

REPORT OF SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE & IMPROVEMENT**LAPF STRATEGIC INVESTMENT FORUM 2020****Purpose of the Report**

1. To report on the LAPF Strategic Investment Forum 2020.

Information

2. The LAPF Strategic Investment Forum 2020 was postponed from July and held as a virtual event. 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). Due to the date change no Members attended.
3. This was the first time Nottinghamshire have attended a virtual conference. Impressions were favourable, despite the difficulties of organising a virtual event. 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. ***Bond Returns and Market Expectations Mike Della Vedova, Portfolio Manager, Global High Yield Income Bond Fund, T. Rowe Price***
The speaker contrasted the Covid 19 crisis with the 2008 Financial crisis, and discussed the tools used by governments to support the economy. Risks have increased as a result of the pandemic and the importance of active management and good analysis in Fixed Income generally, and especially the High Yield market was emphasised.
6. ***Affordable Housing Investment Jamie Kellet, Property Specialist, BMO Global Asset Management***
Jamie looked at the social advantages of investing in affordable housing, and the fit within asset allocation.

7. ***The Dynamics of China interview session Kevin Barker, Managing Director, Senior Equity Specialist, UBS Asset Management***

An interesting discussion on the risks and opportunities of investing in the Chinese markets.

8. ***Assessing Risk in Multi-Asset Strategies Panel discussion Aoifinn Devitt, Independent Investment Adviser, Mark Gayler, Assistant County Treasurer, Investments & Treasury Management, Devon County Council, Alex Gitnik, Managing Director, Neuberger Berman, Chris Rule, Chief Executive Local Pensions Partnership Investments***

A discussion of how multi-asset investing can offer diversification to help protect portfolios from volatility and major market downturns. The discussion concluded that for most LGPS funds of any significant size, such strategies may not be very appropriate.

9. ***Private Markets: Access to Opportunity Nicole Downer, Managing Partner, MV Credit***

MV Credit discussed the end of the cycle, its impact on Private Debt Managers and the opportunities they see in the Private Markets space.

10. ***Alternative Investment Trends Panel discussion Anthony Doherty, Head of Real Estate Equity Solutions, Real Assets, Legal & General Investment Management, Denise Le Gal, Chair, Brunel Pension Partnership, Tim Creed, Head of Investments Europe, Schroder Adveq Investment, Schroders***

The panel discussed the pros and cons of alternative investments including fees, performance, complexity, accessibility and liquidity. Generally alternative investments were felt to be of potential benefit to many LGPS Central funds and increasing transparency is welcomed.

11. ***Lessons from 35 Years of Value Equity Investing David G. Herro Partner, Deputy Chairman, Portfolio Manager and Chief Investment Officer – International Equity Harris Associates***

This was an interesting session for Nottinghamshire as Harris manages a third of the LGPS Central Global Equity strategy. David was very clear on Harris' investment approach, and confident that a value strategy will eventually pay off, but emphasised that a long term investment horizon was required. This is well suited to the LGPS.

12. ***Impact Investing Panel discussion Erik Keller, Client Portfolio Manager, Robeco, Eric Rice, Head of Active Equities Impact Investing, BlackRock, Karen Shackleton, Founder, Pensions for Purpose, Nemashe Sivayogan, Head of Treasury and Pensions, Corporate Services, London Borough of Merton***

This was a rather uneven session. 'Impact investing' is a broad term.

13. ***Private Equity Solutions and Your Portfolio, Alistair Watson, Senior Investment Director, Aberdeen Standard Investments***

This was a rather general session on Private Equity and the impact Covid 19 has had on parts of the market.

14. *Private Debt Toni Vainio, Partner, Pantheon*

LGPS Central are just starting to develop a Private Debt fund, so this was an interesting session, especially the comments on the current secondaries market. This is not a liquid asset class.

15. *Driving Change in the DGF Market Suzanne Hutchins Investment Leader, Real Return Team Newton Investment Management*

Suzanne described some of the tools used to meet the challenges of the market disruption in March as a result of Covid 19 and lockdown. The DGF described had an inflation linked return target similar to our Kames DGF, so it was interesting to hear how this was managed at this time of market stress, and where Suzanne feels future market opportunities are situated.

16. *Real Estate Opportunities Jim Garman, Partner and co-Head of Real Estate in Europe for the Merchant Banking Division, Goldman Sachs*

This session looked at the impact of covid 19 on the Real Estate market. Jim emphasised the importance of identifying the issues which were temporary or cyclical, and which impacts signal a fundamental change to the market.

17. *Infrastructure Investing Post Covid-19 Ingrid Edmund Senior Portfolio Manager, Infrastructure Investments Team Columbia Threadneedle Investments*

This short interview looked at environmental focus in infrastructure and the positive impact of companies with an ambition to transition to lower carbon approaches in the future.

18. *Infrastructure: Managing the Potential Risks Panel discussion Anish Butani, Senior Director, Infrastructure, bfinance, Ted Frith, Chief Operating Officer GLIL Infrastructure, Darryl Murphy, Head of Infrastructure, Real Assets, Aviva Investors, Duncan Symonds, Director – Asset Management, IFM Investors*

This panel discussion identified the broad range of investments within the category of infrastructure, and the range of associated risks.

19. *Post-Covid Strategy – Thinking Outside the Box Interviewer William Bourne, Independent Adviser, East Sussex, Nottinghamshire, Teesside Pension Funds, Interviewee John Bilton, Head of Global Strategy, Multi Asset Solutions Group, J.P. Morgan Asset Management*

During this interview John expressed an optimistic view of the evolution of capitalism on the grounds that he expects bond yields to stay low. Valuations of other asset classes looked reasonable on that scenario. He thought government would play a bigger role and that the direction of globalisation would move towards services and tech and away from trade, but he felt that all this would throw up plenty of opportunities. His non-consensus prediction was that returns from markets would be higher than expectations.

20. *Responsible Investment in Emerging Markets Panel discussion Adam Borneleit Portfolio Manager/Analyst, Emerging Markets Debt Team Lazard Asset Management Owen Thorne, Portfolio Manager – Monitoring & Responsible Investment, Merseyside Pension Fund, Dawn Turner, Independent Adviser and NED*

This panel discussion looked at the challenges of responsible investment in emerging markets. The difficulties of this area were recognised by the panel, but it was pointed out

that 'emerging markets' are not a homogenous group, and that, at least partly as a result of engagement, ESG issues were becoming more important to EM companies

21. ***Bonds and Climate Aware Investing Kristian Atkinson Portfolio Manager, Fixed Income Fidelity International***

This was a fascinating session looking at a number of approaches to attempts to incorporate climate risk management in portfolios. The importance of dealing with climate change was emphasised – 1 degree of temperature rise has already occurred, with the consequent implication for weather patterns. Climate change is already impacting the world, and hence our portfolios.

Kris looked at green investment, portfolio exclusions and low carbon indices. He was looking at fixed income investing but the conclusions also apply to equities. Green investment is a good option alongside other investments, but not diverse enough to replace the market as a whole. Also because of the demand for green investments, they may be overpriced which impacts on returns.

Excluding investment in companies with a significant carbon footprint is too blunt a tool e.g. oil and gas companies don't create a lot themselves – it is their customers who do i.e. scope 3 emissions. However if both users and producers are excluded this dramatically reduces investment options and diversification. More importantly, if responsible investors exclude these sectors the pressure for change goes away which could be counterproductive.

The difficulty in assessing carbon risks was emphasised – the key point being that the data may not give the full picture. An excellent example was given of a comparison between a Spanish and a Scandinavian power company. Kris feels it is the leaders in Oil and Gas that will deliver on slowing climate change. European oil and gas company carbonisation ambitions have risen significantly. BP and ENI now report scope 3, Repsol and Total are aligned with Paris, Shell is nearly aligned to a 2 degree scenario.

Kris also looked at Volkswagen. They are responsible for 1% of global emissions, but are trying to change this to net zero. The difficult decision for investors concerned about the carbon footprint of their portfolio is whether to invest in an ambitious company, or divest from a company with a high carbon footprint.

Statutory and Policy Implications

22. 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

Service Director - Finance, Infrastructure & Improvement

For any enquiries about this report please contact: Tamsin Rabbitts

Constitutional Comments (KK 18/09/20)

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

Financial Comments (TMR 11/09/20)

24. 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