

REPORT OF SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE & IMPROVEMENT**LAPF STRATEGIC INVESTMENT FORUM 2019****Purpose of the Report**

1. To report on the LAPF Strategic Investment Forum 2019.

Information

2. The LAPF Strategic Investment Forum 2019 was held on 3rd to 4th July 2019 in Hertfordshire. 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 Francis Purdue-Horan, Mr Chris King and Mrs Tamsin Rabbitts (Senior Accountant – Pensions and Treasury Management).
3. This was the first time Nottinghamshire have attended this conference, having changed our annual programme for 2019-20. Impressions were very favourable. This was a well organised conference with an intense programme of relevant investment topics.
4. ***John Harrison, Adviser, Border to Coast***
The conference began with John welcoming everyone to the event.
5. ***EM corporate debt – earning an allocation Samy Muaddi, T. Rowe Price***
An excellent and timely session making a strong case for an allocation to Emerging Market debt. Key points include an average 8.5% return for 25 years, outperformance of corporate debt over government debt, and EM debt over EM equities. However it should be noted that returns are highly volatile.
6. ***Asia private equity trends Brian Lim, Head of Asia and Emerging Markets, Pantheon***
Brian discussed the evolution of the Asian listed and private equity markets and concluded that Asia offered both size and growth and attractive valuations, with strong opportunities in certain sectors, but emphasised the importance of selecting a high quality manager.

7. ***Asset Allocation Panel session William Bourne, Independent Adviser, William Marshall, Barnett Waddingham, Jo Ray, Lincolnshire Pension Fund, Geraldine Sundstron, Pimco***

An interesting speculation on how asset allocation and technical decision making will operate in the future, especially as the role of the Pools develops.

8. ***LGPS Asset pooling – where next? Round table discussion***

A discussion in tables of what the priorities are for Pools. Suggestions for the future included looking for external clients, revisiting the FCA rulebook, developing cross pool activity, seeking movement from HMRC on tax issues, specialising in particular asset classes, or expanding services beyond investment. The majority view was that Pools generally needed to focus on delivering core investment funds before they consider anything else.

9. ***ESG as a vital component of infrastructure investing Robert Hardy J.P. Morgan Asset Management***

Robert made the case that Infrastructure provides direct exposure to ESG and plays a critical role in the essential functions and sustainability of communities and their environments. A forward looking ESG strategy provides a long-term focus on safe operations, stakeholder engagement, and environmental stewardship and helps to deliver returns.

10. ***Factor Investing for the LGPS Georg Elsoesser, Invesco Quantitative Strategies, Chris Stevens, bfinance***

Another session relevant to Nottinghamshire, this session featured a good explanation of factors, and how these are associated with risk and so should (in the long term) be compensated with higher returns. However the speakers also discussed the drawback to factor investing which is that the factors don't work all the time. For example Value has performed very poorly over the last 18 months, and even a decade of under performance is quite possible.

11. ***Renewables are not enough: decarbonising across infrastructure sectors in order to meet climate change targets Ingrid Edmunds, Columbia Threadneedle Investments***

Clean power generation has been at the centre of the debate on achieving the Paris climate targets and the efforts to limit global warming. The presenter discussed whether this was sufficient and other options for investors.

12. ***Driving long term value: are social and financial returns diametrically opposed Pete Gladwell Legal & General Investment Management***

Pete's role is in the structuring of Impact investments to ensure returns reflect risk and illiquidity premium. There was some discussion of whether 'impact' investments always delivered lower returns, and whether many so called 'impact' investments actually made an impact. However if considering impact investments Pete had some useful advice of things to put in place:-

- diversification
- independence from the investment
- correct structure
- understanding of the financial and reputational risks
- sufficient resources to manage the investment

13. **ESG integration into real estate** *Andrew Allen, Aberdeen Standard Investments, Kate Brett, Mercer, Frances Deakin, Local Pensions Partnership, Michael Marshall, LGPS Central, Owen Thorne, Merseyside Pension Fund*

This discussion drifted rather from real estate from time to time, but included mention of building energy efficiency and risks such as flood risk and contamination and changing regulations.

14. **Secured income assets** *Serena Galestian Insight Investment*

Serena outlined the advantages this asset class should be able to deliver with its floating rate, investment grade credit rating and structural protections. Returns should be superior to investment grade bonds with a complexity premium and potentially a liquidity premium too.

15. **Emerging Markets panel** *Anthony Fletcher, Independent Investment Adviser, Roger Merz, Vontobel Asset Management, Phil Triggs, City of Westminster Pension Fund, Peter Wallach, Merseyside Pension Fund*

An interesting discussion which highlighted a number of the advantages and issues of investing in Emerging Markets. The higher growth driven by a younger population and growing total populations is key, but offset by additional risks arising from political and currency issues and lower corporate governance standards. Growth can be accessed through active or passive strategies, but also through investing in companies based in developed markets but exposed to Emerging Market earnings.

16. **Residential property** *Jamie Kellett, BMO Global Asset Management*

This session explored the extent to which residential property is becoming part of an LGPS asset allocation, either as an infrastructure asset class or (as we see it) a diversifying component within an existing property allocation. The long-term, inflation-linked cashflows are correlated to the future liabilities of the LGPS. However this session also identified the potential for more reputational risk than commercial property.

17. **Multi asset solutions** *David Buckle, Fidelity International*

This interview looked at the advantages of diversification, with or without a diversified growth fund. Some Diversified Growth Funds promised equity like returns with bond like volatility, which have proved not to be realistic. Fidelity's current predictions are that equities are the only asset class which will exceed inflation (it wasn't clear whether this included alternatives).

18. **Creating value not just cutting costs**

A roundtable discussion looking at the elements of value and the potential risks run by a focus on cutting costs.

19. **Private Equity** *Tim Creed, Schroders*

During this interview, Tim reflected on past performance of the private equity market, which he claimed has been the highest performing asset class (possibly before fees). Concern was raised over the major leverage which has been a factor in many large buyouts. The conclusion was that selecting companies is more important than sector regional bias in Private Equity, so having the right managers is crucial, but within a diversified range of markets.

20. ***Re-generational partnerships Luke Layfield, Aviva Investors, Andrien Meyers, Lambeth Pension Fund, Bola Tobun, Enfield Council***

This panel discussion highlighted the importance of making objective decisions and following a proper due diligence process if considering any kind of local investment.

21. ***Infrastructure – how to find value globally Matteo Botto Poala, Goldman Sachs***

This session examined a number of opportunities within the Infrastructure asset class. Particular areas of interest were felt to include data, US shale gas, energy transmission, e-commerce related logistics, and charging infrastructure of electric and autonomous vehicles.

22. ***The future of sustainable capitalism Julie Moret, Franklin Templeton***

This was an excellent session looking at global risks and how these feed into investment strategy and the move to sustainable capitalism. The goal is to ensure that ESG risks are properly priced into valuations. The regulatory landscape is changing. Regulation is increasing, alongside investor demand. Increased disclosure and reporting is anticipated, together with a need for closer engagement between asset owners and asset managers.

23. ***Liquid alternatives Oliver Blin, Unigestion***

A high level presentation about alternative risk premia or ARP as a potential option to pension funds looking for long-short strategies with a low correlation to equities.

24. ***Should the LGPS add more impact to their portfolios***

A discussion about the pros and cons and risks of impact investments, including the challenge of defining them and measuring outcomes.

25. ***Engagement with companies in emerging markets James Donald, Lazard Asset Management***

Interview which revealed the progress being made in emerging markets. Regulation is improving alongside better consideration of ESG issues. However there is much variability between companies.

26. ***Late cycle hunt for yield Stuart Fiertz Cheyne Capital, Chris Rule, Local Pensions Partnership***

Some interesting comments around the challenge of finding returns at this stage in the cycle:-

- Not all the market is late cycle – some areas still have value
- There are still opportunities if you have a long term investment horizon
- The LGPS long term horizon means we can focus on cash flows and pay less attention to market movements
- Important to ensure excessive risk not taken and take a disciplined approach

Statutory and Policy Implications

27. 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.

RECOMMENDATION/S

- 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 consider if there are any actions they require in relation to the issues contained within the report

Nigel Stevenson

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For any enquiries about this report please contact: Tamsin Rabbitts

Constitutional Comments (KK 13/08/19)

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

Financial Comments (TMR 13/08/19)

29. 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