

Conference highlights

LGC Investment & Pensions Summit 9-10 September 2021



Douglas Green
Partner & Actuary

This was the first totally in-person LGPS conference since the beginning of lockdown – and this Summit had moved from Celtic Manor to Leeds Armouries. If there is something in the following summaries of all sessions over the day and a half, which you would like to discuss further, then do get in touch with your usual contact.

Chair's welcome – Rachel Elwell, Border to Coast Pensions Partnership

- LGPS has weathered the pandemic admirably, across administration, funding, governance & investment
- Audience poll on biggest investment concern in next few years – c.50% voted inflation, c.25% voted geopolitics

Implications of the economic outlook in the UK and globally for the LGPS

Richard Gwilliam, M&C Real Estate & James Ashley, Goldman Sachs Asset Management

- Dramatic price increases over the past 18 months across eg oil, shipping (and puppies!), but expect inflation rates to quickly revert to “norm”
- Interest rate increases will still be low in historical terms (markets not pricing in any significant rises)
- Most major economies expected to see 2-3% fall in real GDP growth rate, but thereafter the world's economic centre of gravity is shifting eastwards – therefore expect Asian allocations to increase over next 20-30 years
- “Freedom” from COVID will be the foundation for strong & sustainable economic recovery – projections suggest very strong recovery over next two years – eg real estate yields strong by historical standards, partly due to residential supply/demand imbalance

Discussing society's attitudes towards the supply chain – circular economy or take-make-waste

Dawn Turner, Independent Adviser & Non-Executive

- Increased engagement & visibility by organisations in the supply chain, to be more responsive to customers

- Impacts still being felt from eg lorry driver shortage (not restricted to UK) & Suez Canal blockage holding up \$9bn goods per day; customers starting to see this and have to adjust
- Horse meat scandal showed the importance of monitoring supply chain, and by analogy some buyers of green energy are disappointed to discover this is by offsetting as opposed to means of production.

Councillor and pensions board member session: Scheme Advisory Board update and keeping on top of the latest developments

Bob Holloway, Local Government Association & Roger Phillips, LGPS Scheme Advisory Board

[Apologies – our attendees weren't able to attend this session]

Pool and fund officer session: Working in partnership

Laura Chappell, Brunel Pension Partnership; Kevin McDonald, ACCESS; Anthony Parnell, Carmarthenshire County Council; Jo Ray, Lincolnshire Pension Fund; Chris Rule, Local Pensions Partnership Investment

- Pooling map in England & Wales has been firmly established in last five years, and this has genuinely led to more collaborative & closer working across Funds
- Asset allocation is a sovereign decision for the Funds, and Pool drives innovation in its offerings on the basis of achieved fee savings
- Pooling is a journey, eg approach to climate change continuing to evolve
- Funds should have correlated, not contradictory, investment beliefs, otherwise Pool could just be the manager of a series of mandates.

Global equities – still your best friend?

Peter Wallach, Merseyside Pension Fund & Paul Markham, Newton Investment Management

- Equities have been on a very long bull run. At the same time, bonds have had a very long period of reducing yields. As both are looking expensive, why equities?
- Bonds cannot create new value, whereas companies can create new product lines, seek efficiencies or new markets. So there is an argument that equities still have room to grow in value, but this may be limited with bonds.
- However, inflationary and other cashflow pressures may push funds towards more illiquid investments or private markets. These come with their own risk and return profiles which may or may not deliver the “oomph” that's needed to grow.

Investment opportunities in affordable housing

Alex Greaves, M&G Real Estate & Tim Sankey, Border to Coast Pensions Partnership

- The Housing Cycle: private rented student accommodation, then to housing close to their networks (town centres, work etc), then to more spacious dwellings, before moving to retirement housing (private home or care home)
- Significant supply problem across housing (demand on average 2.5 x supply across England, but 7.5 x in London), and the affordable housing with greatest demand also has greatest management obligations (eg homeless shelters, social rented)
- Shared Ownership aims to allow easier access to housing ladder with lower deposit requirement – leasehold/freehold issues can cause problems (eg as per recent Panorama programme) but not due to Shared Ownership status.

The global search for yield – opportunities in liquid fixed income

Mark Lyon, Border to Coast Pensions Partnership & Michael Walsh, T. Rowe Price

- The traditional reasons for holding high quality fixed income assets (hedging, diversification) conflict with reduced growth expectations and income
- Emerging Market debt market is almost as big as EM equity, and larger than US Investment Grade market.

How the LGPS can invest with impact

Rosie Rankin, Baillie Gifford & Co

- Measuring impact is a big challenge, eg assessing a company's contribution to the specific targets underpinning the UN Sustainable Development Goals (SDGs)
- Estimated that \$5-7trn investment every year through 2030 to deliver the SDGs. Not all are investible by private capital, but still lots of investment opportunities exist
- Listed equities can provide a good way of accessing impact opportunities

Keeping on top of the deluge of administration changes and challenges

Phil Triggs, Tri-Borough (Westminster City Council) & Abigail Leech, Local Pension Partnership Administration

- Staff adapted to home working – albeit training is harder to do remotely
- Helpdesk peak demand during pandemic was very challenging (more retirements than expected, as well as deaths) – however, not a great increase in online member access
- Necessity was the mother of invention with technology, new tools etc
- Do not think that any pooling of admin should be mandated centrally.

Member and employer communication: adapting to a new environment

Sara Maxey, Essex Pension Fund & Jill Davys, London Borough of Sutton

- Level of engagement from members is still too little, too late
- Technology provides lots of tools to improve engagement - member portals, YouTube, virtual surgeries etc
- Vital to continue offering people-based contact options
- Pandemic has accelerated innovation - a silver lining perhaps.

Administration: the next area to be pooled?

Mark Gayler, Devon Finance Services & Neil Mason, Surrey Pension Fund

- Peninsula Pensions provides shared service to both Devon & Somerset Funds, and Mark needs to ensure shared service works for the Devon Fund without having managerial control – updated systems and increasingly paperless processes have improved service quality (was not intended to save costs), albeit this took material effort
- Accuracy of data greatly depends on quality of data provided by employers, which in turn depends on employer relationships – relationships could suffer if employer numbers rose too much, eg through pooling too many Funds
- However, not all shared administrations have been successful and there are useful lessons to be learned such as the need to align partner's service standards and ensuring a shared vision for service delivery at outset.

- In general, it was broadly agreed that enforced pooling of administration would be unwelcome. In particular, Pools should be focussed on the investment aspects, not be distracted by admin provision
- Need to ensure admin is suitably high on Committee agendas.

Why cyber security might be the biggest risk your pension faces?

Matthew Cain, London Borough of Hackney & Jill Davys, London Borough of Sutton

- Salutary tale of the impact of a ransomware attack on an LGPS Fund (LB Hackney)
- The statistics on the frequency of such attacks and the direct costs are frightening. Indirect impacts on the services provided by Funds are even larger.
- Cyber criminals are one step ahead of their targets, even well-prepared funds need to continuously strengthen defences
- Data is the key. Helpful for funds to ask three key Qs: 1. Where is my data? 2. Is it encrypted at all times? 3. Who has access, and do they need it?

Committing to Net Zero by 2045: Practical experience of how the Environment Agency Pension Fund has set this goal

Marion Maloney, Environment Agency Pension Fund

- Not trying to save the world, aiming to protect the Fund from financial risk due to climate change
- The EAPF has different climate targets from the Agency: the latter has direct relationships with stakeholders which the Fund doesn't with the 2,000 companies it invests in
- Strategic asset allocation delivered the great majority of decrease in emissions
- Measure emissions, move to Paris-aligned benchmarks, deny debt if company not appropriately committed
- Invest in whole economy so all sectors turn greener, engage with companies via asset managers / Pools, using all votes and joining shareholder actions – improved company disclosures will also help

Climate risk: tackling the stewardship, governance, measurement and reporting challenges

Teresa Clay, MHCLG; Victoria Tarr, Canada Life Asset Management; Ben Yeoh, RBC Global Asset Management; Jacqueline Jackson, London CIV; Ed Baker, PRI

- Teresa started with an update on the impending consultation on LGPS TCFD requirements: this should be in October, ideally ahead of COP26 – will be broadly in line with those coming into effect 1 Oct 2021 for private sector schemes – analysis on two scenarios incl one Paris-aligned, three metrics, target based on one of the metrics
- Differences from DWP requirements for private schemes:
 - (a) Propose that all LGPS Funds will move together, not phased by size
 - (b) First year of application: 2022-23, first report due by end of 2023
 - (c) Funds required to report on data quality in line with greenhouse gas protocol, as third metric
 - (d) SAB will report on all Funds' compliance, data quality etc
- Proposals aimed to be as consistent as possible; for more ambitious Funds, they could use a 4th metric
- All the above is subject to final ministerial approval etc. There was then a panel discussion: key themes included:
 - the need for engagement with companies;
 - benefits of collaboration across the Pools for that engagement (which also assists in the resource requirements);

- consideration across the whole portfolio (eg including sovereign debt);
- understand risks & opportunities and hence set targets;
- appreciation that this can be a long process;
- line up the stakeholders & actions to enable the reporting.

The great debate: Pooling was a great idea and we will never look back

George Graham, South Yorkshire Pensions Authority; Mike O'Donnell, London CIV; William Bourne, Independent Adviser

- Important for Pools to continue to deliver savings, to have close relationships with their Funds, and to have governance & ownership by the Funds
- LGPS has long history of collaboration, including areas such as responsible investment
- Pooling is here to stay, but is there a gap between where the Pools are, and where they need to be, to deliver net benefits in the long term?
- Are there barriers to getting the right Pool officers and governance involving multiple Funds?
- Will there be fewer Pools in say 10 years' time?
- The vote among the delegates was c.55% **against** the motion.

Searching for income

Jill Davys, London Borough of Sutton, & Mark Lyon, Border to Coast Pensions Partnership

- Active element of whole E&W LGPS has fallen as a % of total membership, average active members' age has risen, pay restraint being applied to actives while deferreds and pensioners seeing CPI increases: all pointing to greater maturity and more cashflow challenges – c.40% of Funds are cashflow negative even allowing for investment income
- Illiquid assets can provide income to help fill the gap, but needs preparatory time & effort: need to plan how to "get money into the ground"
- Potential sources include private debt, infrastructure, however watch less certain timing of cashflows and peculiarities of Private Markets (J-Curve etc) which can be mitigated through co-investments

Birds of a feather discussion sessions on 6 x hot topics

- Political involvement in investment decisions – generally concluded that politics often make it difficult to reconcile with fiduciary duties
- "Greenwashing" – it is an issue but in the main managers/companies seem to want to do the right thing, however would need better regulation & data
- Reporting requirements on Funds – necessary for transparency and consistent data across the LGPS, even if it is a burden on officers, as long as it is being used
- Communication to beneficiaries – pandemic has hastened improvements which would have happened anyway, eg member surgeries, submission of documents, triggering greater interest in the Fund
- Sustainability of resources for the LGPS – there are significant challenges but surmountable: LGPS ethos can be a positive draw, need to explore moving outside council pay scales, can collaborate more
- Funds' role in creating a more equal society – increased profile of ESG etc will help build AUM momentum which in turn will help deliver strong returns.

Preparing for the next actuarial valuation

Douglas Green, Hymans Robertson

- Flaw 1: “Jeff Bezos walks into the room ... and everyone immediately becomes a billionaire on average” – big numbers can obscure small ones, eg whole Fund valuation results basically reflect the Councils’ position, may disguise huge variation in funding positions of other employers and their contribution requirements
- Flaw 2: “The average family has 2.4 children” – there will be various different scenarios co-existing in your Fund already, eg the same investment return will have different impacts on different employers due to their different funding levels, cashflow positions & time horizons
- Flaw 3: The “matching DNA” conundrum – small numbers can obscure bigger ones, eg some employers will be much more affected by McCloud changes and ill-health early retirement strain costs.
- [NB Look out for a separate communication with some more detail on this]

Final keynote session: MHCLG and SAB update

Teresa Clay, MHCLG, & Joanne Donnelly, LGPS Scheme Advisory Board

- McCloud – GAD estimate £1.8bn impact for the LGPS spread over future years, amendments expected to the July Bill, aiming for completion early 2022, coming into force from spring 2023
- Climate risk (NB see details in Climate Risk session above)
- Pooling – developing proposals for stronger governance, improved reporting, and greater asset performance transparency – will draw on extensive engagement with funds, new data from pools, and research on overseas comparators
- Exit pay – MHCLG aim to publish final guidance shortly, with consultation on next steps
- Good Governance – SAB team working on data and will approach funds for more information
- Planning for the post-CIPFA Pensions Panel world (as the Panel no longer exists) – replaced by a new SAB Committee, will include some existing Panel members plus more s151 officers (NB any future guidance will not be behind a paywall)
- 2020 Stewardship Code – FRC announced further windows in October 2021 & April 2022 to apply (100% success for LGPS in last window)
- Pensions Dashboard – public sector schemes likely to only be required to participate from the end of this overall process (2024/25) due to current McCloud etc workloads
- Cost Transparency – aware that the Byhiras system is not the easiest to use, so there is LGA resource available to assist.

If you would like to pick up these topics in any more detail, please get in touch.