Conference highlights

LGC Investment Seminar, Carden Park (24-25 March 2022)

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The sun shone brightly on the 17th LGC Investment Seminar as it returned to Carden Park in Cheshire. Hot topics such as ESG, the 2022 valuations, inflation and levelling up were subject to lively discussion and debate. Our budding 'consultants turned journalists' summarise the highlights below.

Day 1

Scene-setter – what the latest state of play is for the LGPS

Jeff Houston, Secretary, LGPS Scheme Advisory Board

- Jeff educated the room on the origin of the term "Swansong" to set the scene for his last conference appearance. But he's not leaving the LGPS entirely, mainly for fear of then not having any friends.
- Jeff reflected on his career which started at Merseyside and has now come full circle with the imminent receipt of his LGPS pension from the Merseyside Pension Fund.
- His trip down memory lane, and answering questions about career highlights and whether he wore a waistcoat (or tank top with buttons) for all his lockdown Zoom calls, was rounded off with a quiz that brought out the competitive element of everyone early on.

What should be keeping the LGPS awake at night?

Rob Treich, Head of Public Markets, London CIV; William Bourne, Independent Adviser

- William discussed the key drivers that have dominated investment markets over the last 40 years – globalisation, freeing up of labour markets, capitalism, technology and central banks throwing money at problems. These had led to low interest rates and inflation, and high asset values.
- The reversal in many of these trends is causing increases in inflation. A fear is that central banks get it wrong by raising rates too high in reaction to current events and then causing a recession.
- Most LGPS funds have a diversified allocation to help mitigate inflation. Whilst this works if inflation is below 4%, a sustained period above this will cause severe volatility in markets.
- The key to managing this period is nimbleness; funds should have somebody somewhere with the authority to act quickly. This could include delegation to the pool, a specific officer or the use of multi-asset managers.

Practical showcase: Stewardship code submission

Jo Ray, Head of Pensions, Lincolnshire Pension Fund

- Jo set the scene - Lincolnshire has assets of c£3bn in a fairly standard allocation. 52.5% of their assets are managed in the B2C pool, with a shared service arrangement for admin and a team of 4 staff.
- The code (1 Jan 2020) was much more demanding than the pre 2020 code, with the emphasis now on how you are applying each of the 12 principles in detail. In particular:
    - Stewardship needs to be fully integrated into management of the Fund
    - There's a need to provide evidence rather than make statements
    - A requirement for relevant data, examples and case studies
    - A wider focus – not just equities
    - A requirement for continuous improvement and a plan for this
- Jo's submission including working with the pool (B2C), investment managers, consultants and referring to other funds. Ultimately, while it's great to leverage what others have done for inspiration, there was no standard template or solution, and this really needs tailored to the Fund's specific approach and style.

- Jo's 'top tips' included; start by just getting information down on paper; use other successful reports for inspiration; stick to stewardship rather than governance; keep it simple and easy to read and understand; get it done – even if unsuccessful, the FRC's feedback is very helpful and have an action plan to continually improve stewardship (and the next submission).

Hot topic: ESG and RI: not the only game in town?

Abbie Llewellyn-Waters, Head of Sustainable Investing, Jupiter Asset Management; Bridget Uku, Group Manager Treasury & Investments, London Borough of Ealing; Phil Latham, Head of Clwyd Pension Fund

- A poll of the room found that 57% of attendees said their fund has made a net zero pledge
    - The need to decarbonise investments on a structured basis is in reaction to trends in global policy e.g. US & China now have legally binding targets to decarbonise over next 30-40 years. This, with increased global regulations to report on emissions, means climate risks will begin to be priced into markets.
    - Complementing the focus on 'climate', the next area will be 'nature'. This is amid fears of biodiversity loss and its impact on the planet. We may see TCFD-style reporting for nature being launched in 2023.
- Ealing have moved from being ESG agnostic to making a net zero pledge, with generally the same Member group.
    - The move has been in response to regulations and pressure from stakeholders. However, regulation can sometimes be a distraction by focussing on box-ticking and forgetting about actual ways of getting to net zero.
    - People want LGPS funds to decarbonise, but it needs to be done at a careful pace e.g. the current war shows we still need oil.
    - Pools have made a difference by helping funds doing a lot more than they could do individually. However, you can't devolve the responsibility for this solely to pools; as the owner you need to be responsible for ensuring action happens.

Birds of a feather discussion session led by asset manager and LGPS moderators on the hot topics

Anthony Parnell, Treasury and Pension Investments Manager, Carmarthenshire County Council; Catherine McFadyen, Head of LGPS Consulting, Hymans Robertson; David Newman, CIO Global High Yield, Head of Public & Private Solutions, Allianz Global Investors; Guinevere Taylor, Director, EMEA Distribution, RBC Global Asset Management; Rachel Perini, Head of UK Institutional, Jupiter Asset Management

Good governance and political integrity?

Use of virtual technology going forward could widen representation on Committees and Boards by removing barriers to participation. It was agreed that the model of having some people in the room and some online was not preferable - ideally either everyone should be present or online.

Our people are our strength but are we too lean?

The inception of LPBs, increasing governance and administration complexity and loss of people to Pools have all contributed to the current resourcing problem. The problem could get worse with funds struggling to recruit and potential increase in governance burden from the upcoming summer consultations.

Booming economy will we ever hear those words again?

The group didn't think the economy will boom any longer, with concern about the impact of any future changes in legislation by Government on particular asset classes. In a volatile and changing investment environment, the risk of having assets locked-up increases. More nimbleness in assets would help mitigate this risk.

Embracing diversity – is it happening?

Things are changing, with the impact of diversity policies coming through into results but more still needs to be done. Covid is an impetus for further change due to the increase in flexible working being the norm for companies.

Stewardship: moving from statistics to outcomes

Integrating ESG into the job of paying pensions should be the norm instead of thinking about as a separate consideration. Main issue is working out how to use scoring and/or narrative from asset managers to help make decisions.

The net zero economy and the levelling-up agenda, are the two linked?

A conclusion wasn't reached. The group had a mixture of yes, no and maybes. A panacea of where you can combine the two is probably not possible.

Inflation in the spotlight

Everyone was worried about it. Three levers of mitigation were explored:

- Increasing contributions
- Changing investment strategy
- Focus on a longer time horizon

Changing occupier demands and demographics: what does this mean for future real estate demand?

Greater uncertainty around retail and occupational office space demands. Whilst employers are looking to cut costs with physical office space, some do realise that staff need an experience, and not just a desk in a room. Areas such as a breakout space or for exercise may require a reconfiguration of existing spaces.

ESG & greenwashing – seeing past the hype

It is a problem but also a symptom of the change we're going through. The EU has gone hard on regulations, but there is patchiness around the rest of the world which makes it easy to greenwash. For emerging markets, downstream nudges are being applied which may be all that's needed instead of regulation.

Protecting "Scheme Property" from fraud

Pre-pooling, LGPS funds were very active in recovering "billions of dollars" for investors through class action suits. Post pooling, there's been a chill on this activity because of the issue around who actually owns the assets and can bring litigation to recover monies.

What is Paris aligned investing?

Henrik Wold Nilson, Senior Portfolio Manager, Storebrand Asset Management; Mark Campanale, Founder, Carbon Tracker Initiative

- The motivations for investing in Paris aligned fashion are due to future higher financial returns being linked to Paris outcomes and such investments increasing the probability of Paris' success.
- You can create a framework to measure Paris alignment by choosing which Paris climate scenario to align against and then derive indicators to compare against company data.
- Methods to determine Paris alignment have large uncertainties so be sceptical when interpreting and communicating metrics.
- Significant challenge to be aligned with Paris, for example to be aligned requires oil production to fall by 3% p.a. but all oil & gas companies are forecasting increases.
- Good news is that renewable energy costs have beaten forecasts as the cost of technology becomes cheaper e.g. solar energy is 88% cheaper than thought a decade ago.

Day 2

2022 Valuation: with one week to go – where are we now?

Catherine McFadyen, Head of LGPS Consulting, Hymans Robertson; Euan Miller, Assistant Executive Director, Greater Manchester Pension Fund; Neil Mason, Assistant Director, LGPS Senior Officer, Surrey Pension Fund; Nick Buckland, Head of Pensions and Treasury, Kent County Council

- LGPS is in the territory of strong funding levels but that does not mean it is 'job done'.
- Funding levels have three main limitations
    - they are focussed on the past. Over the next 50 years, for an average council, only 35% of the benefits payments are reflected in the funding level.
    - we get excited when we reach 100% funding but is that the real destination, and does it reflect all the employers in the fund?
    - We dislike volatility but is funding level volatility really a cause for concern? We should be worried about contributions.
- At this valuation, explore the possibility of setting a longer-term stable contribution rate that can be held through periods of funding volatility.

- Remember to consider and explore individual employers as they will be different, and the diversity is likely to be bigger at 2022. This may increase the argument for different investment strategies for different employers in a proportionate manner.

Practical showcase – Reporting on TCFD (Taskforce for Climate-related Financial Disclosures)

Anne Foster, Head of ESG, Quinbrook Infrastructure Partners; Jane Firth, Head of Responsible Investment, Border to Coast Pension Partnership; Matthew Hopson, Strategic Investment Manager, Tri-Borough Treasury and Pensions, Westminster City Council; Nick Buckland, Head of Pensions and Treasury, Kent County Council

- On a journey with ESG - a lot of funds are still finding their feet with the process. The key is to get the correct governance around what you will be doing.
- Don't forget that there may be colleagues in your local authority who can help you with this type of reporting and measurement, and ensure adequate training is in place to carry out the necessary tasks.
- It is important to not just focus on reporting; when thinking about climate risk management look at the actual specific risks of climate change, such as the impact on people.
- Take time to understand the output from metrics and measurements. There can be cases where the output/data is saying something very bizarre. Do not be afraid to challenge the providers and seek to understand the methodology.

The spectre of ownerless corporations: LGPS pooling & beneficial ownership right within an ACS system

Mark Solomon, Partner, Robbins Geller Rudman & Dowd; Sarah Wilson, Founder and CEO, Minerva Analytics

- There is a vibrant practice in the US against security fraud via the class action route. UK pension funds have participated and helped to recover billions of dollars in the last few years.
- However, pooling has thrown a spanner in the works. Since pooling came into existence, no LGPS fund has moved to be plaintiff in a case because of the uncertainty around who is the actual owner of the investment involved.
- Until this uncertainty is actually tested in a court and a judgment reached, this situation will continue.
- There is a need for funds to understand the ownership rights for their assets and ensure their rights are protected.

Levelling up – what it means for the LGPS

Andrew Davy, Head of Liability Aware Strategies and Affordable Housing, CBRE Investment Management; Peter Wallach, Director of Pensions, Merseyside Pension Fund; Sarah Teacher, Executive Director, Impact Investing Institute

- The panel discussed its interpretation of impact investing and local investment. Sarah stated that impact investing has the dual aims of generating financial returns and positive impact. ESG is "doing things right" whilst impact investing is "doing the right thing".
- Andrew noted that investment managers need to do more to assist the LGPS in making local, impact investments by launching suitable funds with the scale required, and then providing measurement of the impact of those.

- LGPS culture is well suited to investing in this manner, due to its long-time horizon. They could access some attractive opportunities by focussing in this area.
- Peter discussed Merseyside's impact and local investments, noting that they began doing it on a national basis for financial reasons, but have now found a wide range of attractive opportunities within the Fund. He noted a lot of interest from members in this. However there is a reputational risk if things go wrong, and it increases the Fund's financial exposure to the local economy further.

Looking to the future : challenges facing the pensions world which should be on the LGPS' radar

Bob Holloway, Pensions Secretary, LGPS Scheme Advisory Board; Des Healy, Policy Manager, Department of Work and Pensions; Jill Davys, Pensions Finance & Investment Manager, London Borough of Sutton; Karen Shackleton, Director, Pensions for Purpose

- Des covered:
  - **Climate change -** Following on from COP26, schemes are more aware of impact of investments and how it can affect benefits. TCFD requirements are being introduced and there are plans to build on this and report how investment portfolios are aligned to Paris.
  - **ESG -** Stewardship has a key role to play via meaningful, real engagement and holding companies to account for members' best interests. There is a desire to do more to remove barriers that prevent investment in some classes.
  - **Value for Money** - the intention is to develop a VFM framework as part of legislation to compare and contrast value of pension schemes.
- Jill focussed on resource issues including having the right amount of resource and the increasing need for specialist skills sets including governance, RI and employer liaison. Approaches to managing the resource challenge include growing your own resource (graduate programs have really added value, but need to retain the staff) and shared services (need to think about how best to share knowledge and skills across the funds).
- Bob provided long term perspective on the scheme. It's always been complex and resource constraints at DLUHC can mean that many items land at once. The challenge of many funds trying to invest in levelling up across the UK will be challenging - without external direction it is unlikely to achieve the removal of geo disparity. Is the Government actually trying to achieve building Britain back from the pandemic, rather than levelling up?