

Conference highlights

LGC Investment & Pensions Summit, Leeds – 7 & 8 September 2023



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The LGC Investment and Pensions Summit took place at the New Dock in Leeds on 7 & 8 September 2023. The conference was expertly chaired by Dawn Turner and attended by a good mix of LGPS and Pool officers, advisors and investment managers.

LGPS Healthcheck

Delegates took part in an energetic warm up to the conference, facilitated by Anna James and David Corr from [Dance Syndrome](#).

Making sense of the global economic mayhem

Gerard Lyons, Netwealth

Gerard provided a macro-economic overview of the implications of global instability, and highlighted the following three key trends:

- Weak growth – whilst inflation is decelerating and settling at a higher level, recent IMF forecasts for global growth (3% this year and next) suggests tepid growth in western markets. This is exacerbated by structural changes in China as mitigation against the risk of future trade sanctions.
- Debt trap - concern is emerging in respect of the ability of G7 economies, including the UK, to avoid the debt trap (where debt is greater than GDP and rates of interest exceed GDP growth). The UK has a major current account deficit and needs overseas investors to buy UK assets.
- The end of cheap money - QE since 2008 has led to asset price inflation and an expectation that low rates would last for ever. It's unclear where interest rates will peak, but it's unlikely that rates will fall back to levels during 2010 to 2021. This will make it harder for companies to raise funds for new projects.

Overview of investment market conditions

Jose Pellicer, M&G Real Estate & Joe McDonnell, Border to Coast Pensions Partnership

- Joe highlighted the key differences between the LGPS and UK private sector schemes, noting 1) the stark differences in asset allocation (private sector schemes are de-risking on route to their 'end-game'), and 2) the ability of the LGPS to invest for the long term. As an investor of patient capital, the LGPS can take advantage of

climate opportunities, emerging opportunities with real estate (due to rising interest rates), and invest locally in the UK.

- Jose illustrated the human ability to forget significant historic events, by presenting evidence showing a c.70 years gap between major conflicts in the world since the 1400s. Almost all of us living today have been living during the most peaceful period of world history and we can be forgiven for thinking that this state will persist.
- A similar dynamic exists with regards to changing market conditions. The challenges arising from higher interest rates and inflation have been faced by investors in the past, but before the careers of today's advisors and managers started.

LGPS state of play – where are we now?

Teresa Clay, DLUHC & Jeremy Hughes, LGPS Scheme Advisory Board

- Teresa provided insight on the current investment pooling consultation. The session poll showed that 90% of attendees were planning to submit a response to the consultation (or had already done so).
- Pools have achieved much already, eg excellent performance, improved transparency, significant UK investment, fee savings. The Government want to see a quicker asset transition, more collaboration between pools, increased specialisation in the medium term, and a smaller number of pools with greater scale to improve fee savings.
- The responsibility for investment strategy and asset allocation will remain with funds. There will not be a strict requirement to invest 10% of assets in Private Equity (but is instead an ambition). It was suggested that funds may be more willing to invest in Private Equity given current surpluses.
- Jeremy summarised other important matters being addressed by the SAB, including the Boycotts, Divestments and Sanctions (BDS) bill and the challenges this creates with regards to the legal definition of fiduciary duty (which necessitates consideration of ESG factors).
- SAB have also been looking at the Gender Pensions Gap, noting that the move to a CARE benefit structure may have helped to reduce the gap. On Sharia law compliance, Jeremy noted the importance of making sure Muslim members feel comfortable being in the scheme.

A1: Why is the UK Living sector no longer an alternative investment?

Alex Greaves, M&G Real Estate

- Alex explained how the residential sector demonstrated its diversification and defensive qualities during the recent period of turbulence. Alex highlighted how the inability of the UK Government to meet homebuilding targets has created a strong market for investors.
- This has led to returns from residential real estate comparing well against other real estate sectors, however delays in repricing should be understood when investing. In terms of future opportunities, the growth in student housing, arising from continued growth in overseas students, creates an investment opportunity.

B2: The double-edged sword of feeding the energy transition

Henrietta Pacquement, Allspring Global Investments

Unfortunately, our delegates couldn't attend this session.

A3: Multi-Asset Credit: finding relative value while navigating a sea change

Wayne Dahl, Oaktree

- Wayne highlighted the importance of interest rates for investors, and provided evidence to show that markets have been wrong on the path of interest rates during 2022 and 2023.

- Outperformance in the US was noted despite warnings about recession. In the US, wages remain high whilst inflation fell, and house prices have remained high despite a rise in mortgage rates. House values typically make up 80% of total wealth; high house prices give consumers the confidence to spend.
- Multi-asset credit can help investors take advantage of attractive yields, rotate into different assets based on relative value, and adjust exposure to mitigate default risk.

B4: Social Real Estate – Everyone’s a Winner

Klaus Schmid, Franklin Real Asset Advisors

Unfortunately, our delegates couldn’t attend this session.

A5: Residential Rendezvous: Unlocking Europe’s diverse residential landscape

Jessica Hardman, DWS

- Jessica provided an overview of the European residential real estate market, noting that this is a mature market with a greater choice of opportunities compared to the UK.
- Financing is a barrier to owner occupied housing and this leads to strong demand for high quality rental properties that comply with ESG requirements. Strong population growth in Europe due to migration is fuelling demand, and lack of building puts a big pressure on supply. It’s normal in Europe for institutional investors to own residential property.
- The diverging effect of regulation across Europe affects investment opportunities. In particular, restrictions in France due to the need to include affordable housing in all developments has a detrimental effect on the investment case.

B6: Introduction to the Australian and NZ private equity market

Rohan Wolfers & Matt Robinson, Pacific Equity Partners

Unfortunately, our delegates couldn’t attend this session.

A7: Impact Measurement: Art or Science

Richard Attack, Baillie Gifford

- Richard provided an illustration of the ways in which impact investment can be measured, noting the need for a combination of the qualitative (art) and the quantitative (science).
- Despite the clear importance of impact investment and its complex nature, measurement needs to be simple and focussed. There’s no such thing as a perfect company – there’s a need for engagement (and patience) with companies to allow them to make a positive contribution to sustainable goals.

B8: Decarbonisation, Debt, Distress – Opportunities in European Real Estate

Paul Hampton, Patrizia Institutional Clients & Advisory

- Paul discussed the changing market conditions that are affecting the real estate market. and gave examples of how net returns on leveraged real estate portfolios have collapsed as interest costs have spiked. Refinancing may provide opportunities in attractive sectors, eg logistics and ‘last-mile’ retail.
- Have we “hit the bottom” on real estate valuations? Future price moves suggested by REITs suggest further valuation falls to come in future. Paul therefore advised some caution in deploying new monies into real estate but suggested that we could see a turning of the corner during the next 12 months.

- ESG regulations for real estate differ across Europe, Stock built in the 1960's and 70's require far greater investment to bring the properties up to standard, whereas those countries with more modern builds would require far less investment.
- Refurbishment costs to improve real estate stock and bring it up to current environmental standards could be as high as £1trillion GBP.

A9: Investing in Infrastructure – 10 lessons from (almost) 30 years

Alastair Yates, Macquarie Asset Management

Alastair set out his 10 lessons for investing in infrastructure:

1. Overpay at your peril as you could be stuck with businesses for a very long time.
2. Diversification helps navigate choppy seas (such as during the Covid-19 period).
3. Don't over-leverage.
4. Operational experience unlocks value.
5. Stakeholder management can't be underestimated.
6. Adapt as the market changes.
7. Think in decades and plot a path to invest in new technologies.
8. Love your assets and they will love you back (look after them).
9. The fundamentals don't change.
10. Scale matters.

B10: Sharia Law and the implications for the LGPS

Jeremy Hughes, LGPS Scheme Advisory Board & Dawn Turner

- This is being explored by SAB due to 1) evidence of member opt-outs (disproportionally affecting Muslims), and 2) the potential for discrimination since the religious beliefs of Muslim employees may prevent LGPS membership.
- Their project has involved receiving specialist advice from experts on the Muslim faith, and the project had noted some overlap with existing responsible investment and/or ethical beliefs. Output from the project is due to be published shortly.

Birds of a feather discussion session on hot topics

This was a workshop session during which delegates had the opportunity to consider and discuss a range of hot topics in small groups.

The cashflow challenge

Debbie Fielder, Clwyd Pension Fund & Olga Cooke, Harbourvest

- Debbie set out the cashflow challenges facing Clwyd, due to a combination of higher benefit payments, lower contributions, higher cash calls from Private Equity (PE), delays until PE distributions are realised, and the need to hold collateral for LDI.
- Olga then explained some of the modelling techniques used for monitoring and managing liquidity issues, highlighting the long-term nature of PE investment and using the secondary market to realise liquidity.

The LGPS as a lever for change to boost UK growth

Karen Shackleton, Pensions for Purpose; Mark Lyon, Border to Coast Pensions Partnership; Ted Frith, GLIL Infrastructure LLP

- Karen highlighted some of the UK opportunities, including renewable energy, affordable housing, communications, regeneration and health & wellbeing. Funds should set beliefs around ESG and then identify how each opportunity aligns with these.
- Ted highlighted the importance of infrastructure investment in growing the UK economy. The Government can't do it all on its own, so there's a very clear role for the private sector. LGPS funds shouldn't be compelled to invest – collaboration leads to better outcomes.
- Mark expects the UK market to grow over time. Borders to Coast are helping funds make local investments, across four pillars – 1) Property (including social housing, care homes and logistics), 2) Infrastructure (including social, digital, electric vehicle charging, and solar), 3) Financing (such as venture capital and incubator funds), and 4) Social bonds.

Friday, 8 September 2023

Is Pooling delivering?

Rachel Brothwood, West Midlands Pension Fund; Kevin McDonald, ACCESS; George Graham, South Yorkshire Pensions Authority; Roger Phillips, LGPS Scheme Advisory Board

- Rachel listed the many benefits that pooling has created for WMPF, eg allowing officers to spend more time on investment strategy, climate risk modelling and reporting, and integrating funding and investment objectives. Collaboration is achieving more than funds would have done by continuing to operate independently. Overcomplicated metrics should be avoided to ensure that reporting is proportionate.
- Kevin agreed that pooling has helped bring the LGPS together and led to more regular collaboration, with the inter-pool dialogue being particularly useful. There are challenges with moving to a single model on pooling passive investments; this leads to 'one size fits all' output which would be inappropriate given the different investment needs across funds and the diverse employer base underpinning this.
- In George's view, the greatest benefit of pooling is the greater resilience of the operating model. Prior to pooling, it was difficult to attract and retain the best in-house investment resource. However, pooling scale makes this easier to manage. Successful pooling means funds need to compromise, but that this doesn't mean funds get less – the evidence shows that collaboration and compromise lead to a situation where the whole is greater than the sum of the parts.
- Responding to the question 'should the LGPS have gone about pooling differently?', Roger explained his preference for the LGPS to have driven the pooling changes, rather than these being imposed by Government. He'd like funds to drive the future agenda on pooling.

The reality of reporting

Mark Hill, The Pensions Regulator; Sheila Stefani, LGPS Central; Paolo Giua, FRC

- Mark highlighted the importance of reporting, and its value. TPR doesn't view reporting as a tick-box compliance exercise, but as a process where proper engagement can lead to better outcomes for pension savers. He accepted the challenges in first time reports, but future reporting after year 1 can be easier.
- Sheila spoke about data quality. Much of the data required for full and effective reporting is incomplete, although collaboration across pools/funds can help to resolve some of the data challenges and lead to improved reporting. The Stewardship Code has been a blessing – it has given the LGPS a better tool for reporting activity.

- Paolo explained that, used properly, the Stewardship Code is a framework which allows pension schemes to reflect on policies and processes, and to communicate these to stakeholders in a plain language way.

Constructing a “weatherproof” investment portfolio

Peter Wallach, Merseyside Pension Fund; David Newman, Allianz Global Investors; Luke Webster, Greater London Authority

- Luke highlighted the importance for pension funds to focus on liquidity when constructing a ‘weatherproof’ investment portfolio. Paying pensions comfortably without having to disinvest means that funds can adopt a higher tolerance for risk.
- Investors should avoid the temptation of the “god complex”. Specifically, there’s a role for investors to make the world a better place, but they’re not going to be the drivers of change. Investors should trust the businesses they invest in to make the changes necessary to create a sustainable and successful future.
- David noted that black swan events seem to be happening more often than we used to expect, and highlighted the significant uncertainty in geopolitics which may lead to concern for investors. In David’s view, weatherproofing an investment portfolio means taking advantage of the yield curve and realising the benefits of diversification.
- Peter spoke about the choices LGPS funds have with regards to improving funding levels – reduce contributions or reduce risk. The ultimate choice will depend on fund-specifics including the demographic profile of the membership. Patience is required when monitoring performance. Parts of the portfolio may not perform well at different times, but a long-term view is crucial for LGPS investors.
- All hedging comes with a cost and, whilst there may be reasons why funds wish to hedge liabilities or to use equity protection strategies, these will detract from returns. In Luke’s view, there’s no need for the LGPS to strategically hedge liabilities. Inflation risk can be mitigated by long term growth assets.

Diversity, equity and inclusion (DEI) – making a difference

Francis Lake, Border to Coast Pension Partnership & Harj Kaur, LGPS Central

- Harj explained how LGPS Central has realised the benefits that come from a focus on DEI. Specifically, on representation, this has improved recently across gender and ethnicity through recruitment.
- Francis highlighted the many challenges faced by pools in the early days. They’ve worked hard to create an inclusive culture across staff cohorts that joined before, during and after the Covid-19 pandemic.
- Many challenges exist in this area. Societal change is happening fast, and important matters need to be resolved, such as dealing with long Covid-19 and the mental health issues created by the pandemic.

The future of pensions

Joanne Segars, LGPS Central; Joe Dabrowski, Pensions and Lifetime Savings Association; Henry Tapper, Age Wage; Tom McPhail, the “lang cat” podcast

- In the final session, Joanne identified the challenges facing pension provision in the UK and asked the panel to consider what the future holds.
- Tom stated that DC provision is the future for most people in the UK, and so future pension policy will focus on DC pensions. He expressed frustration with the lack of coherence in UK policy and the impact on savers. Pension policy should be linked to housing policy, long-term care policy etc to ensure there’s a purpose; in its current iteration, the pension system doesn’t service the needs of the UK public. There is a huge amount of reform to be done, but there appears to be little appetite to tackle this.

- Henry suggested that a 'DC pension' is an oxymoron as it doesn't provide a regular and sustainable income in retirement. It's imperative for Governments to understand and accept the need for pensioners to have a secure retirement income. He sees great value in collaboration and pooling, and thinks that significant value for money can be generated from consolidation in private sector schemes. Perspective is also important – providing pensioners with an inflationary pension increase during a cost-of-living crisis shouldn't be viewed as being something that is difficult to provide.
- Joe highlighted some of the current challenges facing policymakers, eg concerns around the adequacy of DC provision, reform of Auto Enrolment, small pots issue (by 2030, there will be 30 million small pots in the pensions system). Simplicity is key. Members don't need to fully understand how the pension works, just that there will be a pension for them in retirement.
- The panel acknowledge the inability of politicians to think long-term when setting pension policy and agreed that frequent changes in the pensions minister contribute to this.

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