



REPORT OF SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE & IMPROVEMENT

LGC INVESTMENT SUMMIT 2018

Purpose of the Report

1. To report on the LGC Investment Summit 2018.

Information and Advice

2. The 30th LGC Investment Summit was held on 6 to 7 September 2018 in Newport. 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 Parry Tsimbiridis and Tamsin Rabbitts (Senior Accountant Pensions and Treasury Management). Details of the main sessions are set out below.

Day One - Chaired by Denise Le Gal, Chair, Brunel Pension Partnership

3. ***UK and global perspective on the economy (John Roe, Head of Multi-Asset Funds, Legal & General Investment Management)***
An interesting talk on the outlook for investments. LGIM feel that equities still have a way to go and are not significantly overvalued. They recommended around 50% overseas exposure as a hedge for Brexit, increased alternatives, and a proportional decrease in UK equities as it was felt they are at higher risk of tech disruption and more traditional industries. He pointed out that in a diverse portfolio it should be expected that there is usually something performing badly.
4. ***Keynote Interview: The future of Pooling, what's next on the horizon (Michael O'Higgins, Chairman, Local Pensions Partnership)***
There was some discussion about LPP's experience and potential future developments. The big consideration as more funds approach the position of being fully funded is whether to de-risk, or continue with a higher risk approach to drive returns to try and reduce future contributions. Michael's suggestion was to "Manage risk, don't avoid risk".
5. ***Pod sessions – a choice of four briefing sessions on the exhibition floor***
Fixing our broken housing market (John German, Senior Director – Residential Investments, Invesco Real Estate)
Incorporating ESG in Fixed Income Investment Analysis (Lior Jassur, Director of Fixed Income Research – Europe, MFS Investment Management)

Infrastructure for Pension Funds: Edinburgh Airport as a Case Study (Andrew Gillespie-Smith, Partner, Global Infrastructure Partners)
Hermes Infrastructure: Asset class Overview (Peter Hofbauer, Head of Infrastructure, Hermes Investment Management)

6. **What actually matters when managing liabilities and risks to your fund (Catherine McFadyen, Partner and Actuary and David Walker, Partner and Head of LGPS Investments, Hymans Robertson)**

An excellent session looking at the key variables for valuations and identifying the notional nature of liability valuation. Of particular mention were risks arising from inaccurate data, with an example given of a fund who substantially improved their data and generated a 5% reduction in their liabilities. A look at the 2014 CARE scheme impact revealed that because of below inflation pay rises, the benefits accrued under the 2014 scheme are actually higher than those which would have been accrued under the previous scheme, which will increase liabilities, and hence primary rates. However reflecting recent asset growth, reductions in secondary rates were predicted.

7. **Focus Session 1**

The Risks of de-risking (David Buckle, Head of Investment Solutions Design, Fidelity International)

A very mathematical and interesting session illustrating the shortcomings of various de-risking strategies. The average LGPS discount rate is 4.5% (Nottinghamshire has a rate of 5.4%). David felt this will be increasingly difficult to deliver given long term growth rates.

De-risking strategies discussed included:-

- Increasing duration using gilts. This is a good diversifier, but is delivering very low returns
- Alternatives. These are fairly good diversifiers, but much less liquid
- Diversified Growth Funds. Better risk adjusted returns than equities, but still lower returns absolutely
- Options. A very high cost strategy which significantly offsets the benefits of holding equities

David expects deficits to increase and feels the current discount rates are not achievable long term. He expects future returns to decrease, largely because of ageing populations.

8. **Focus Session 2**

Foundations of ESG investing (Guido Giese, Executive Director, Equity Research Team, MSCI)

A presentation on research insights explaining why ESG has an impact on risk and return in the long run.

9. **Focus Session 3**

The Robots are coming. Are you ready? (Richard Carlyle, Equity Investment Director, Capital Group)

A session looking at the potential impact of artificial intelligence on different industries.

10. **Focus Session 4**

Integrating ESG delivers alpha (Abbie Llewellyn-Waters, Fund Manager, Jupiter Asset Management)

A presentation on the relationship between strategic ESG considerations and alpha, explaining how these insights can be embedded as an investment tool in order to identify the highest quality companies who are managing their businesses for the long term in economic environmental and social terms.

11. *Infrastructure, urban regeneration and real estate (Tony Brown, Head of Real Estate, M&G Real Estate, and Claire Smith, Investment Director, Schroders, and Duncan Symonds, Director of Asset Management (Europe), IFM Investors)*

Tony, Claire and Duncan provided examples of a number of regeneration infrastructure investments and discussed associated issues including the current need for social housing.

12. *Governance and Stewardship (Jennifer Sisson, Investor Engagement, Financial Reporting Council, Amanda Latham, Policy Lead, The Pensions Regulator)*

This session provided an update of issues for the FRC and TPR. The Stewardship code is currently being reviewed to reflect changing political and social expectation, and to include expansion to better cover other asset classes beyond equities and increased ESG issues. The consultation on the revised code is intended to be out by Christmas

Day Two - Chaired by Nicola Mark, Norfolk Pension Fund.

13. *Building Successful Partnerships: recommendations and pitfalls (Rachel Elwell, Chief executive, Border to Coast Pensions Partnership)*

This was an entertaining talk on the challenges and successes in the early months for Border to Coast as they have developed the crucial partnerships within the pool, engaging with other pools, other asset owners, managers, staff, funds, their advisers and independent advisers. The session covered many issues the audience could relate to.

14. *Protecting your equity portfolio (Jeremy Rosten, senior vice-president Quantitative Research Analysis, PIMCO, David Schofield, President, International Division, Intech)*

Covering some similar themes to Fidelity's de-risking session, Jeremy looked at the costs and performance impact of using options to reduce downside risk. The conclusion confirmed Nottinghamshire's approach that taking a long term view gives the best long term returns. David illustrated a possible alternative strategy which involved transferring to investment in gilts during periods of high volatility.

15. *Pod sessions – a choice of four briefing sessions on the exhibition floor*

How can Core Infrastructure be defensive? (Robert Hardy, Managing Director, JP Morgan Asset Management)

What's next – Looking beyond manager fee savings (Sasha Mandich, Director, Head of Relationship Management, Russell Investments)

Is 'sustainable investing' just a romantic notion that leads to the sacrifice of financial returns? (Raj Shant, Portfolio manager, Global Equity team, Newton Investment Management)

Investing through the 4th Industrial Revolution (Luke Barrs, Head of the Fundamental Equity Client Portfolio Management Team EMEA, Goldman Sachs Asset Management)

16. *Review of the Pools (Bob Holloway, Pensions Secretary, Local Government Association, Chris Bilsland, Non-Executive Director, London CIV)*

Chris Bilsland spoke about his experience at London CIV. Bob Holloway mentioned the Infrastructure Day being held for Pensions Committee Chairs and recognised the need for a

clear response to those questioning ESG policies and is working on providing committees with clarification and support to ensure we have a robust policy and narrative to justify our position. He also talked on the ongoing separation project and the benefits (for some funds) of legally separating administering authorities from local authorities. He also brought to our attention the Treasury report published on 6th September looking at the cost cap breach.

17. *Devolution and Regionalisation (Dawn Turner, Chief Executive, Brunel Pension Partnership, Paddy Dowdall, Assistant Executive Director, Greater Manchester Pension Fund)*

Dawn talked about some of the things she would like to consider in investing to deliver ‘a world worth living in’ using Bristol’s strategic city plan as an example. Paddy talked about some of the local projects developed by GLIL in association with GMPF.

Statutory and Policy Implications

18. This report has been compiled after consideration of implications in respect of finance, the public sector equality duty, human resources, crime and disorder, human rights, the safeguarding of children, sustainability and the environment and those using the service 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 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.

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Constitutional Comments (SLB 19/10/2018)

19. The Pension Fund Committee is the appropriate body to consider the content of this report. If the Committee resolves that any actions are required it must be satisfied that such actions are within the Committee’s terms of reference.

Financial Comments (TMR 10/10/18)

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.