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Conference highlights

Room151's 3rd LGPS Investment Forum (2 November 2022)

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A wide range of thought-provoking topics were discussed by high quality speakers at the 2022 Room151 Investment Forum. The day was expertly conducted by the Chair to ensure that delegates left the conference with a much greater understanding of the current investment outlook amidst volatile political and market conditions.

Registration & introduction

Aoifinn Devitt, Moneta

- Aoifinn welcomed delegates to the conference and asked them to really question the detail behind what they hear from the presenters.

Strategic asset allocations; valuations, inflation and the macro-economic landscape

Chris King, Hymans Robertson; Jos North, Ruffer; Kevin McDonald, ACCESS; George Graham, South Yorkshire Pension Fund

- CK described the decade of austerity for 2010-20 as contributing to lower inflation and recognised that looser fiscal policy appears likely in the coming years. An audience survey showed the vast majority expected realised inflation to be averaging 2.5 – 5% p.a. for the next 10 years.
- JN described the recent turmoil in relation to LDI as indicative of the point at which an 'Inflation prone economy' meets an 'Inflation intolerant financial system' – he flagged that leverage and liquidity would continue to create anomalies in markets and challenged all investors to consider if they have a plan to deal with such a new regime.
- KMcD asked whether the asset allocations within the LGPS were still relevant in such a new regime, but was confident that the LGPS could cope with the challenge, recognising that LGPS investment strategies have evolved in the past and will do so again
- GG noted the shift towards cashflow neutrality or negativity for many schemes and espoused the benefits of income-generating assets to combat this.

Impact, local investments and levelling up. What is the role for the LGPS?

Heather Fleming, Gresham House; Peter Wallach, Merseyside Pension Fund; Sean Johns, Cornwall County Council

- HF highlighted the significant social and regional inequality in the UK, and hoped that local investment and Levelling Up could seek to address this challenge. Opportunities exist for investment in UK renewable energy, housing and forestry but clarity from DLUHC would help LGPS funds to make better progress.
- SJ discussed the experience of the Cornwall Fund with local investments. It was noted that conflict can arise due to elected members seeking investment in their own locality. Ensuring such investments are at "arms length" from members is crucial.
- PW added that the governance burden of such local investments should not be underestimated and also questioned whether more speculative local investments are necessary for LGPS funds.

Keynote: Stewardship in active investing

Edward Bonham Carter, Jupiter Asset Management

- EBC described the engagement actions taken by Jupiter, highlighting the impact of engagement with:
  - Royal Mail to focus their attention on health and safety in non-UK parts of their business
  - GlaxoSmithKline involving a focus on their R&D spending and whether there was sufficient accountability of delivery.
  - BP, who EBC noted had taken a more proactive stance to climate change, when considered relative to peers.
- EBC also noted that publicly listed investments are a great way to ensure sufficient capital makes its way to companies and that a reasonable cost of capital is delivered. However, listed companies generally mean that the disparity of shareholders makes engagement pressure a challenge.

The economists' outlook

Piers Hillier, RLAM; Kallum Pickering, Berenberg

- PH spoke about the 4 key macroeconomic factors contributing to the current challenges, these being the strength of the dollar; the 'Mexican standoff' between the UK Government and the Bank of England; Russia / Ukraine; and China.
- KP compared the current situation to the early 90s, when we had high inflation and rising interest rates and noted that by the mid-90s the recovery was complete, and we were experiencing high growth. The reason for the turnaround then was strong balance sheets and there is justification to believe that we may see a similar recovery this time round.
- KP described how the BoE were able to respond quickly to avert a disaster (in respect of pension schemes invested in LDI) and noted that news of the BoE starting to sell gilts barely made the newsreels. This is evidence of the BoE working as an effective Regulator.
- PH shared his experience of the recent crisis and noted that were it not for the trade associations, the BoE may not have intervened in time.

Equities in Focus: ESG, allocation and the role of passive and active

Henrik Wold Nilsen, Storebrand; Chris Murphy, Baillie Gifford; Laura Collis, NESPF; Rachel Brothwood, West Midlands Pension Fund; Sandra Carlisle, Jupiter Asset Management

- HWN described some of the flaws of climate-conscious index funds and Paris-aligned funds, noting that each Paris-aligned benchmark is very different in design, with tracking errors of 2-3% p.a. between seemingly 'similar' strategies – so, it is very difficult to have confidence that you are 'picking the right one'

- CM discussed the recent market consensus over the challenges of growth equity investment and significant underperformance during 2022, noting that the past 10 years had generally been furtive ground for growth equity managers as low interest rates, low inflation, and technology had driven growth of the Tech sector. He finished by encouraging. He encouraged the LGPS to embrace volatility which can breed opportunity over the long-run.

CIO Panel

David Vickers; Brunel Pension Partnership; Jason Fletcher, London CIV; John Harrison, Border to Coast; Gordon Ross, LGPS Central

- DV set out the upcoming priorities for Brunel as being a review of current products and making sure these remain fit for purpose, supporting the LGPS with local investment, and demonstrating progress on net-zero.
- JF informed us that the London CIV were looking to launch new products, including a UK housing fund focussing on affordable housing and which meets clients' needs
- JH, describing himself as a 'failed retiree', explained how Border to Coast were still in 'build' mode.
- GR noted that LGPS Central were in a similar place – the 'low hanging fruit' has been picked and a deep dive is now planned to ensure that the managers and products are fit for purpose.
- DV explained how we have been in this new paradigm (higher inflation and interest rates) for a while, we just didn't notice until recent events, and it will take time for the market to price all of this in.
- JF added that, whilst higher yields on lower risk assets may appear attractive, the LGPS should continue to look long term and focus allocation around equities.
- On the subject of currency, GR suggested that Funds take steps to reduce the risk of adverse currency moves. DV noted that Funds typically do not make an active decision on hedging this risk and suggested that this should form part of their key considerations when investing in overseas equities.
- JH concluded by highlighting the benefits of the collaborative culture in the LGPS and his hope that the pools work together in the future for the benefit of the LGPS.

The future for fixed income: inflation, labelled bonds and beyond

Lucia Meloni, Candriam; Helen Anthony, Janus Henderson; Bola Tobun, London Brough of Enfield

- LM set out how war in Ukraine has highlighted the dependency on external energy in the west, the solution to which is the development of clean energy to reduce reliance on Russia. Investing in Fixed Income helps divert funds to these new technologies.
- HA provided an outlook for inflation and a view that the impending recession, the effect of debt accumulation, and changing demographics will drive deflation in the near term.
- BT explained the strategy being pursued by the Enfield Fund and the merits of including Fixed Income in the strategy, in particular in an environment where benefit outflows exceed contribution income.

Private markets: allocation trends and net-zero concerns

Jing Vivatrat, Franklin Templeton; James Penney, Darwin Alternatives; Graham Cook, Environment Agency Pension Fund; Paul Guilliotti, Richmond & Wandsworth Councils

- JV explained the new 'green rush' of consumers demanding sustainable technological solutions to the climate crisis. This means that ESG is no longer a 'risk' to be managed, but a source of future returns. In terms of opportunities, it is important to look at the whole value chain and identify where the investment is needed, for example, investment in energy storage and battery recycling is needed to help meet targets for reduced emissions from transportation.

- JP set out how Darwin is seeking niche opportunities to help achieve net zero targets in the leisure industry and explained how these strategies can have an impact without forcing individuals to make significant lifestyle changes.
- GC set out the commitments made by the Environment Agency Pension Fund and the action plan in place to support investment in climate solutions, through private debt and private equity investments.
- GC reminded us that the primary focus for the LGPS should be on generating returns and that those companies addressing the climate issue now will be the ones who thrive in the future and become dominant in the marketplace.
- PG explained the changes made in recent years by Richmond and Wandsworth to meet ambitious net zero targets. Big focus is on educating members and explaining how targets will be met.

Housing: impact investing and income strategies

Emma Gullifer, Columbia Threadneedle; Simon Chisholm, Resonance; David Spreckley, London Borough of Barnet; Paddy Dowdall, GMPF

- EG explained the breadth of opportunities in residential housing and Columbia Threadneedle's focus on 'build to rent' due to strong demand and short supply, a diverse demand base, and inflation linked income.
- SC set out the very clear need for significant investment in social housing and the attraction of this to the LGPS, namely, low correlation with wider economy, long term inflation linking, and Government backed rental income.
- DS then described the work being done in Barnet to create new residential properties and noted the risk of overlap between what the LGPS and the Local Authorities are doing locally and concentration risk.
- PD agreed with the attraction of residential housing investment but offered a warning with regards to direct investments, specifically, the risk of rogue operators, the significant resources required, and the risk of the LGPS being exposed to 'right to buy'.

Guest speaker: the geopolitics of investing in the 2020s

Dr Elizabeth Stephens, Geopolitical Risk Advisory

- The era of soft power resolving global conflict is over. Geopolitical risk is back with a bang.
- Western Governments now expect companies to comply with severe restrictions to help meet their geopolitical aims. The economic and financial considerations are secondary.
- Policies in China are increasingly become less friendly to western investment. Any investments made will be channelled by the Chinese Government towards projects that support their aims.
- There are many sources of power that drive geopolitical events (such as people, gas, water, wheat), and a key source of power today is semiconductors (microchips) – our entire lives now depend on these. The US government are restricting Chinese access to semiconductors which is depriving them of the ability to develop artificial intelligence.
- With this, the US has effectively declared economic war on China.

- In response, China is increasing its influence around the world. The West can therefore no longer rely on the support from emerging countries, and this may lead to companies having to 'pick a side'
- EU relations with China are also of concern to the US as China seek to expand its sphere of influence.
- In response to these geopolitical challenges investors need to be prepared to view the world differently and think the unthinkable.

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