unstable environment.
- The Local Government Pension Scheme provides certainty in uncertain times, helping 4 million save towards retirement and 2 million pensions in payment.
- Highlighted need to deliver for members and to ensure that the work of the LGPS is understood and known – setting out the benefits for members and wider society.

## Implications of the macroeconomic environment on the LGPS

### Rachel Elwell, Border to Coast; James Asley, Goldman Sachs Asset Management; Paul Johnson, Institute for Fiscal Studies

- **Paul Johnson** highlighted that higher inflation isn't solely down to rising energy commodity costs, and that by 2025 weekly earnings in real terms will be no higher than in 2005, which is unprecedented historically. He also covered the UK lagging the US and Europe in GDP growth, investment, employment, and labour force.
- **James Asley** discussed types of inflation, explaining that monetary policy will have low impact on the biggest drivers of inflation, as many are supply-side issues, but central banks still appear determined to do whatever it takes to curb inflation (in monetary policy terms) and have few concerns about the damage done to growth.

## Overview of investment market conditions

### Fiona Miller, Border to Coast; Jill Davys, London Borough of Sutton; Jose Pellicer, M&G Real Estate

- **Joel Pellicer** noted that recession is almost seen as a foregone conclusion now, but all recessions are 'saved' by something or someone, eg China saved us in 2009 by pumping money into the economy

and Mario Draghi saved us from a more severe Eurozone crisis in 2012. We cannot predict what it will be this time. Markets are expecting a short and mild recession, but often their downside predictions are understated.

- Businesses gradually realising that their 'just in time' business models need to migrate (quickly) towards 'just in case' whereby their supply chains are more diverse/robust to risks and shocks.
- **Jill Davys** discussed an on-the-ground view of dealing with market conditions, considering employer contributions against the likelihood of increased benefits payments linked to inflation. She also touched on the cost challenges presented by difficulties in recruitment for the LGPS and the energy crisis impacts on delivery of net zero.

## Councillor and pensions board member session

**Bob Holloway, LGA; John Neal, UNITE; Robert Chapman, London Borough of Hackney; Roger Phillips, LGPS Advisory Board**

- **Cllr Phillips** highlighted the 'to do' list for the LGPS – McCloud, Dashboard, TCFD, Good Governance, Pooling Guidance and recognising that staff capacity is something to keep an eye on. Good governance and pooling guidance should help the LGPS remain a success, calling out the need to remember that funds ultimately own the pools, and they should be working for us!
- **Cllr Chapman** discussed climate change and the importance of being on top of the risk and opportunities in investments, the contraction in international trade making it a challenge to find investment opportunities, and the cost-of-living crisis fundamentally affecting society and investment decisions.
- **John Neal** spoke about the need for focus on members given high inflation, energy supply security concerns, and the cost-of-living crisis - all huge challenges.

## Pool and fund officer session: Opportunities and challenges to collaborate at fund and pool levels

**Fiona Miller, Border to Coast Pensions Partnership; Kevin McDonald, ACCESS; Mark Wynn, Cheshire West and Chester Council; Mike O'Donnell, London CIV; Rodney Barton, West Yorkshire Pension Fund**

- **Fiona Miller** sees collaboration from Funds and Pools not just in relation to asset classes but also sharing best practice and consultancy costs in relation to things like tax. As skills shortages (due to recruitment) are expected, more opportunities to collaborate and share resource could arise.
- **Rodney Barton** discussed that the next level of co-operation will be doing more together on the investment side: making use of existing relationships to achieve lower costs and greater efficiency.
- **Kevin McDonald** agreed that co-operation within the LGPS has intensified with more collaboration not just in relation to investment. Pooling provides collaboration infrastructure but there still needs to be innovation.
- **Mark Wynn** sees areas for additional collaboration – to get national profile and single voice heard, for example, through SAB's new compliance and reporting committee.

## Investment zone: How and why should private capital help the delivery of affordable homes in the UK?

**Chris Jeff, M&G Real Estate; Luke Webster, Greater London Authority**

- Discussed the wide variety of affordable housing, noting that shared ownership schemes could help address the housing crisis with three key investor benefits: long term index linked income, resilient cashflow, and authentic social and environmental outcomes.
- Chris believes that affordable housing schemes with long term tenancies can be more sustainable than private housebuilder projects which have a short investment horizon of 2-4 years: buy land, build home, sell it on – but this encourages short-termism such as poor or unsustainable builds, poor insulation, disinterest in social cohesion etc.

## Investment zone: How do multi-asset strategies need to evolve to address the new macroeconomic regime?

**Nick Buckland, Kent County Council; Mitesh Sheth, Newton Investment Management**

- Mitesh commented that the bull market for beta is likely dead – it's over for markets that benefitted from recent benign investment conditions, and so this should suit multi-asset strategies that are dynamic.
- Four themes were set out: big government (making it easier to justify interventionary actions such as price caps), China's increasing influence (focus on reducing reliance on US dollar and move to consumption economy), financialisation (big growth in financial markets compared to non-financial markets, seeing significant leverage in the system) and great power competition (change in balance of power from liberal, democratic order is giving way to new paradigm of wars to boost advantages)
- Key conclusion was that dynamic asset allocation should be a real opportunity to add value.

## Investment zone: Opportunities abound – the case for growth equities

**Nick Buckland, Kent County Council; Tim Gooding, Baillie Gifford**

- Tim commented that the past 10 years have been a good time for growth equities, as the onward march of Moore's Law created deep data sets for profit, and benign macroeconomic policy provided bountiful and cheap capital.
- Tim set out a fairly relaxed and optimistic outlook because growth investing based on a 100-year-old four pillar approach is not affected by winds of inflation and rates.

## Investment zone: How the LGPS can capitalise on real estate debt

**Luke Webster, Greater London Authority; Vincent Nobel, Federated Hermes**

- Sustainability is at the heart of portfolio construction in real asset strategies, and this is not necessarily at the expense of returns. Real estate should be a good hedge against inflation but depends upon the ability to tie rents to inflation and have good tenants.
- Main conclusions were that real estate debt can be helpful to avoid fat tails in real estate, provide sustainable income returns, and provide some property and inflation hedging.

## Investment zone: Multi-Asset Credit: an agile approach to an uncertain world

**Nick Buckland, Kent County Council; Madelaine Jones, Oaktree**

- The obsession for a long time has been how can you get more yield in the portfolio. Bond and equity markets are now facing pressure, which is a difficult investing condition.

- Need to generate income as costs are rising. MAC investment can offer superior risk adjusted returns. Lot of opportunities (13,000 securities) and looking at asset classes via active allocation (as you can get inefficiency between the different asset classes).
- Explained an approach to investing in MAC in this environment:
  - 1- Quickly allocate to areas of superior relative value - eg short dislocation windows across asset classes.
  - 2- Use the different levers to control interest rate exposure - eg different asset classes have different levels of interest rate exposure.
  - 3- Strategically adjust risk exposure and dampen volatility when broader market risks are heightened.

## Investment zone: Beyond wind and solar: the evolution of the Energy Transition

**Luke Webster, Greater London Authority; Jerome Leyvigne, BlackRock Infrastructure; Stuart Wright, BlackRock Infrastructure**

- Began by noting the huge institutional investment already made in this area but noted the need for broader investment across the whole network, rather than just generation.
- Timelines depend on the advance and concurrent cost reduction of technology.
- 'Advance, Reduce or Offset' approach aligns infrastructure assets to net zero long-term and the risk and return approaches to decision making.

## Investment zone: Private credit – finding opportunity in a volatile environment (private debt)

**Nick Buckland, Kent County Council; Tim Warrick, Principal Global Investors**

- The session was about investment opportunities in mid-market direct lending – essentially lending money to companies too small to access the syndicated loan/corporate bond markets.
- These direct lending agreements tend to have interest rates that are floating in nature – which is a defence against rising interest rates, with attractive potential. However, diversification between companies and understanding the resilience of the companies you are lending to is crucial.

## Investment zone: Why LGPS investors should diversify into global real estate

**Luke Webster, Greater London Authority; Nick Colley, CBRE Investment Management; Achal Ghandi, CBRE Investment Management**

- LGPS schemes typically invest heavily in UK property but less globally, which would offer greater diversification, liquidity and opportunity in a well-understood asset class.
- Achal covered the reasons to go global and considerations to make, for example, APAC less impacted by Ukraine than Europe and the UK.

## Investment zone: How direct lending & working capital finance have evolved into leading Private Credit strategies

**Nick Buckland, Kent County Council; Mark Hickey, Pemberton**

- Discussed the development of direct lending strategies/market and US vs European perspective. Direct lending has generally been a very resilient asset class in the shocks we have faced over the past 5-10

years. Borrowers tend to prefer the extra flexibility afforded by direct lending and are willing to pay a premium for it.

- Pemberton see similar, favourable supply-demand imbalances in working capital finance, which involves company payables and receivables with very short time horizons of typically 1 month to 1 year and sees returns of cash +2-3% being available. This is a very low duration asset that can be used for cashflow management or to protect against economic, inflation or interest rate shocks and still provide (low) positive returns in stressed environments.

## Investment zone: Innovation in UK Residential Property Investment

**Luke Webster, Greater London Authority; Adrian Jones, Allianz Global Investors**

- Adrian recapped the challenges of the residential property market, calling out that LTV is not what stops people acquiring mortgages it is LTI – it is all about affordability of interest.
- Discussed the different options of residential property investment from shared ownership to affordable housing and social housing.

## How we assess ESG in challenging markets

**Dawn Turner, Independent Adviser and Non- Executive Director; Chandra Gopinathan, Railpen; Nick Payne, Jupiter Global Emerging Markets Focus**

- Nick discussed the challenges of Net Zero commitment and progress in emerging markets, encouraging investors to continue challenging their managers.
- Chandra explained the importance of Net Zero reporting from managers, and that investors needed to incentivise managers to “up their game” on data and reporting.
- There was also discussion of the IIGC framework: aligning to Net Zero is a path plotting the criteria to achieving net zero by 2050.

## What Pooling 2.0 looks like

**Dawn Turner, Independent Adviser and Non- Executive Director; Chris Rule, Local Pensions Partnership Investment; Jo Ray, Lincolnshire Pension Fund; Joanne Donnelly, Local Government Association; Mike Weston, LGPS Central**

- **Joanne Donnelly** advised that the timeline on further guidance/consultation is still “this calendar year”.
- **Simon Clarke** has just spent time as Chief Secretary to Treasury, so it may be helpful that he has background knowledge of the LGPS.
- **Chris Rule** discussed the LPP approach to pooling and the criteria for success which include the fiduciary oversight benefits and portfolio approach.
- **Jo Ray** discussed the role for pools to play in assisting with asset allocation, to work alongside funds and advisors to see what options are available to implement that strategy.
- **Mike Weston** called out the efficiency of running bigger pools of capital in the same way and discussed the possibility of pools helping to advise on strategic asset allocation.

## Day 2 - Chair's opening remarks

[The death of Her Majesty Queen Elizabeth had been announced the previous evening]

- Cllr Philips recognised the solemnity of the day reflecting on the Queen's public service.
- Dawn Turner reflected on the tributes which have been made and the emotion of the day.

## The great debate: Net Zero – is before 2050 realistic?

**Dawn Turner; Anne Foster, Quinbrook; George Graham, South Yorkshire Pensions Authority; Mark Campanale, Carbon Tracker Initiative**

- **Mark Campanale** focussed on a message of hope around the energy transformation. Renewables are 6 to 9 times cheaper to operate than gas so we would still transition even if CO2 was not an issue.
- **Anne Foster** – to get to net zero a lot needs to be done with a whole sector of businesses needing to be included to drive net zero through supply chains. We should be trying to ensure that we don't just offshore our emissions.
- **George Graham** explained that SYPA decided to set a 2030 target for net zero and that came out of a perception of the urgency of the issue. We don't know if 2050 is realistic or earlier is realistic but appreciate the need for action. Setting an early date is likely to drive faster action but it does not mean that you will take poor investment decisions.

## Key LGPS issues: Seeking clarity on the LGPS' role in Levelling Up

**Dawn Turner; Mark Lyon, Border to Coast Pensions Partnership; Ted Frith, GLIL; Andrew Davey, CBRE Investment Management**

- **Ted Frith** discussed levelling up and the view that, whilst the terminology may change with different administrations, the direction of travel will remain. Ted called out that there is a lack of intermediary to take good local ideas and make it an investable proposition for people like GLIL, hoping that the UKIB will play a role.
- **Andrew Davey** discussed affordable housing becoming an acute issue across the UK. Investors need to be clear on what issue they are trying to solve.
- **Mark Lyon** pointed out that there is no lack of capital but a lack of institutional-quality opportunities which hopefully the UKIB will help with. Investors really want policy certainty to make long term investments, otherwise the investor needs additional returns.

## What the valuation data is telling us about the LGPS

**Dawn Turner; Rob Bilton, Hymans Robertson**

- Rob provided a quick overview of the valuation results: funding levels are up between 7-12% due to strong investment returns more than offsetting rising inflation expectations. Looking at the first 100 council contribution rates we have agreed, 90% saw rates stay around the same level or reduce. Hopefully the pattern continues for others.
- The cost-of-living crisis is something which the LGPS has a ready-made solution for - the 50/50 scheme. It provides excellent benefits for the level of contribution, and Funds and employers should make a lot of noise about it to counter the risk of large numbers of opt-outs creating longer-term pensioner poverty.
- Furthermore, the strong level of returns over the last few years means that LGPS is much more resilient to the impact of higher inflation and benefit costs than the unfunded public sector schemes.
- Analysing the life expectancies of individual LGPS members highlights some significant differences, even within the same regional fund. Some food for thought about what factors should be considered when making future policy decisions about the LGPS to ensure fairness between members in retirement.
- Finally, analysis of the data highlights that there is a gender pensions gap in the LGPS. This gap seems to be consistent across ages, despite changes in society and working patterns. It also seems

consistent when compared with data at the 2007 valuation. Given the LGPS has a membership of c80% females, what can it do collectively to reduce this gap?

## Governance and admin zone: Dashboard for ESG and climate change factors

**Phil Triggs, Westminster City Council; Patrick Rowe, Westminster City Council**

- Patrick discussed the potential for improved reporting using widely available tools like office 365 or power BI; and demonstrated a dashboard created for Hammersmith and Fulham Fund who have a strong focus on ESG and TCFD.
- The interactive nature of the dashboard demonstrated how it could be used to both drive discussion and also provide answers to questions.

## Governance and admin zone: What the Boycott Divestment Sanctions bill will mean for fiduciary duty in the LGPS

**Jeremy Hughes, LGPS Advisory Board; Phil Triggs, Westminster City Council**

- The Bill will stop public sector bodies imposing their own views, to ensure investment decisions are in line with government foreign and defence policy. The Bill is expected to cover both procurement and investment decisions.

## Governance and admin zone: Data quality and security, and best use of technology

**Abigail Leech, Local Pension Partnership Administration (LPPA); Debbie Sharp, Shropshire Council**

- The session focussed on data quality, data security and member self-service, and noted how member-focus is essential in the LGPS.
- Encouraged ongoing assessment of data quality and checks which is important given current actuarial valuations, but also challenges such as McCloud.
- On data security, noted both physical and cyber security challenges, and deluge of phishing emails blocked by council on an ongoing basis. The likelihood of cyber-attack has increased and so Funds need to consider how they prevent and respond.

## Why diversity and inclusion matters

**Dawn Turner; Kate Richardson-Walsh; Helen Price, Brunel Pension Partnership**

- **Helen Price** discussed the need to ensure diversity in the LGPS to drive better decision-making. Research suggests that there is still work to do in the LGPS but that the key point is that data will be key in driving conversation to spotlight where work needs to be done – such as targeted recruitment. For example, funds have committed to Net Zero and some research suggests that we need to increase diversity to meet those targets, otherwise we will miss out on perspectives which could provide solutions.
- **Kate Richardson-Walsh** discussed her personal experience of teams being improved by diversity in the sports world and the challenges still faced within the world of elite hockey.

## View from outside the LGPS

### Nick Schwarzstein, The New York State Common Retirement Fund

- Nick discussed the NYSCRF, a fully funded fund with \$250Bn assets and provided views on ESG with Comptroller (sole trustee) having made a \$20bn commitment to sustainable investments. Nick believes these investments will generate attractive returns with low correlation to other investments. The Fund are pushing the companies they invest in to thoughtfully manage resources and pollution and improve reporting and transparency.
- Key concerns include that medium term inflation will remain meaningfully elevated (wage and shelter), the FED being in a start/stop rate hike cycle, and the impact of the energy crisis on the performance of European economies.