



REPORT OF SERVICE DIRECTOR – FINANCE, PROCUREMENT & IMPROVEMENT

LGC INVESTMENT SUMMIT 2017

Purpose of the Report

1. To report on the LGC Investment Summit 2017.

Information and Advice

2. The 29th LGC Investment Summit was held on 7 to 8 September 2017 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 Eric Kerry, Councillor Stephen Garner and Keith Palframan (Group Manager – Financial Strategy & Compliance). Details of the main sessions are set out below.

Day One - Chaired by Hugh Grover, Chief Executive, London CIV

3. ***Geo-political and economic update (Kamal Ahmed, Economics Editor, BBC)***
A wide ranging talk covering progress on EU negotiations and the impact of any 'transition period', improving economic performance in Europe (albeit underpinned by significant and ongoing QE), continued falling productivity and real incomes in the UK and the potential change in global leadership from the US to China.
4. ***Managing Assets & Liabilities in this new environment (Daniel Nicholas, Harris Associates L.P., Sorca Kelly-Scholte, J.P. Morgan Asset Management)***
Daniel discussed the active vs passive debate and that fact that many active funds struggle to match index returns despite higher fees. He argued that true active managers can outperform, but that funds should ensure their active managers are not a 'closet indexer'. Sorca covered the issue of future liability management in a period of low growth and high uncertainty. She highlighted the compromise required between holding secure assets to guarantee benefits against the need for high returns to pay the benefits.
5. ***Cross Pool Update (Peter Wallach, Director of Pensions, Merseyside Pension Fund, Kevin McDonald, Director, Essex LGPS)***
This session included updates from all pools covering their progress to date and any issues they have identified. All are making progress but there are different approaches being adopted and some funds have expressed concerns at meeting the 1 April 2018 deadline (a number indicated they thought June was a more realistic date).

6. ***Better futures aren't down to chance (Dafydd Edwards, Head of Finance, Gwynedd Council, John Dickson, Senior Partner, Hymans Robertson)***

Dafydd gave a summary of the position of the Welsh Pool covering the history of close working prior to pooling, the issues they face and the planned work.

John covered returns of the last 20 years (around 4% across LGPS), the very good returns seen in 2016/17 and argued for more choice in investment strategies beyond standard asset classes. He also discussed the need for an effective and efficient transition of assets into the pools to avoid additional costs and lost returns.

7. ***Managing risk in the new environment (Andrew Cole, Pictet Asset Management, Joe Steidl, Research Affiliates)***

Andrew discussed the good equity and bond yields over the last 20 years, but argued that he expected bond yields to fall and equity to remain as now in the future. He thought that bond yields could well turn negative and argued for LGPF funds to consider emerging market bonds.

Joe followed on by encouraging funds to look further at 'smart beta', a compromise between active and passive investments.

8. ***The impact of MiFID II and Regulation (Daniel Measor, Wholesale Conduct Policy Team, Jeff Houston, Head of Pensions, LGA)***

Daniel and Jeff covered the new MiFID II legislation due to come in to force in January 2018 and encouraged funds to quickly engage with their investment managers and complete the required documentation. (Paper elsewhere on this agenda)

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

9. ***Infrastructure part 1 (Paddy Dowdall, Director, Greater Manchester Pension Fund, Fiona Miller, Head of Pensions, Cumbria County Council)***

Paddy and Fiona provided an update on the cross pool working group on infrastructure. Infrastructure remains an attractive investment type as it offers long term returns, often index linked. The downside are the high transaction costs and that projects are generally high value and attract institutional investors from around the world, driving up prices. Examples given were railway rolling stock leasing, wind farms and bioenergy.

10. ***Infrastructure part 2 (Peter Hofbauer, Hermes Investment Management, Andrew Hills, Invesco Real Estate)***

Peter again highlighted the long term, index linked returns available from infrastructure and the potential for liability matching. Infrastructure can be viewed as a fixed income substitute. Andrew covered potential investments in the Private Rented Sector (PRS), and gave examples of build to rent developments and how they differ from more traditional flats (larger shared space, designed for easy maintenance, equal room size, higher quality materials for lower maintenance costs).

11. ***Environmental Social and Governance (ESG) (Peter Borgdoff, Director, PFZW, Rob Stewart, Newton Investment Management, Dawn Turner, Chief Pensions Officer, Environment Agency Pension Fund)***

Peter represents the Dutch public sector pension fund (>£100bn invested). The funds objective is "to allow pensioners to live the life they want in a world worth living in". They include sustainability in all that they do, but he acknowledged conflicts with return rates.

Rob highlighted some of the complex issues funds face when attempting to reflect ESG in their investment decisions. For example, electric cars are viewed as good for the environment, but the production of the materials required for batteries is bad (child labour, mining damage).

Dawn covered the approach taken by the Environment Agency Fund where they attempt to have 100% of investments 'responsibly managed'. She added that pooling should allow improvements as they will have greater resources with the likelihood of dedicated staff with the required skills.

12. *Where will we be in 2 years' time? (Jeff Houston, LGA, Antony Barker, Santander, John Bayliss, GAD)*

Antony expressed his view that longer term there is likely to be collaboration between pools, and possibly this will lead to fewer pools.

John covered GADs role and also the fact that their view is that in the short to medium term we will be operating in a low growth environment.

Statutory and Policy Implications

13. 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 (SMG 30/10/2017)

14. 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 (KRP 17/10/17)

15. 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