

REPORT OF SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE & IMPROVEMENT

LGPS POOLING SYMPOSIUM 2024

Purpose of the Report

1. To report on the LGPS Pooling Symposium 2024.

Information

2. The LGPS Pooling Symposium 2024 was held on 23rd to 24th April 2024 in Sutton Coldfield. 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 Mrs Tamsin Rabbitts (Senior Accountant – Pensions and Treasury Management) and Ciaran Guilfoyle (Investments Officer).
3. This was the first time Nottinghamshire have attended this conference. It provided an opportunity to discuss pooling issues and share experience with colleagues from other Funds and Pools.
4. ***John Harrison, Adviser, Border to Coast***
The conference began with John welcoming everyone to the event.

Interview: AustralianSuper Carl Astorri, Head of Investments, Europe, AustralianSuper

Pooling of LGPS assets was only started recently, but other countries began their journeys many years ago. This was an interesting session discussing how pooling has developed in Australia, and how, although a DC scheme, rather than DB, and despite the greater maturity, some challenges are still common.

5. ***Panel: Government's policy proposal Nick Dixon, Avon Pension Fund, Roger Phillips, Scheme Advisory Board, Chris Rule LPPI, Phil Triggs, Westminster City Council***

All observed that the LGPS has been given a clear direction of travel, but we don't have the guidance. Many of the Government's objectives are not LGPS objectives and there was concern that this could lead to sub-optimal solutions. Generally the opinion was that Pools should not be competing but need to cooperate to leverage better outcomes. Reducing the number of Pools would be a step in this direction. It was observed that there is currently no provision for funds to merge, only for one to take over another. Funds joining together could become a route to change Pools.

6. **Panel: Strategy Perspective (Global Equities) Keith Guthrie, Cordano, Eric Lambert, Independent Adviser, George Sakoulis, GMO Horizons**

It was observed that 80% of pension payments arise from investment returns, not contributions. The Panel commented in geopolitical tensions and systemic risk such as climate. All expect more volatility.

7. **Panel: Strategy Perspective (Fixed Income) Matt Lawton, Tim Mpofu, Katrina Uzun**

The panel emphasised the importance of fixed income to deliver income to maturing schemes. Katrina Uzun provided a list of five reasons to invest in EMD:-

1. Scale – EMD makes up 16% of Global Fixed Interest and is growing
2. Credit rating – an average of BBB.
3. Yield – 8% implying a 10% return for the next 5 years
4. Diversification from other Fixed Income
5. Consistency – delivers positive returns 96% of the time (historically)

8. **Panel: Global Macro Investment Forecast William Bourne, Independent Adviser, Jamie Dannhauser, Ruffer, Guillermo Felices, PGIM Fixed Income**

The panel explored a number of factors likely to influence global economics as the world faces elections in many countries, central bank monetary policy and continuing global conflicts. Interest costs are making up an increasing proportion of government costs in many countries, and inflation continues to be a risk. Yields on Fixed Income are expected to stay high. Social factors (such as AI, or war) could have a major impact. Recommendations in this climate are UK mid cap, Japan, UK large cap.

9. **Panel: Implementing Government Policy for Pooling Assets – a Pool Perspective Aoifin Devitt, London CIV, Kevin McDonald, ACCESS, Joe McDonnell, Border to Coast, Euan Miller West Yorkshire Pension Fund, Anthony Parnell, Carmarthenshire County Council**

This was an interesting discussion featuring so many different Pool perspectives. There was broad agreement that Pools would not be able to add value to passive holdings. There was a welcome comment that Pools are there to produce what Partner Funds want, which might not always be what Government wants. Progress was compared in high level terms, but most Pools do not anticipate getting to 100%. The importance of value for money was emphasised - for some investments there is no advantage to bringing them into the Pool.

10. **Panel: Investing in Property Justin Faiz, Pluto Finance, Mike Hardwick, LGPS Central, Alistair Smith, Border to Coast, Giles Smith, Principal Asset Management**

Some interesting observations on the challenges of pooling property, especially the tax implications. Positive comments made about the value of exchanging ideas with other pools. Related investments such as property debt and residential were discussed together with ESG related issues for the asset class.

11. **Panel: Strategy Perspective (Private Markets) Pierre Abadie, Tikehau Capital, Jeff Dong, City and County of Swansea, David Hedalen, Aviva Investors**

The advantages of private assets were outlined – illiquidity premium, inflation linkage, yield, but also the social benefits and contribution to net zero – there is a significant requirement for investment in the transition and as a country we are importing a significant proportion of our energy. It was observed that there was a need to overcommit in order to achieve the desired allocation.

12. **Panel: Net Zero** *Baiju Devani, Bluefield Partners, Becky LeAnstey, Environment Agency, Shiventa Sivanesan, West Midlands Pension Fund, Rosalind Smith-Maxwell, Quinbrook Infrastructure Partners*

There were a wide range of perspectives aired in this session, both investment and environmental. It was accepted that there are both risks and opportunities arising from climate change, but as pension funds it is not our role to solve all the issues. The importance of real world decarbonisation and not just portfolio statistics was emphasised. The next ten years will be important – this is not just about power generation but aviation, shipping and heating. The early wind farms are on the best sites and will need to be re-powered with new efficient turbines. Grid reinforcement is required to enable further renewables to generate.

13. **Panel: Building local impact solutions across the private asset classes** *Jamie Broderick, Impact Investing Institute, Debbie Fielder, Clwyd Pension Fund, Lee Moscovitch, Schroders Greencoat, James Murray, AlphaReal*

This was defined as a social impact accompanied by a financial return. ‘Local’ can be defined as your county, region or country.

Some of the challenges in this area were outlined. For it to be worthwhile locally an investment needs to have local supply lines and be in line with local priorities and support local people, not be an external company coming in with external staff and then leaving. Some pension funds have struggled to identify investment opportunities in the local area and it can take time to deploy capital. There were mixed feelings as to whether pooling helps or hinders in this area as many mandates are too small for pools to consider.

14. **Panel: Pension Funds’ Toolkit for Advancing Corporate Governance and Sustainability in Their Investments** *Martin Bailey, London Borough of Lambeth, Guillaume Buell, Labaton Keller Sucharow*

This session considered the philosophy and practicality of using or threatening legal action against companies. Broadly it was felt that the option strengthens investors toolkits and is better than divesting with some actions driving substantial changes. There are many steps before litigation, but it can be a useful ‘stick’ to encourage engagement. 200 cases per annum are taken in the US against companies where directors have committed fraud. The SEC feels class actions are important in controlling markets and over £1.5bn p.a. has resulted from class actions over each of the last ten years.

15. **Panel: Private Debt** *Brian Coleman, JP Morgan, Jill Davys, Redington, Christian Stracke, PIMCO*

Private Debt has grown to fill in the gaps created by banks withdrawing due to regulation changes. It can also result from banks selling on loans or to finance property and infrastructure projects. The wide spectrum of investments enables diversification. The focus now is more on income generation which can be a good match for maturing LGPS funds. The risk of defaults in a higher rate environment was discussed.

16. **Interview: Railpen** *Ted Jennings, Railpen*

This was a fascinating insight into a major pension fund which has both similarities and significant differences to the LGPS. The importance of building up trust over time was clear. The key points which can be applied to the LGPS are:-

- Generally a 90% solution is good enough.

- Keep the range of products minimal.
- Don't change things which are working.

17. Panel: *What Lies Ahead* Jo Kempton, Lincolnshire County Council, Andrien Meyers, Royal Borough of Kingston / London Borough of Sutton, John Nestor, Capital Cranfield, Mike O'Donnell, formerly London CIV

The Panel were asked to consider the potential direction of travel for pooling for the next five years. Nobody anticipated transitioning 100% of their assets given the challenges of property and legacy private assets. Pension Funds felt the next challenge was in recruiting and retaining Pension Administrators to properly resource their Funds.

Statutory and Policy Implications

18. 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 22/05/24)

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

Financial Comments (TMR 20/05/24)

20. 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