Nottinghamshire County Council

Report to Pension Fund Committee

1 September 2022

Agenda Item: 7

REPORT OF SERVICE DIRECTOR – FINANCE, INFRASTRUCTURE & IMPROVEMENT

LOCAL AUTHORITY PENSION FUND STRATEGIC INVESTMENT FORUM 2022

Purpose of the Report

1. To report on the LAPF Strategic Investment Forum 2022.

Information

2. The LAPF Strategic Investment Forum 2022 was held on 4th to 6th July 2022 in Hertfordshire. 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 Graham Chapman and Mrs Tamsin Rabbitts (Senior Accountant – Pensions and Treasury Management).

3. This was the second time Nottinghamshire have attended this conference, and it continues to be excellent. This was a well organised conference with an intense programme of relevant investment topics.

4. ***John Harrison, Interim CIO, Border to Coast***
   The conference began with John welcoming everyone to the event.

5. ***The state of the world, James Ashley, Goldman Sachs***
   An excellent session providing a perspective on current market developments, focusing on inflation, invasion and infection. To summarise, James feels that most bad news is already in the price, but unfortunately he believes it is going to get worse before it gets better.

6. ***Emerging Markets – opportunities and threats Panel session Anthony Corrigan, Vontobel, Ian Smith, Newton Investment Management, Peter Wallach, Merseyside Pension Fund, Tim Mpofu, Haringey Council***
   The panel reflected on the poor performance of emerging markets in recent years, certainly relative to the US. Panel members are anticipating strong performance in EM equities over the next 10 years, but were less convinced by EM debt.

7. ***Infrastructure opportunities Interview Abigail Rayner HarbourVest Partners***
Infrastructure was discussed as a beneficial asset class while inflation was high. Particular areas of interest included energy transition and digital infrastructure. The importance of sector and regional diversification was emphasised.

8. ***Global Real Estate Panel session Tom Collier, Pimco, Peter Hobbs, bFinance, Matt Hopson, Westminster City Council, Doug Rowlands, Invesco Real Estate***
The panel discussed the advantages of global real estate investment, recognising that for most LGPS funds this has been typically a domestically focussed (and often directly held) asset class. It was recognised that UK property valuations are very volatile compared with other regions, and that including global property diversifies risk and widens opportunities. The risks of operating in unfamiliar regimes, and the additional costs of global investment were also recognised.

9. ***Evolving governance regulation in the LGPS***
A roundtable discussion discussing four questions relating to governance:-
    1. Should Committee members be required to have training every year, and what should this entail?
    2. Would the 'professional trustee' model work in the LGPS?
    3. When considering local investments, how do committees deal with perceived or actual conflicts of interest?
    4. Is one generalist adviser sufficient, or are more specialist advisers required given a more complex and evolving investment environment? Should pools be used more for advisory services?

10. ***Buy to Rent: Solving a national problem with a local solution Dan Batterton LGIM Real Estate***
Clean power generation has been at the centre of the debate on achieving the Paris climate targets and the efforts to limit global warming. The presenter discussed whether this was sufficient and other options for investors.

11. ***Financing the energy transition: seeking stable yield, inflation protection and equity like returns Claudio Vescovo Nuveen***
Unfortunately the presenter was unable to join the conference in person and presented remotely which meant attendees were unable to view the slides. His recommendations for energy security were for the building of more renewables as these were both faster and cheaper to build than the alternatives, and for investment were to invest in areas of adaptation for less power use such as the insulation of buildings.

12. ***Finding the best relative value in Infrastructure across the economic cycle, Paul Barr, Pantheon***
In a wide-ranging interview Paul believes that value can be found. Currently much infrastructure investment will be benefitting from inflation. The importance of diversification was emphasised. A question of interest to Nottinghamshire was on listed infrastructure. As we have observed, valuations can be impacted by market sentiment, but over the longer term prices will be driven by investment returns. Listed infrastructure is more liquid, but there is a risk that its value may be deflated just when you want to sell. A particular advantage is that listed investments can provide access, and quicker access, to otherwise hard to access areas.

13. ***2022 Market Forecasts Andrew Pease Russell Investments***
An engaging presentation with optimistic predictions that the US recession will be mild, and that inflation will be temporary. Andrew felt that US equities are approaching fair market value, that FTSE 100 offers the best value, and that gilt yields have peaked. He feels that lots of the bad news is baked in. A historical perspective is that a bear market averages a 35% decline (at time of speaking this was 24%) and takes 1 ½ years to fall, and a year to recover. He finished with a reminder to be optimistic – "The bears sound smart, but the bulls make money."

14. ***Fixed Income Opportunities panel Quentin Fitzsimmons, T. Rowe Price, Harald Henke, Quoniam Asset Management, Lloyd Thomas, Border to Coast, Bola Tpbun, London Borough of Enfield***
In contrast to the previous session this was a more downbeat view of fixed income investment. The worst half year for government bonds since 19th century, accompanied with poor performance for MAC investments and increased risk of defaults and increased costs arising from inflation. There was a feeling that the credit risk was being priced in, and spreads are top quartile with some positivity around Investment Grade.

15. ***Fixed Income – reducing carbon, not return Kris Atkinson, Fidelity International***
An excellent presentation looking at the role that bond investors play in influencing organisations across the world in terms of their decarbonisation strategy, and the importance of directing capital to institutions taking these issues seriously to help enable real world emissions reduction while maintaining a balance in terms of diversification and return. There was a major criticism of Paris aligned benchmarks for their exclusion of energy and utility companies and consequent failure to reflect the real world. Ideally would choose to invest in an improving company (e.g. Orsted) and then reinvest once improved, although it was recognised that we need to better evidence the impact of engagement. It was observed that Green bonds usually pay worse returns. Fidelity has kindly provided us with a recent paper they have written on the importance of bond investors in the fight against climate change called 'The sleeping giant'.

16. ***Strategic asset allocation***
Andrien Meyers from Sutton and Kington presented four interesting roundtable discussion topics relating to asset allocation:-
    1. Will funds de-risk in response to improving funding levels?
    2. Will the government mandate increased pooling and if so will this drive 'super pools'?
    3. Should the LGPS have one target net zero date or should each Fund / Pool have their own?
    4. Levelling up – should this be through one pool, or should each fund do this outside the pool?

17. ***Global timberland investment Steven King, Campbell Global (an affiliate of J.P. Morgan)***
This interview looked at the features of timber investment which provides long term yield from harvesting timber and some capital growth from tree growth. The investment does provide some carbon offset and there is a requirement to replant after harvesting. The biggest risk is market risk, but physical risks of fire, insects, disease and hurricanes are also significant. For new investors a global PE fund was the recommended route into the asset class.

18. ***Opportunistic credit Kerry Hugh-Jones, Cheyne Capital***
The presentation outlined this issues for businesses due to the limited access to financing through bank lending, and the contribution private debt can provide. Opportunities can also arise from bond issues where liquidity challenges in the market can cause some issues to become underpriced.

19. ***Real estate sustainability and place-based impact investing Nick Montgomery, Schroders***
All Schroders Real Estate investment is now looking at achieving net zero and improving social impact. This may contribute to levelling up. Town centre retail may now be an opportunity.

20. ***Investing in social good through affordable housing Chris Jeffs, M&G***
The challenges of access to housing in the current economy were outlined. Chris stated that the average person buying an average house would need 21 years to save up a minimum deposit. The proposed solution was an increase in shared ownership to enable occupants earlier access to owned property and hence lower lifetime costs, and to provide index linked and relatively secure cash flows for an investor.

21. ***How to address climate change in your portfolio Ben Yeoh, RBC***
A look at the central outlook for climate scenarios, this presentation outlined the progress as ten years ago the world was heading for a 3.9° temperature rise, whereas the median scenario is now 2.7°. However the consequences of such a change would be catastrophic across the planet so much more improvement is required. The important consideration is whether companies have a plan to reach net zero as changes need to impact the real economy, not just divest from difficult industries.

22. ***How effective is engagement and when should we consider divestment? Jane Firth, Border to Coast, Philip Pearson, Hymans Robertson, Nick Spooner, Robeco, James Tarry, Aviva***
The panel was generally positive about the impact of engagement. The impartance of ensuring a company is aware of why you vote the way you do was emphasised as communication is vital to impact and effect change. Some studies have evidenced outperformance in portfolios where engagement is taking place. It is important to focus on specific issues to make progress. It can be difficult to measure outcomes. The process of engagement with private markets is different – a larger share investment can provide more influence and there may be more opportunity to specify requirements in specific ways.

23. ***Finding opportunities in global equities David Herro, Harris Associates***
The last three years have been volatile – every time things seem to seltte down something disrupts the trend. Harris (who manage part of Central's Global Equity Fund) were persistant underperformers due to the exaggerated values of tech stocks. Harris look for good quality businesses with good cashflow and consistent performance. Despite inflation and energy prices, Harris are still fairly optimistic, feeling that equities are at the low end of the range with much of the bad news already in the valuations. First half earnings are holding up, and the global consumer is well positioned with high employment levels, and demand for many products exceeding supply.

24. ***Working with in house funds panel Jill Davys, Redington, Anthony Fletcher, Independent Adviser, George Graham, South Yorkshire Pension Fund, Chris Rule, LPP***
This was a wide ranging conversation which demonstrated differing views. Some pools are directly managing investments and this can reduce costs, increase transparency, and provide more control over a portfolio, however this requires significant long term allocations and works best for simpler mandates with less ambitious outperformance targets. The perception is that passive investment requires scale and pools cannot complete with managers like LGIM on performance.
Recruitment and retention of resources is a challenge with LGPS requirements for transparency an additional challenge in meeting market rates, and widespread recognition that local government pay rates are significantly lower than the market, even after the increases achievable through pools. Other issues with in house investment can be difficulties in moving from an in house team in the event of underperformance, increased reputational risk, and ensuring sufficient internal controls.

Statutory and Policy Implications

25. 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

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For any enquiries about this report please contact: Tamsin Rabbitts

Constitutional Comments (KK 19/08/22)

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

Financial Comments (TMR 26/07/22)

27. 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