

Conference highlights

LGC Investment Seminar Scotland (Edinburgh, 19-20 October 2023)



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Those of us who managed to overcome Storm Babet to join the 2023 LGC investment seminar had the opportunity to hear about some of the key issues for the Scottish Local Government Pension Scheme. This included the results of the 2023 actuarial valuations, investment opportunities in the current economic climate, and some key responsible investment considerations such as social investing and risks related to climate and nature. Please get in touch if you would like to discuss any of these further.

Welcome from LGC and the Chair

Martin George, Local Government Chronicle; Iain Campbell, Hymans Robertson

Welcome from Martin, including the obligatory AI-generated joke on the Scottish LGPS. Iain set the scene for the event.

Implications of the 2023 actuarial valuation

Richard McIndoe, Strathclyde Pension Fund

- Richard discussed the implications and outcomes of Strathclyde Pension Fund's 2023 actuarial valuation, covering the options this presented to the Fund, of retaining the surplus, increasing prudence in the actuarial assumptions, reducing employer contribution rates, and/or reducing investment risk.
- The Fund's decision to temporarily reduce contribution rates to 6.5% for two years, then increasing to a slightly reduced rate of 17.5% going forward was presented.
- Richard set out the difficult decisions in coming to this conclusion and the risks they considered, such as the requirement for this not to risk the Fund losing its surplus and the impacts on cashflow and the investment strategy.

What the valuation data is telling us about the LGPS

Steven Scott, Hymans Robertson

- The aggregate position across Scottish LGPS at the 2023 valuation shows a rise in funding levels from 106% in 2020 to 147% at 2023 (based on 7 valuations completed to date).
- This was driven by higher-than-expected returns over the previous valuation period as well as higher expected future returns. Some funds appear to have responded by taking a more prudent approach to assumption setting at the 2023 valuation – leading to a strengthening of funding strategies.
- Caution was advised when setting contribution rates, and the principle of contribution stability remains key at the 2023 valuation.

How to invest in a more volatile and inflammatory environment

Alex Waller, Patrizia; Jos North, Ruffer LLP

- Jos put forward a view that the world was now in a place of higher and more volatile inflation, and discussed some ways that investors should consider investing in this new environment. Jos extolled the virtues of tactical asset allocation, providing protection and exploiting opportunities as they arise.
- Alex set out the benefits of investing in inflation-linked private debt that lent to infrastructure companies. These companies' revenues increase with inflation, meaning they are able to meet the increasing costs of the inflation-linked debt payments.
- Both discussed the strong opportunities they see in bond markets currently, including the safer, investment-grade areas of the market.

Economic overview and what it means for the LGPS

Paul Brain, Newton Investment Management

- Paul discussed five key themes he saw playing out in investment markets in the future, namely a potential recession, the need of free money, whether inflation will keep falling, governments getting involved in markets, and political risk.
- Paul stated that these would ultimately lead to issues from divergence in economies, the costs of decarbonisation, and the challenges of deglobalisation.
- In summary, Paul believed that investors would need more dynamic asset allocations and active stock selection.

Does a social focus make investment sense and if so, can you measure its effect?

Amanda Latham, IFM Investors

- Amanda discussed the importance of social factors in the management of the companies they invested in, focussing on three core beliefs of a healthy environment, inclusive society, and stronger economy.
- Amanda provided some examples of where this increased social focus had also led to improved financial returns, with case studies on improved health & safety and inclusion & diversity policies.
- Amanda also noted the recently launched Taskforce on Social Factors for UK Pensions Industry that will be a useful tool for investors to use to consider social factors of their investments.

Birds of a feather discussion session

Ben Crawford-Porter, Ruffer; James Mitchell, Newton Investment Management; Joachim Sudre, Aviva Investors; Mel Robinson, Fiera Capital; Chris Hart, Patrizia; Phelim Bolger, IFM Investors.

Discussion session with 6 tables (A-F) discussing key topics for the LGPS.

A: Has the LGPS benefited from listening to outside views?

- Informed views come from advisors, which are crucial in helping funds set strategy.
- Funds may engage with protest groups, but care is required to ensure such views have appropriate weighting in decision making.
- Political views (at a national level) are becoming more prevalent, which creates challenges for LGPS decision makers.

B: Diversity, Equity & Inclusion, is enough action being taken?

- Need for a regulator or industry-led definition, framework and language to avoid confusion.
- Opportunities should be given to as many as possible.
- Strong progress has been made but more can be done.

C: Asset classes of the past coming back in favour

- Renewed attraction of government bonds, safe assets might offer a strong enough return for the LGPS now.
- Active managers recently doing better with more volatile investing environment.
- Cash is also easier to hold now that interest rates are higher.

D: Impact of AI in investing

- Will take a lot for people to get comfortable that AI is correct and can be relied on for making investments.
- Could help with more process-driven issues such as the production of reports.

E: Is recent pushback on Environmental, Social & Governance (ESG) factors a temporary trend?

- At a time when financial markets are challenging, the focus on ESG may be reduced.
- Sustainability will always be part of the investment decision.
- Some complexity and confusion, esp. on how to differentiate “good” from “bad”. There is a need for investment managers to align with the fund’s values.

F: Opportunities and pitfalls in investing in local infrastructure

- Need to define “local” – the smaller you make the definition, the more challenging it will be to find opportunities.
- It is possible to invest in local infrastructure with suitable returns, such as social housing.
- Returns are still king and fiduciary duty wins, so need to make sure both are addressed.

Day 2: Welcome from the chair

Iain Campbell, Hymans Robertson

A quick welcome back to attendees.

Spotlight session: the role of the trustee in the pension fund

Neil Ross, Lothian Pension Fund

- Neil discussed his role as a councillor and pension committee member, and some of the challenges he saw with the role on the pension committee, including politics, knowledge and turnover.
- Neil discussed how a pension committee member is performing a non-political role but that it can be tricky to keep politics out of decisions. He expressed the strong need to act in the best interests of members and employers over other political issues that may conflict with this.
- The challenges with regular turnover on the pension committee were also covered, with the loss of expertise at risk. Neil set out how training is key to addressing this issue, with a need for comprehensive inductions for new committee members as well as ongoing training.

The need for nature: demystifying natural capital

Jeff Zweig, Fiera Comox; Jessica Pilz, Fiera Capital

- Jessica and Jeff provided a short educational session on what agriculture and timberland investments are, discussing the range of investment approaches with varying levels of importance placed on sustainability and returns.
- The benefits of natural capital investments were summarised as sustainability, value stability, diversification, inflation hedging, and strong supply and demand trends.
- It was also explained with case studies how these types of investments, managed in the right way, can help with sustainability issues, such as improved use of herbicides and the capture of carbon.

Follow the money: carbon analysis in multi-asset credit

Denis Struc, Janus Henderson Investors

- Denis provided an explanation of the difficulties in gaining information regarding the climate impact of investments typically made within multi-asset credit funds.
- Denis explained Janus Henderson's approach to this, including an example of how they had managed to obtain carbon emissions data for their investments in mortgage-backed securities.
- More forward-looking measures, and their use for stress testing the investments' resilience, were also discussed, such as how investments might performance if carbon taxes were brought in.

Navigating opportunities and threats in private debt markets

Munawer Shafi, Aviva Investors

- Munawer gave an overview of the asset class, explaining key characteristics such as the risk and return drivers and the importance of sustainability.

- The large recent changes in markets were also covered, with large rises in interest rates meaning yields in the asset class had risen significantly, but were putting pressure on the higher risk areas of the market.
- Munawer explained that he currently felt the lower risk areas of the market were offering some attractive risk-adjusted returns.

Improving scheme member engagement

Louise Campbell, North East Scotland Pension Fund

- Louise gave a presentation on a wide range of important issues and challenges to consider when communicating with members of a pension fund.
- She also discussed challenges with areas such as communicating to different members in a way that suits them, addressing the lack of pensions knowledge in most adults with clear communication, and trying to engage people and help them take action.
- Louise provided some helpful tips such as communicating with your members regularly, tailoring communications, and making clear in the communications what the key information is and what is required.

Administration issues – what's on the horizon?

David Murphy, NILGOSC

- David covered six key challenges ahead for pensions administration, covering McCloud, TPE general Code, Pensions Dashboard, Cost Cap valuation, the gender pensions gap, and politics in investments.
- David discussed the significant challenges in addressing some of these issues, particularly the work involved and poor availability of data.
- He outlined that the Pensions Dashboard will be a website that any individual can go to check all previous pensions and what they might receive on retirement. It will be run by the Department of Work and Pensions, and will need high quality member data and work with each fund's IT provider.
- The issue of politics interfering in investments was also raised, with the challenges this can raise for committees in still meeting their fiduciary duties.

Closing remarks

Iain Campbell, Hymans Robertson

- Thanks were given to all attendees and contributors to another successful event.