

# Conference highlights

LGC Investment Seminar, Carden Park (30-31 March 2023)



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A record turnout at Carden Park saw discussions of a wide range of investment and governance topics including pooling, ESG and better collaboration across the LGPS.

## Day 1

### Introduction from LGC and event chair

#### Dawn Turner; Martin George, Local Government Chronicle

- Dawn launched the conference with a poll, asking delegates what inflation might be running at by the end of 2023. The result was broadly split down the middle, with half going for between 3% and 5%, and the other half opting for 6% to 10%.

### Economic market overview – outlook for the advanced world

#### Stephen Millard, National Institute of Economic and Social Research

- Stephen gave his views of the economic outlook based on research from the Institute.
- On growth, he expects it to slow to between 2% and 3% across the globe in 2023 and remain low in 2024, but does not predict negative growth for any region included in the analysis. Longer-term, China is expected to continue to grow at around 5.5% in 2023 which is markedly slower when compared to the last few decades.
- A belief that inflation in the UK and US had peaked was noted, but that it would remain higher for longer due to the inflation effects of the high energy and food prices spreading into the wider economy. However, it would fall back to 2% in 2025.
- On interest rates, Stephen stated that they would likely peak in 2023 and fall slightly in 2024. However, he did feel there was a risk that central banks would cut them too quickly for fear of being behind the curve.
- The upcoming UK and US elections were also noted as potential inflationary risks, if governments began spending again to gain votes.

## What the current economic position means for the LGPS

### Jos North, Ruffer; Phil Triggs, Tri-Borough; Neil Mason, Surrey Pension Fund

- Jos set out the key concern that inflation was causing for markets: large shocks (as are happening currently) typically take years to work their way out of the system. It was also noted that when inflation is higher, correlations between asset classes also rise, limiting diversification benefits for LGPS Funds.
- Jos also noted the need for dynamism within Funds to take advantage of higher future volatility in markets.
- Phil explained the outcomes of the recent strategy reviews completed on the funds he works with. Whilst all are very well funded, their different starting positions on investment strategies and beliefs meant they have taken different decisions with regards to equity reduction and diversification.
- Neil suggested that risk analytics and management tools used in the investment industry were not up to requirements, noting the significant number of huge market shocks in recent years.

## Practical showcase on TCFD

### Jane Firth, Border to Coast Pensions Partnership

- Jane discussed Border to Coast's experience of producing their first Taskforce for Climate-related Financial Disclosures (TCFD) report.
- She explained how Border to Coast tackled this, starting with the key questions of what the pool already does, what it could improve and what it wasn't doing.
- Jane also shared a number of key lessons learnt from the process, as well as some top tips for Funds.

## Workshop A: Seeking diversification and positive risk-adjusted returns in uncertain markets through alternative fixed income

### Huw Davies, Jupiter Asset Management

- Huw started by highlighting uncertainty around inflation – high inflation affects equity/bond relationships.
- Fixed income funds can offer diversified returns, with limited credit exposure, daily liquidity, and targeted and controlled volatility.
- It's hard to manage sovereign ESG risks. Their framework ranks around 100 sovereigns, with the bottom quartile not investable.

## Workshop B: How institutional investors could hold the keys to the home ownership crisis?

### Adrian Jones, Allianz Global Investors

- Adrian provided an overview of a shared ownership fund designed to help people onto the property ladder who could not otherwise afford a mortgage.
- The social benefits were also noted, including a real-life case study of a family living in one of the homes part-owned by the fund.

## Workshop C: 2023 Outlook: Private Debt & ESG

### Gene Miao, Churchill Asset Management; Mickey Weatherston, Churchill Asset Management

- Churchill provided an outlook for private debt in 2023.
- They also explained their process for integrating ESG considerations into their fund management practices when investing in US private debt.
- These included a wide range of technologies, as well as working across the industry to create standard practice and reporting.

## Workshop D: The climate data conundrum

### Lauren Juliff, Storebrand

- The presentation considered the variety of passive carbon funds and the complexity around the Paris agreement goals. It was argued that Paris-aligned funds can never be truly passive due to the subjectivity involved.
- There's a need to be mindful of the limitations of benchmarking due to the known issues with underlying data and methodological issues.
- When growing the green economy, consideration should be given to other solutions, not just decarbonising. The example of heat pumps was given: at first glance they may not be a good bet from a Paris alignment benchmarking perspective, however they have other long term benefits.

## ESG – the good the bad and the ugly

### Frances Deakin, Local Pensions Partnership Investment; Kerry King, Accounting for Sustainability; Roselind Smith-Maxwell, Quinbrook

- Each panel member set out what they felt were the good, bad and ugly areas of ESG that they see within investment practice.
- The good elements noted were: how ESG had become commonplace within the investment industry now; increased and improved collaboration on ESG issues which was leading to more issues being resolved; and how a Just Transition was leading to a fair move towards a more sustainable future.
- The bad elements discussed were: the difficulties with data and reporting; missing the “so what” behind any ESG information; and the dominance of environmental issues over social and governance.
- The ugly elements were: the lack of universal standards and definitions leading to open interpretation of ESG and greenwashing, the common misunderstanding that ESG is incompatible with financial returns; and the politicisation of ESG, particularly in the US.

## Workshop E: Infrastructure and the European Transformation

### Hamish Mackenzie, DWS

- Hamish described many areas where money is currently being put to good use, eg hydrogen developments, batteries, green mobility, the circular economy (recycling, waste management), clean drinking water.
- Future opportunities? Lorry loads onto trains/rail, bio methane projects, EV charging.

## Workshop F: The moral dilemmas of a MAC ESG Manager

### Blair Reid, RBC BlueBay Asset Management

- The presentation looked at the challenges in building MAC funds. Research was noted showing MAC funds with higher ESG scores received lower yields, due to the perceived lower risks of the companies.
- A key challenge was understanding whether the fund was making a positive difference to the world, with data and metrics generally showing it wasn't, whilst anecdotal evidence showing positive impact.
- Examples were given of mining and airline companies, noting these would typically be excluded from green portfolios, but that the world still needed their goods and services, so making a difference would be to invest in the most sustainable of these companies.

## Workshop G: Investing for Income and Impact: As safe as (affordable) housing?

### Adrian D'Enrico, Edmond de Rothschild REIM

- UK population is growing, with financial pressures due to mortgage rises, inflation, and many facing pensions poverty.
- There's also an accommodation shortage, with a need for 5.5m affordable houses.
- Features of affordable housing? Resilient (70% of income from public sector), land is cheap as subsidised by local authority, low correlation with other sectors, not cyclical – defensive, with low voids and a tangible social impact.

## Workshop H: Searching for Alpha in today's climate.... Alternative credit a possible solution?

### Matthew Darrah, Principal Asset Management

- Provided an overview of the private credit asset class and current market, noting the different areas for potential investment.
- The benefits of the asset class were discussed, including its resilience over market cycles and the high demand for this form of lending from businesses.
- The current market conditions were also discussed, noting that currently the yields on offer were relatively high.

## One voice: 86 funds

### Jason Fletcher, London CIV; Matthew Trebilcock, Gloucestershire Pension Fund; Roger Phillips, LGPS Advisory Board; Ewan McCulloch, Border to Coast Pensions Partnership

- This session invited the panel to give their views on whether the LGPS "punches its weight" within the investment industry, and what more could be done.
- It was noted that the LGPS could use its size to achieve more and make its success stories better known. The key to achieving this was increased collaboration across funds and pools.
- The key to collaboration being a success is to focus on the areas where funds and pools are clearly aligned and avoid areas where there's not a common goal. The case of LPP and LCIV working together on the London Fund was given as an example of successful collaboration.
- Other benefits of collaboration noted were the improvement of governance, where the sharing of ideas and best practice should be encouraged.
- Collaboration outside of the LGPS was also discussed, noting that there were many other likeminded investors outside of the LGPS.

## Day 2

### Welcome from the chair

#### **Nick Buckland, Kent County Council**

- Nick welcomed all attendees to the second day of the conference.
- The large turnout was noted, with Nick commenting that whilst it was great to see the LGPS family back together last year, this year the extended family had come.

### Maintaining good governance in a time of change

#### **David Vallery, Lothian Pension Fund; Susan Black, Hymans Robertson; Euan Miller, West Yorkshire Pension Fund; Denise le Gal, Brunel Pension Partnership**

- The panel expressed a range of views on the current governance arrangements within the LGPS.
- LGPS committee members are talented amateurs. Members of Insurance company boards require regulatory approval, should we have similar in the LGPS? Hopefully, it will not take a crisis in the Scheme to expose the problem.
- It is a positive reflection on the LGPS that the Good Governance project was driven from within and not imposed by an external regulator. Many funds are already implementing Good Governance recommendations – there's no need to wait for legislation.
- The Metropolitan funds model does address some of the issue around potential conflicts of interest as the administering authority does not tend to dominate in terms of size.
- Independent advisors provide expertise to committees – with the advent of pooling, will we see more independents with a focus on administration or governance?
- The LGPS is well governed but there's always room to improve.

### The power and responsibility of ownership

#### **Mark Solomon, Robbins Gellar Rudman & Dowd; Alex Younger, Norfolk Pension Fund; David Crum, Minerva Analytics**

- The importance of stewardship in the LGPS, and the good practice currently on display by funds, was noted, with some discussion of how approaches have been developing.
- The importance of including consequences when engaging with companies was noted, and that litigation against company management after fraudulent behaviour was an important element of being a responsible owner.
- This required key investors stepping up to sue companies, and some examples of Norfolk doing this were provided.

### Investing locally – but does it have impact and/or meet the levelling up agenda

#### **Peter Manners-Smith, M&G Investments; Karen Shackleton, Pensions for Purpose; Sean Johns, Cornwall Pension Fund**

- The challenges of investing locally were discussed, including the ability to find suitable investment opportunities with adequate risk and return characteristics, the potential for conflicts of interest, and the difficulty for pools to help given how specific each fund's requirements may be.

- Some examples of local investments made by Cornwall were discussed, as well as how the impact these have are measured and monitored using the UN Sustainable Development Goals.
- The wider economic and social benefits of local regeneration projects were also considered, including job creation.

## Practical showcase on strategic asset allocation

**Mark Gayle, Devon County Council; Chris Teschmacher, Legal & General Investment Management; Nick Buckland, Kent County Council; Dawn Turner, Independent RI advisor and NED**

- Mark started by discussing his recent experience of going through an investment strategy review, including the process and what was agreed. The impacts of climate change considerations on the process were also noted. The challenge of what comes first between the valuation and strategy review was noted, given their impacts on one another.
- Nick discussed Kent's investment strategy review process, noting that it ran alongside the actuarial valuation and that each 3 years he only expected to be making incremental changes. A new consideration for Kent of having minimum limits on allocations to a single asset class were also discussed, to ensure allocations were having an impact on the fund's performance.
- Chris discussed the similarities of running a multi-asset fund to the management of an LGPS investment strategy. He also noted a large number of similarities between the two investment approaches, but also some differences, most notably that LGPS funds generally invest less in alternative credit and have a larger home bias.

## Pooling consultation live

**John Burns, LGPS Central; William Bourne, Independent advisor; Peter Wallach, Merseyside Pension Fund; Joanne Donnelly, LGA**

- Each panellist gave their views on pooling.
- John started by noting that whilst there was frustration from DLUHC on the pace of pooling, this was due to the complexity of the task. The benefits of pooling were strong and went beyond simply cheaper investments, but better approaches to RI.
- William provided a more critical assessment of pooling, noting a number of changes he would like to see to improve them, including increasing the independence of pools and introducing the ability for pools to make a profit.
- Peter discussed the Northern Pool's approach, setting out the achievements it has had so far, including providing significant cost reductions on alternative investments and providing exposure to sustainable UK infrastructure.

## Political landscape – where are we now

**Daniel Finkelstein, The Times; Martin George, Local Government Chronicle**

- Daniel discussed the difficulty people find in distinguishing noise from true signals, and overinterpreting how people are influenced, providing examples from politics and sport.
- The two key drivers for the results of national elections are the economy and leadership, but people often attribute it to many smaller factors such as televised debates.

## Closing remarks

**Jenny Vyas, emap**

- Jenny thanked everyone for their attendance.

