

Conference highlights

PLSA Local Authority Conference, Gloucestershire (26-28 June 2023)



Catherine McFadyen
Head of LGPS Consulting



Susan Black
Head of LGPS Governance,
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Adrian Loughlin
Actuarial Consultant



Philip Pearson
Head of LGPS Investment

As temperatures cooled across the UK, this year's conference allowed delegates to do their own temperature check across the LGPS – with a focus on ESG, pooling and investment opportunities, tackling administration pressures and helping members and employers during a cost-of-living crisis.

Day 1 – Building a New Standard in Sustainability Reporting.

Scott Foster, CACEIS; James Parish, CACEIS; Tiffany Tsang, PLSA

Our delegates did not attend this session.

From Data to Insights: How Local Government Pension Scheme Data Can Transform Your Scheme Management.

Rod Brown, Heywood Pension Technologies; Spence Lynch, Heywood Pension Technologies; Alyshia Harrington-Clark, PLSA

Our delegates did not attend this session.

SMEs and Local Private Equity Investing – Bridging the Structural Funding Gap

James Livingston, Foresight Group; Matthew Smith, Foresight Group; Mark Whitby, Cambridgeshire Pension Fund; Maria Espadinha, PLSA

- This session focussed on SME growth capital, which is under-funded, overlooked by mainstream PE managers and not covered by VCTs/EIS/British Business Bank etc. Foresight run a series of funds focusing on different UK regions.

- What are the key success factors? These include education, a local presence and offering management expertise not just capital.
- Investors value manager intermediation of opportunities, rather than dealing directly with companies.

The Paris Alignment Paradox: Scoping Out Solutions.

Lauren Juliff, Storebrand Asset Management; Marcin Stepan, PLSA

- A growing number of passive funds are tracking Paris Aligned/Climate Transition benchmarks.
- Passive strategies can't be used to achieve true Paris Alignment because:
 - a reliance on emissions metrics (other metrics such as exposure to climate solutions providers aren't taken into consideration)
 - scope 3 emissions aren't considered
 - index design is not keeping pace with relevant developments.
- These are challenges for investment managers but are being addressed by many passive managers.

Day 2 – Introducing Nav Finance: Evolving Opportunities in Private Markets

Stephen Quinn, 17 Capital; Owen James, 17 Capital; Alyshia Harrington-Clark, PLSA

- Secured lending against the portfolios of large private equity funds in North America and Western Europe.
- Proceeds are used to make follow-on investments, recapitalise portfolio companies in distress and/or finance distributions to investors.
- Attractive target return (10-12% IRR) especially given strong downside protection. The manager remains positive on performance of PE-sponsored companies, despite the recent fall in valuations.

Targeting Net Zero in Fixed Income

Iain Buckle, Aegon Asset Management; Joe Dabrowski, PLSA

Our delegates did not attend this session.

Welcome

Emma Douglas, Chair PLSA

- Emma reflected on the themes of change in the LGPS and the role of the PLSA in bringing the pensions industry together.
- The relationship and roles of employers was highlighted with a recent PLSA survey indicating that 85% of funds believe they have a good relationship with their employers. The PLSA recently published a ['Best Practice' guide](#) for employers participating in the LGPS.

Taking the Temperature of the LGPS

Joanne Donnelly, Local Government Association; Richard McIndoe, Strathclyde Pension Fund (SPF); David Murphy, NILGOSC; Roger Phillips, England and Wales Scheme Advisory Board; Emma Douglas, Chair, PLSA

- Cllr Phillips launched the E&W SAB [annual report](#) to year end 2022. He discussed the potential reputational damage of regulatory delays with the Minister for Pensions, and urged funds to progress certain items without waiting, eg Good Governance, TCFD reporting.
- Richard provided an overview of the robust health of the SPF. He expects the 2023 actuarial valuation to show good results for most Scottish funds despite market challenges, investment performance and inflation.
- David advised of a similarly positive outlook across NI and discussed the regulatory challenges being faced in NI.
- Joanne expects that pooling will be discussed further in the Mansion House speech in July and a consultation launched before summer recess. Large volume of responses to the TCFD consultation are being analysed - earliest legislation next April (and this is a tight timetable). There's an increased likelihood of legal cases in the absence of Goodwin regulation.

The Future for LGPS Pooling

Jill Davys, Redington; Neil Mason, Member, PLSA Policy Board; Peter Wallach, Merseyside Pension Fund; Joe Dabrowski, PLSA

- Audience polling showed a mixed view in relation to 1) how much government should play a role in speeding up the transfer of all fund assets into pools, and 2) whether there should be further consolidation of pools.
- The panel supported a proactive approach by funds, not waiting for the government to formalise arrangements. Pooling has largely met its original aims with particular benefits in responsible investment and cost efficiencies.
- The panel agreed that articulating the objective of any proposed consolidation is key. Is consolidation needed to increase sustainability of funds, or to increase asset value to meet government investment aims? There also needs to be focus and clarity on fiduciary duties.

Currency Matters: Understanding an 'Uncomplicated Risk' and using it to Pay Pensions

Bruce George, P/E Investments; Phil Triggs, City of Westminster; Alyshia Harrington-Clark, PLSA

- Audience poll highlighted that while more than half of the LGPS assets are allocated overseas, currency risk wasn't a key focus at their most recent investment board meetings. Similarly, very few funds do not manage foreign exchange risk explicitly in their portfolios.
- Phil noted that the lack of consideration around this risk is long-standing in the LGPS. Currency risk management is often considered a zero-sum game. More conscious decisions are needed in this field.
- City of Westminster case study – recently reduced strategy from 30% in UK-based assets to global investments (a move not uncommon in the LGPS). Considered exposure to currency markets and the potential of using dynamic hedging strategies to reduce exposure. This can control volatility.
- Good governance is key to successful decision making, with officers keeping committees informed.

Infrastructure: A Pooling Case Study

Samuel Gervaise-Jones, bfinance; Ravi Parekh, GCM Grosvenor; Anthony Parnell, Carmarthenshire County Council; Maria Espadinha, PLSA

- Significant effort devoted to defining the requirements and expectations of the infrastructure programme.
- Two solutions have been developed to meet partner fund needs: an open-ended fund focusing on core assets and a closed-end fund on value-add assets.
- Both have strong ESG and local investment agendas, but financial risk and return remains the primary consideration.
- The panel discussed the strong commitment from Welsh partner funds – 5% allocation to infrastructure, all represented on proactive Limited Partner Advisory Committee (LPAC).

Biodiversity and Nature: The Why and How of Rescuing the Planet

John Dean, AXA Investment Managers; Stephane Lago, AXA Investment Managers; Karen Shackleton, Independent Adviser, LGPS; James Walsh, PLSA

- The audience poll showed that all agreed that funds had a role to play in protecting nature/biodiversity.
- John discussed the economic case for protecting nature and biodiversity and the key differences between these concerns and climate.
- Stephane advocated a threefold approach to the topic: protect; restore and reduce.
- Karen provided a view on the outputs of a Pensions for Purpose report on the approach of funds.
- The panel agreed that the TNFD Framework should provide some structure but that it was not yet widely in use (the focus remains on TCFD).

Oversimplified and Over-Confident: How to Avoid the Dunning-Kruger Effect in ESG

Carlo Funk, State Street Global Advisors; Alyshia Harrington-Clark, PLSA

Our delegates did not attend this session.

Delivering Impact Through Private Equity

Andrew Carnwath, Columbia Threadneedle Investments; Stuart Hastie, Columbia Threadneedle Investments; Karen Shackleton, Independent Adviser, LGPS; Tiffany Tsang, PLSA

Our delegates did not attend this session.

Operational Sustainability – Solving the Administration Dilemma

Taylor Brightwell-Smith, Government Actuary's Department; Neil Mason, Member, PLSA Policy Board; Andy Whitelaw, Brightwell; Tiffany Tsang, PLSA

- The audience poll demonstrated that concerns around workload, recruitment and training continue to drive challenges in the administration of the scheme.
- Neil called on funds to drive improvements through the Good Governance recommendations, particularly around the introduction of common reporting standards and training. The importance of administration to members is key - consolidation of services may be the answer, but bigger is not always better.
- Andy provided insight into the Brightwell experience and its recent expansion to become a provider. Focus on the right success measures, eg member satisfaction, using technology to be do more with less.

- Taylor provided an overview of GAD's interest in administration and the support available, with a particular emphasis on the need for good data.
- The panel discussed training and recruitment, eg best practice standards, career paths and accredited training. Can AI be harnessed? Data quality is still not at a standard where this is viable. Technological solutions are being developed which will help clear backlogs in the short term.

Infrastructure – Navigating a Challenging Environment

Ian Berry, River and Mercantile Group; Phil Triggs, City of Westminster; Maria Espadinha, PLSA

- Huge capex requirement to upgrade UK infrastructure over the next decade (decarbonisation, Levelling Up). Private sector capital will likely be required.
- But audience poll suggested 89% of funds are not planning to materially change their infrastructure allocations.
- Manager focuses on core operational assets and suggested that historic returns on the asset class (7-8% pa) could be maintained with lower levels of risk (given the rise in interest rates).

A New Funding Era

Catherine McFadyen, Hymans Robertson; Richard McIndoe, Strathclyde Pension Fund (SPF); Joe Dabrowski, PLSA

- Catherine shared information from the [Hymans Big Picture report](#). The average reported funding level at the 2022 valuations was 106%. What options are available to manage surplus? Reducing employer contributions, changes to investment strategy, retaining a surplus buffer, increasing margins for prudence, or doing nothing! The audience poll showed a majority in favour of a balance between rebuilding prudence margins and some employer contribution rate reductions.
- Richard shared how SPF has managed its surplus and retained a stable contribution rate across its main employers over the past 2 valuation cycles. He highlighted how the outlook for both lower employer contribution rates and increased benefits outflow will impact the cashflow position, and the necessity of planning investment strategy to manage a negative cashflow position.
- Both discussed the challenges of employer exits in a surplus environment.

The Dilution of Investor Rights in the UK – Ramifications for Pension Funds

Daniel Summerfield, Pomerantz; Owen Thorne, Merseyside Pension Fund; Tiffany Tsang, PLSA

- Audience poll showed concerns around the [FCA's recent consultation](#) on equity listing leading to a weakening of shareholder rights. There needs to be an increased focus on ESG, particularly climate.
- The panel noted there may be good intentions behind the perceived de-regulation, which would give funds more investment freedom. Instead, these may impact on those investing in the UK and lead to poorer equity opportunities being available. Conflicts of interest are an area for concern, which could hinder good stewardship practices.
- The panel concluded that there could be negative implications around reduced regulation, which could have a negative impact on LGPS members. Attendees were asked to use their voices to respond to any consultations which have an effect on the operating or performance of schemes.

ESG 2.0 and the Role for LGPS

David Crum, Minerva Analytics; Mark Gayler, Devon County Council; Philip Latham, Clwyd Pensions; Emma Douglas, Chair, PLSA

- An audience poll suggested that where funds have a net-zero target between 2046 and 2050, they are not confident in meeting this date. David noted that funds should still focus on improving their stewardship until greater green investment choices are available.
- The key themes explored were around engagement and exclusion when tackling ESG. Divesting in high carbon-emitting firms will improve only the fund's net-zero position, but collaboration will reduce this globally. Engage with firms directly to help them make greener choices, which will have a knock-on effect across the market. Don't ignore the social and governance aspects of ESG eg local impact investments.
- Mark spoke of Devon's work towards their own 2050 goal. He highlighted the part that pools have to play to ensure the companies being invested in are making greener choices.
- Philip noted that, following recent elections, Clwyd's new committee members showed an even greater interest in ESG. Whilst positive, funds should be aware of the increased costs due to time spent investigating and implementing sustainable practices.
- The session closed with a call for further government action in this space, with confirmation of TCFD reporting requirements in the LGPS.

Day 3 – Cost of Living Conundrum – Communicating with Employers and Savers

Emelda Nicholroy, UCEA; Jo Quarterman, Norfolk Pension Fund; Jenny Wright, MaPS; James Walsh, PLSA

- Jo provided an overview of Norfolk's communication strategy where key messages are selected and delivered repeatedly through different channels. The goal is to increase members' understanding, eg about the real cost/value of LGPS membership, the different options, where to find help and support.
- Emelda explained the challenges which higher education employers are facing due to the cost-of-living crisis, with contribution increases expected in unfunded public sector schemes. Positive LGPS valuation results logically mean HE employers will want to discuss how they can benefit from this. Emelda called for greater consistency and collaboration between funds to improve working relationships with the sector.
- Jenny Wright provided an overview of the cost-of-living crisis impacts on individuals, and shared details of the advice and guidance available from MaPS, including their guide for employers on financial wellbeing.
- The panel discussed the implications of the cost-of-living crisis on individual members. Opt outs will start to increase; funds should promote the 50:50 option through a multi-channel communications approach to maintain participation levels. Funds should encourage employers to support members directly.

The Levelling Up Agenda in Practice

Lee Rowley MP, Minister for Local Government; Neil Mason, Member PLSA Policy Board; Euan Miller, West Yorkshire Pension Fund; Clare Scott, Independent Advisor; Nigel People, PLSA

- Lee provided a video message and urged stakeholder to participate in the open consultation on McCloud. The anticipated consultation on pooling will be published in due course. He championed action to drive good data as a way to deliver benefits to everyone in the scheme.

- Polling revealed that the audience most wanted the government to prioritise Good Governance, with 66% of voters having made changes or planning to make changes in relation to this topic.
- The panel interpreted the Minister's comments as suggesting no major changes which, in the current market, is positive. They also welcomed his comments on data quality and references to exemplary governance. They highlighted that further success stories have been seen in local investment and in improvements being made to administration, which weren't noted in the Minister's message.
- The audience Q&A reflected disappointment that the Minister was not in attendance to answer questions. There was then discussion around some of the immediate finance issues pressing within local government and the benefits of a collaborative approach amongst funds to tackle collective issues.

Preparing for Dashboards – Expert Advice and Next Steps

Yunus Gajra, West Yorkshire Pension Fund; Colin Lewis, Heywood Pension Technologies; Richard Smith, PLSA; Nigel Peuple, PLSA

- Audience polls revealed that funds are feeling mostly informed about the dashboards programme but slightly less well prepared for implementation of dashboards, which chimed with the panel opinion.
- Richard provided an update on the programme. The statutory date of 31 October 2026 is the final date for connection, but expectation is that the LGPS will get a much earlier guidance connection date. TPR are advising funds to continue to keep working with their ISP partner to ensure they are ready to connect.
- Colin provided an overview of how Heywood had been heavily involved since the beginning of the programme and are working on an ISP which will be system agnostic, not just Altair specific.
- Yunus discussed the West Yorkshire approach to ISP procurement. Despite the uncertainty over the LGPS connection date, there's no slowing down as the fund want to ensure lots of time for testing in advance of go live.
- The panel identified the key challenges which should be addressed before connection as data quality, uncertainty around the connection timetable, and the lack of certainty around what impact the uptake of the dashboard will have on fund resources post go-live.
- The Q&A session highlighted the potential for fraud as a downside of dashboard implementation, with panellists noting how effective communication with members and employers can help put further safeguards in place.

UK Politics -The Inside Scoop

Katy Balls, Spectator; Emma Douglas, Chair, PLSA

- Predictions at next General Election? 1. Conservative win – unlikely due to low popularity, prospects depend on upcoming by-elections and success in delivering their 5 priorities, 2. Labour majority – probable, they're likely to "play it safe" with no major, controversial policy announcements, 3. Labour/LibDem coalition – possible, and already being planned.
- Timing of next GE? Conservatives expected to delay as long as possible, absent any unexpected good news/further crises.
- A new Labour government would comprise a large number of new MPs and a handful of veterans from the Blair administration. Overall, relatively inexperienced from a pensions perspective. Early priorities are around regulatory reform and housing policy.

- Chancellor's speech at Mansion House in July likely to include some announcement on HMG's expectations of the LGPS to use their capital to boost growth in the UK. Not expected to include specific measures.