

REPORT OF SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE & IMPROVEMENT**PENSIONS AND LIFETIME SAVINGS ASSOCIATION (PLSA) LOCAL AUTHORITY CONFERENCE 2022****Purpose of the Report**

1. To report on the PLSA Local Authority Conference 2022 held in the Cotswolds.

Information

2. The PLSA Conference 2022 was held on 13th to 15th June 2022 at the De Vere Cotswold Water Hotel in Gloucestershire. 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 and Mr Nigel Stevenson (Service Director – Finance, Infrastructure and Improvement). The theme of this year's conference was 'Local Government, Global Impact'.
3. ***Pre-Conference Meetings***
The conference commenced with a number of sessions covering topics ranging from Net Zero 2050 portfolio alignments, private equity investment strategies and investing in the energy transition. These included presentations from abrdn, Foresight and Greencoat Capital. The presentation on Net Zero 2050 was particularly interesting as it set out the barriers to meeting this ambition, including transition strategies, the global trajectory heading for 3% rather than 1.5% and the significant gaps in data. Together these may measuring alignment of portfolios to net zero goals is challenging and may lead to unintended consequences if portfolios focus too much on carbon targets rather than solutions.
4. ***Emma Douglas, Chair, PLSA***
The main conference began with Emma welcoming everyone to the Conference and setting the tone for the event.
5. ***Launch of the England & Wales Scheme Advisory Board Annual Report 2021***
This session also saw the launch of the Scheme Advisory Board's Annual Report. Following a period of uncertainty, the annual report examines the health of the scheme, considers the 2022 triennial valuation for England & Wales and sets the scene of some of the themes that will dominate future work, including the levelling up agenda, good governance, responsible investment, and next steps for McCloud. This session included presentations from John

Bayliss, from the Government Actuary's Department, Councillor Roger Phillips, Chair of the Scheme Advisory Board and Joanne Donnelly from the Local Government Association.

Here are some key LGPS highlights for 2021:

- Total membership of the LGPS grew by 66,624 (1.08%) to 6.226m members in 2021 from 6.160m in 2020
- The total assets of the LGPS increased to £342bn (a change of 23.4%). These assets were invested in pooled investment vehicles (66.2%), public equities (13.4%) bonds (4.6%), direct property (2.3%), as well as other asset classes (8.7%)
- The Local Authority net return on investment over 2020/21 was 20.56%. This was reflective of the market conditions during the year and set against the UK equities return of 30%
- The scheme maintained a positive cash-flow position overall, including investment income
- Over 1.8m pensioners were paid over the year
- CoViD-19 significantly impacted life expectancy - with a drop of 0.9 years and 0.5 years for males and females respectively (2019 figures v 2020)
- Total management charges increased by £196m (+12.9%) from £1,517m. This was primarily driven by a £193m (14.9%) rise in investment management charges, while administration and oversight and governance costs remained broadly stable.
- As at the 31st March 2019 (the date of the last triennial fund valuations), the LGPS liabilities were estimated at £291bn indicating an overall funding level of 98%

6. ***You ask - we deliver: Presenting our new LGPS project***

The LGPS community responded to a PLSA research survey, allowing them to offer recommendations on how the LGPS could take on a variety of issues including operational sustainability, relationships with employers, helping savers, regulatory mapping, communication, talent management, and long-term sustainability. This session included presentations from Robert Branagh, CEO of the London Pensions Authority, Rachel Brothwood, West Midlands Pension Fund, Euan Miller, Greater Manchester Pension Fund and Jo Quaterman, Norfolk Pension Fund.

The presenters set out the main insights and recommendations based on the 4 themes of Regulatory and Operating Environment, Employers, Scheme Members and Operational Sustainability. Although there were many findings the key challenges appeared to be:

- a) The need for one single champion to represent the LGPS
- b) Ongoing staff recruitment and retention issues
- c) Increasing number of scheme employers and their understanding of the LGPS
- d) Communicating with scheme members
- e) Regulatory change, uncertainty and complexity

7. ***Concurrent Sessions***

A number of concurrent sessions were delivered:

- a) *Enabling the transition - shifting the mindset in fixed income from risk to opportunity*
Green bonds will be of key importance in addressing the environmental challenges confronting both public and private markets for many years to come. This session discussed the definition of green bonds, their relevance in asset allocation, ratings, the importance of verification, how to measure expected outcomes and more. It also discussed the role that unlabelled bonds can play in achieving outcomes and included presentations from Daniel Loughney, Boarder to Coast Pension Partnership and Rhys Petherman, Jupiter. In essence the evolution of the market promotes standards but pitfalls remain

which require more active verification processes both from the issuer and purchaser of such bonds but these do provide opportunities for engagement for enabling transition to sustainable objectives.

b) Investing for a new regime

The past two years have accelerated a shift to a new regime of higher and more volatile inflation. This matters for investors. This session gave the macroeconomic 'view from the bridge' and explain what it means for portfolios. This session included presentations from Matt Hopson, Tri-Borough/Westminster City Council and Jamie Dannhauser and Jos North, Ruffer. Jos began with harking back to when Paul Volcker was appointed as the Chair of the Federal Reserve in 1979 who was then widely credited with having ended the high levels of inflation seen in the United States throughout the 1970s and early 1980s. The question would be whether we would be returning to these hawkish approaches? The conclusion put forward was the drivers of inflation now significantly different to then and raising interest rates would simply be the same as putting the brakes on a dark, foggy night. For the LGPS it would mean the need to invest more in the transition to net zero infrastructure investments; more able to prepare for large negative supply shocks and require substantial capex.

c) Evaluating your fund's physical climate risk

As the severity of climate change grows, its physical risk becomes more acute. Understanding physical risk management across listed equity, fixed income and private equity investments is crucial for investors needing to produce returns over the long term. Case studies are able to demonstrate how this works in practice. This session included presentations from Julie Delongchamp, Welligton, and Marion Malony, Environment Agency.

The session began with how physical climate is already impacting the world, e.g. 18 of the 19 warmest years on record have occurred since 2000, and continued with how Wellington uses investment analysis tools based on physical risk and transition risk. This strategy enables investment decisions to be based on defence, offense and engagement strategies to be deployed; including investment requirements in infrastructure areas like drainage/flood defence/water efficiency as well as engagement with companies on their approaches to transition.

8. Complying with TCFD for pensions requirements in the LGPS

Local Authority pension funds will soon need to meet new requirements to report on climate change, similar to the regulation being phased in for private sector schemes. This session discussed how TCFD actually works, how funds and pools can plan to report and lessons learned from the private sector. The presenters included Nick Stones, Pinsent Masons and Tom Harrington, Greater Manchester Pension Fund (GMPF).

Tom set out his experience from the GMPF's voluntary compliance with TCFD for over 5 years. There had been significant challenges, more notably, determining the metrics to use, agreeing targets, data quality and consistency across Regulators. Whilst Nick set out the current climate change governance and reporting obligations which will extend to schemes with assets over £1bn in October 2022.

9. Concurrent Sessions

A number of concurrent sessions were delivered.

a) *New developments in sustainable equity investing*

UK pension funds have seen capital shift to climate-focused sustainable strategies with a view to Paris alignment, addressing climate related risks and reporting requirements. This session looked at Natural Capital, the compelling investment opportunity of nature and where local authority funds can play a leadership role, diversifying portfolios while targeting returns.. The presenters included Alina Donets, Lombard Odier Asset Management and Gustave Lorient, London CIV.

b) *ACS pooled securities: rights and duties of beneficial owners*

What are shareholder rights to legal redress in the US and UK when fraud is committed? How does this look vis a vis voting, split voting rights and stock lending? This session gave practical advice on identifying beneficial ownership rights within the ACS world of rented or owned operators and depositories.. The presenters included Mark Soloman, Robbins Geller Rudman & Dowd, Sarah Wilson, Minerva Analytics and Alex Younger, Norfolk Pension Fund.

c) *The life-changing magic of tidying up... governance*

Inspired by international tidying guru Marie Kondo, this session discussed how to get the most out of your governance arrangements, what to expect next, and the practical benefits good governance brings. The presenters included Susan Black, Hymans Robertson, and Geoff Cleak, Bath and NE Somerset Council (Avon Pension Fund).

This session was a presentation based on the outcomes from the Good Governance Project, which includes the need for a robust conflict management policy in place, an enhanced governance compliance statement, effective scheme member and employer representation policy and training plans for key individuals.

10. *Debate: Is the Local Government Pension Scheme sustainable?*

"This House believes that the Local Government Pension Scheme is not sustainable". The first day of the Conference concluded with a team of talented student debaters from Debate Mate joining industry experts to thrash out this question in full. The industry experts included Robert Branagh, Lodon Pension Fund Authority, and Euan Miller, Greater Manchester Pension Fund. Although the motion was lost, with the conference attendees agreeing the LGPS is sustainable, this was a highlight of the day as four young people demonstrated their debating skills to the conference attendees.

11. *What to expect when you're implementing: The McCloud judgement*

Day two of the Conference began with John Bayliss, GAD, Lorraine Bennett, LGA, Heather Chambers, Tyne and Wear Pension Fund, and Melanie Durrant, Barnett Waddingham setting out their thoughts what funds can expect as they prepare to implement the McCloud judgement. With more members in scope and changes made to future underpin protection, the government's recent amendments to the McCloud judgement add yet another layer to an already complex set of calculations and challenges for LGPS administrators. This included the brief history leading up to the judgement through to the issues Funds will face in implementation, from obtaining historical data from employers, staffing requirements to modifications to current software.

12. *Driving the pensions dashboards for the LGPS*

Local Authority funds will need to connect to the pensions dashboards between October 2023 and April 2024. From ensuring employers are up to speed to engaging with various providers, there is much to do. Here, the presenters, Chris Curry, Money and Pensions Service, John Burns, Lothian Pension Fund, and Richard Smith, PLSA offered both an overview of the dashboard project and potential solutions for stretched administrators.

Richard gave a brief background to the programme and a short demonstration what the dashboard may look like. Which in turn was followed by Chris who gave us further information on the overall programme, setting out the development work on the central architecture (or “ecosystem”), the regulations and standards that were to follow. Ending with John, who set out the preparation work required of LGPS funds. The aim being to provide consumers one place, either through a pension provider or banking app or government website, to collate details of all their pensions information, including their state pension. This is an ambitious programme of work that is set to transition to business as usual in 2024. LGPS funds must therefore progress with data cleansing activity during 2022, procure an Integrated Service Provider (ISP), prepare to connect to the “ecosystem” with the appropriate data required from consumers using the dashboards during 2023/24.

13. *The future of LGPS asset pooling*

The latest asset pooling consultation from DLUHC is expected to drop in Autumn 2022. The likely direction of travel for both the funds and pools includes decisions about investment and governance structures, reporting, the likelihood of additional consolidation and discussion of what more pools can do for their constituent funds. This session included presentations from Teresa Clay, DLUHC, Sian Kunert, East Sussex County Council, and Mike O’Donnell, London CIV.

Teresa noted that we have come along way since 2016, but there was more to be done. This included the role of Pension Funds in Levelling Up, reporting on climate risks, lower costs and better investment performance and improved transparency. She set out a number of proposed consultations through autumn 2022, which would include the above together with acceleration of transition of investments into Pools and setting the direction for greater scale and collaboration.

14. *Opinions, attitudes and values - what is changing, and what is staying the same*

Covid. Brexit. War in Ukraine. Social media. Home working. Just a cursory look at the news demonstrates how much the world is transforming, and rapidly. But do these trends represent structural change, or merely passing fancies? A global authority on trends and behaviour provides a roadmap to tell the difference. The Conference concluded with the views of Ben Page, Global CEO, Ipsos Mori, with the opening line from his presentation being most predictions are wrong.

Statutory and Policy Implications

15. 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 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 pension administration and 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: Nigel Stevenson

Constitutional Comments (CEH 27/07/22)

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

Financial Comments (NS 21/06/22)

17. 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