

REPORT OF SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE & IMPROVEMENT**LOCAL AUTHORITY PENSION FUND (LAPF) STRATEGIC INVESTMENT FORUM 2023****Purpose of the Report**

1. To report on the LAPF Strategic Investment Forum 2023.

Information

2. The LAPF Strategic Investment Forum 2023 was held on 4th to 6th July 2023. In accordance with prior approval and as part of the Fund's commitment to ensuring those charged with decision-making and financial management have effective knowledge and skills; the conference was attended by Councillor Mike Introna and Mr Keith Palframan (Group Manager – Financial Services).
3. This was the third time Nottinghamshire County Council Pension Fund have attended this conference, and it continues to be excellent. This was a well organised conference with an intense programme of relevant investment topics.
4. **John Harrison**, Interim CIO, Border to Coast
The conference began with John welcoming everyone to the event.
5. **We're not in Kansas anymore...., James Ashley**, Goldman Sachs
James presented his view that not only will the year ahead for investors look very different from the recent past but, more significantly, the next decade is unlikely to see a return to the relatively becalmed landscape of the past 15 years. Inflation is due to a shortage of labour, and interest rates rises are a less effective tool for controlling inflation than previously. The dislocations we are currently observing are not "transitory", nor merely just "persistent" they are structural in nature. James summarised that "times have changed".
6. **Panel: Fixed Income Returns, Gerard Fitzpatrick**, Russell Investments, **Quentin Fitzsimmons**, T. Rowe Price, **Nemashe Sivayogan**, London Borough of Merton, **Tim Mpofu**, Haringey Council
Interest rates and bond yields have risen significantly over the last year. The Panel discussed the current bond market environment, the implications for future returns and the role of bonds in Local Government Pension Scheme (LGPS) investment strategies. Some funds need cashflow and are looking at increasing fixed income. This may reduce capital available for e.g., infrastructure.

7. ***The Impact of Debt, Ewan Macaulay*** Aviva Investors

Following recent valuations, Local Government Pension Schemes continue to seek yield against a backdrop of macroeconomic uncertainty, at a time where making a sustainable impact is also driving investment decision making. Ewan argued that debt is a good diversifier, lends itself to green investment (energy, social housing) and potentially a lender has a louder voice than a shareholder.

8. ***Infrastructure – Global Opportunities, Keith Mangan,*** BlackRock

By the end of the decade, annual investment in global clean energy infrastructure will need to triple to \$4.6 trillion, in order to meet 2050 net zero targets. (Source: International Energy Agency, 26 October 2022). Keith's view was that the unprecedented acceleration in climate infrastructure investing creates an unparalleled opportunity for UK LGPS, which can benefit from capital growth and inflation linked income derived from infrastructure investments rooted in positive ESG (Environmental, Social and Governance) impact. Keith also highlighted the potential for high local impact, e.g., battery storage systems in Wiltshire, and midlands-manufactured Synchronous Compensators installed in Scotland, to offshore wind in South Korea, and distributed residential solar in New Zealand.

9. ***Investment solutions that support a nature-positive economy, David Thomas*** Robeco

Increasingly biodiversity loss, along with climate change are seen as the twin economic, environmental and social emergencies. Biodiversity is the only one of nine “planetary boundary” indicators already breached. However, investment markets are still grappling with how biodiversity loss can be integrated into investment portfolios and policies. David spoke about what “Biodiversity Investing” means today and explained the transition sectors which are integral to addressing biodiversity decline. He also highlighted the increasing awareness and regulation in this area and the push from consumers for action from producers, in particular from younger generations.

10. ***Panel: The role of emerging markets in LGPS strategy, Martha Brindle*** bfinance, ***Paul Nevin*** West Midlands Pension Fund, ***Krishan Selva*** Columbia Threadneedle Investments, ***Lucy Tusa*** Mercer

The Panel discussed current equity valuations, the outlook for different emerging markets and the most effective ways to implement an emerging market investment strategy. One issue discussed was the view that good governance in emerging markets increases performance more than in developed markets.

11. ***Investing in Renewables on the path to net zero*** Matt Ridley Schrodgers Greencoat

Matt looked at the role renewable sources of energy will and must play to ensure we stand the best chance of reaching our carbon reduction targets. He highlighted the availability of fixed price energy contracts which lower the risk of e.g., solar and wind investment.

12. ***Roundtable Discussion: Should the LGPS's role be to promote economic growth and if so, how?*** Jeremy Hughes, Local Government Pension Scheme Advisory Board

The Government's levelling up initiative has prompted a debate about the role of the LGPS in promoting UK economic growth. The LGPS is a substantial pool of capital which has for decades invested with a bias to growth assets globally. The panel highlighted issues such as the scale of opportunities, the resource intensive due diligence required and possible conflicts of interest. They suggested the Department of Levelling Up, Housing and

Communities (DLUHC) might consider underwriting development costs to increase possible investment from pension funds.

13. ***Fireside Chat: Latest developments in sustainable investing – a practitioner’s perspective*** Jenn-Hui Tan Fidelity International

As a fiduciary of client capital, a deep understanding of the evolving sustainable investing landscape is critical to success in delivering the client mandate. The session looked at how Fidelity has evolved its investment beliefs and established an influence framework for environmental and societal issues including climate change, good governance, social disparity and natural capital. Issues discussed include that sustainability is relative and developed markets should support emerging markets to improve. Also discussed was the fact that net zero by 2050 for the LGPS is not possible without societal change.

14. ***Implementing Net Zero*** Therese Niklasson, Newton Investment Management

Net-zero initiatives have been a critical development over the last few years, bringing all corners of the investment management industry together to support tackling the challenge of climate change. When these initiatives launched, the spirit was one of ‘getting the ball rolling’, as the industry could not afford to stand still and wait until all the details had been worked out. Therese highlighted recent concerns at the limitations and challenges in this area, e.g., TCFD reporting is very varied. Methodology is different making comparison difficult and there is a recent anti ESG trend in the US.

15. ***Panel: Managing Market Volatility*** Iain Campbell, Hymans Robertson, **Matt Hopson**, London Borough of Islington, **Jeremy Richardson**, RBC BlueBay Asset Management, **Chris Rule**, LPP and LPP

LGPS funds need to embrace investment risk if pension promises are to be affordable. But risk means volatility. The Panel discussed the fact that the LGPS is well placed to accept volatility due to its long-term nature. The main tool to address volatility is diversification. There is a cost to hold different asset types, and there is the distraction element if one element of the portfolio is performing badly. There is a need to consider rebalancing to ensure the risk level remains in line with the plan.

16. ***Panel: Infrastructure – Local Opportunities***, William Bourne, Independent Adviser, **George Graham**, South Yorkshire Pensions Authority, **Peter Manners-Smith**, M&G Investment, **Robert Wall**, Lazard

The definition of “levelling up” from an investment perspective remains unclear, but it is likely to encompass local infrastructure investments. The Panel considered what this might cover, potential return requirements and the implications for effective governance. Issues discussed included the potential conflict of interest in very local investment and the need to use a third party with full discretion. Also, experience is that local investment can take up a lot of resource.

17. ***Equities: Value Investing***, David Herro, Harris Associates L.P.

Having performed well as economies recovered post-pandemic, “value” equities have faced headwinds in recent months. Is this a temporary issue or will the value style struggle in a higher interest rate environment? David presented his view that there are better fundamental opportunities today. He gave examples of Mercedes with an increasing cash balance and profitability. To create value, he suggested a portfolio of 40 – 60 stocks with a capable, committed board, held for the long term.

18. ***A closer look at the financial and environmental benefits of natural capital investments (specifically timberland and farmland) for LGPS funds, Skye Macpherson, Nuveen***

Over the past year, impacts related to the COVID-19 pandemic and the war in Ukraine have produced major supply chain disruptions contributing to market volatility, historically high inflation rates and aggressive monetary policies. Traditional asset classes, such as public equities and fixed income, have been heavily impacted by inflation-induced volatility, falling by 15% and 10% year-over-year, respectively. Skye suggested that over the same period, timberland and farmland indexes were up 12% and 10%, respectively, highlighting the importance of diversified portfolios to preserve investment value. Also discussed were returns from ecological restoration such as reforestation of degraded land, funded by developers.

19. ***Panel: Private Debt, Adriana Becerra Cid, Lombard Odier, Anthony Fletcher, Independent Adviser, Toni Vainio, Pantheon, Tricia Ward, Redington***

Higher interest rates mean that potential returns from both listed bonds and private debt are higher. The Panel highlighted returns of typically 5-7% above base rate for senior debt. Requests for loans to meet climate targets are high. Best opportunities are direct lending for liquidity or growth with an asset backing. Risks relate to available security and contracting cashflow.

20. ***Growing affordable housing supply: Investing long-term capital for society's benefit, Ben Denton, Legal & General Affordable Homes***

Access to a safe, warm and affordable home is a fundamental building block of all societies. By European standards the UK housing market is unaffordable, resulting in an elevated need for subsidised housing to support those who cannot afford to purchase or rent on the open market. Ben discussed issues including the need for housing is around 145k p.a. whilst delivery is currently 50k p.a. Income comes from rented sector (affordable and social) and shared ownership. Legal & General Pension Fund invest circa £1bn, but there is a policy risk e.g. rent caps.

21. ***Opportunities in Commercial Real Estate – Data Centres, Kirill Zavodov, PIMCO***

Kirill discussed the drive for increased storage through the increased number of more powerful devices. Data storage requirements are likely to triple over the next few years. The increase is also driven by the digitisation of government and cloud usage by corporates. Development can be de-risked by already having a client in place. In addition there is an increasing need for local storage, driven by legislation requiring data to be stored in the country of origin. There is generally good ESG, but there is high energy use. There can be long term index linked contracts.

22. ***Navigating the coming Hemingway recession, Jamie Dannhauser, Ruffer LLP***

Economist Jamie gave a macroeconomic overview in which he discussed the fragility of today's financial system, as highlighted by episodes such as the banking crises in March. He also covered the likelihood of recession and the inability of central banks to remedy the inflation problem without significant cost for investors. He also highlighted an economy less sensitive to monetary policy, an expected short, shallow recession all leading to increased risk of a "Hemingway" recession (gradually, then suddenly). He suggested getting inflation below 2% without a recession would be tricky.

23. **Consolidation**, **Chris Hitchen**, Border to Coast Pensions Partnership, **Bridget Uku**, Ealing Pension Fund, **Mike Weston**, Former CEO of LGPS Central
Asset consolidation is not unique to the LGPS – it is a global trend in investment markets. The panel discussed scale. Larger scale brings more opportunities but really large means having to be invested in everything which is effectively passive. Scale brings fee reductions, but pre pooling collaboration was already driving reductions. The panel suggested there needed to be competition across Pools to drive improvements.

Statutory and Policy Implications

24. This report has been compiled after consideration of implications in respect of crime and disorder, data protection and information governance finance, human resources, human rights, the NHS Constitution (public health services), the public sector equality duty, safeguarding of children and adults at risk, service users, smarter working, sustainability and the environment and where such implications are material they are described below. Appropriate consultation has been undertaken and advice sought on these issues as required.

RECOMMENDATIONS

- 1) That Nottinghamshire Pension Fund Committee members continue to attend appropriate conferences to enable members to be kept up to date with the main national topics relating to investments.
- 2) That Members note the contents of the report.

Nigel Stevenson

Service Director - Finance, Infrastructure & Improvement

For any enquiries about this report please contact: Keith Palframan

Constitutional Comments (KK 22/9/23)

25. Nottinghamshire Pension Fund Committee is the appropriate body to consider this report.

Financial Comments (KRP 20/9/23)

26. There are no financial implications arising from this report.

Background Papers and Published Documents

Except for previously published documents, which will be available elsewhere, the documents listed here will be available for inspection in accordance with Section 100D of the Local Government Act 1972.

None