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Conference highlights

LGC Investment Seminar Scotland, 29-30 October



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Principal

A changing investment landscape. New opportunities. Greater choice for well-funded schemes. The LGC Investment Seminar Scotland in Edinburgh explored how LGPS funds can turn that flexibility into long-term resilience, with diversification, investment discipline, effective governance and adaptability at the heart of the debate.

Day 1: Welcome from LGC and the Chair

Ben Farmer, Chair, Hymans Robertson; Martin George, LGC

Both welcomed delegates and set the scene for two days of fresh ideas, lively debate and practical insight. Speakers from across the investment industry and Scottish LGPS were invited to bring a range of perspectives to a packed agenda.

Opening keynote: Navigating a changing world – the economic and investment outlook for the UK and beyond

Rupert Harrison, PIMCO

Rupert highlighted the renewed appeal of fixed income in an uncertain global environment. Attractive starting yields, stronger emerging-market fundamentals and scope for active management could give bonds a more prominent role in strategic portfolios.

- **Starting yields strengthen the case:** High-quality global bonds are yielding around 7% to 7.5% pa, improving their return potential relative to equities over a five-year horizon.
- **Emerging markets offer opportunity:** Improving fiscal and monetary fundamentals, alongside attractive real yields, support the case for emerging-market local-currency debt.
- **Active management can add value:** Fixed-income market structures can create repeatable opportunities for active managers to outperform passive approaches.

Do we need to rethink equity portfolio construction? Building equity portfolios for the next decade

John Lamb, Capital Group

John explored how active management and deliberate portfolio construction can build resilience beyond the recent winners. A decade of concentrated returns and mega-cap leadership has rewarded passive equity exposure, but elevated valuations, shifting leadership and weaker price discovery are testing that approach.

- **Look beneath the style labels:** Combining growth and value managers can create unintended concentration, including overlapping AI exposure, rather than genuine diversification.
- **Core strategies can simplify portfolios:** Core active equity approaches can offer clearer investment intent, stronger stewardship and simpler governance than layered multi-manager structures.
- **Manager structure matters:** Ownership, compensation, portfolio flexibility and research horizons matter as much as recent performance when selecting an active equity manager.

Natural capital: Investing for yield and sustainability

Angela Davis, Campbell Global

Angela explored how natural capital, particularly sustainably managed forestry, can combine investment objectives with environmental benefits. The session highlighted forestry's potential for attractive returns, diversification and inflation protection, alongside measurable positive impact.

- **Diversification with return potential:** Forestry can offer low correlation to traditional assets and multiple sources of long-term return.
- **Natural capital can support climate objectives:** Carbon sequestration and carbon credits can materially reduce a portfolio's overall emissions footprint.
- **Active management matters:** Flexible harvesting and effective forest management can help navigate timber cycles and manage physical risks.

Opportunities in credit markets – rethinking portfolio risk

Tom Ross, Janus Henderson Investors

Tom highlighted opportunities in credit as higher yields and greater dispersion bring security selection back into focus. A flexible approach across markets can help capture relative value through the cycle and strengthen portfolio resilience.

- **Starting yields offer potential:** High-yield bonds are yielding around 8.25%, providing a compelling starting point for longer-term returns.
- **Flexibility can add value:** Dynamic allocation across high yielding investment grade loans and asset-backed securities can capture shifting relative-value opportunities.
- **Security selection matters:** Greater dispersion between borrowers creates opportunities for active managers, with below-par bonds offering potential capital upside alongside income.

Birds of a Feather discussion

Different tables, fresh perspectives. Delegates and speakers joined topic-led discussions to debate investment and LGPS priorities, challenge ideas and share practical insights. Six themes were discussed.

Table A: Scottish local government reorganisation (facilitated by Capital Group)

The group explored what potential Scottish local government reorganisation could mean for the LGPS. With pensions yet to feature meaningfully, the discussion centred on a clear principle: structural change needs evidence that it improves outcomes for scheme members.

- **Pensions need a voice:** LGPS considerations have yet to feature meaningfully in the reorganisation debate.
- **Evidence comes before action:** The benefits of structural change need to be demonstrated before changes are pursued.

- **Member outcomes come first:** Any reorganisation should be assessed against the interests of scheme members.

Table B: Future equity returns (facilitated by Acadian)

The group looked beyond recent market winners to consider the next decade of equity returns. Themes linked to demographic and geopolitical change, alongside opportunities outside the US, emerged as potentially attractive sources of growth.

- **Structural themes could drive returns:** Healthcare, infrastructure, energy security, renewables and defence were among the areas highlighted.
- **Look beyond the US:** Emerging and frontier markets could offer underexplored opportunities.
- **Resilience matters:** Sectors benefiting from longer-term demographic and geopolitical pressures could provide durable growth.

Table C: Private markets (facilitated by Janus Henderson Investors)

The group explored how thoughtful portfolio construction can help investors capture private markets' diversification benefits. Vintage diversification (i.e. spreading commitments across multiple years), cost-effective implementation and decision-makers' understanding of risk were central to the discussion.

- **Diversification can justify complexity:** Private markets' portfolio benefits can make the additional complexity worthwhile.
- **Programme construction matters:** Vintage diversification can be particularly important within private equity allocations.
- **Understand the trade-offs:** Investors need clarity on risk, complexity and costs before making commitments.

Table D: Investing in Scotland (facilitated by Wellington Management)

The group highlighted Scotland's investment strengths, particularly offshore wind, while recognising constraints around pipeline depth and deal size. The message was clear: LGPS capital should follow attractive investment opportunities, not regional targets alone.

- **Scotland has strong fundamentals:** Significant natural assets, including offshore wind, underpin investment opportunities.
- **Scale remains a challenge:** Limited pipelines and smaller deals can make deployment difficult for larger investors.
- **Investment quality comes first:** Local allocations should be driven by credible opportunities that meet funds' investment requirements.

Table F: LGPS in five years (facilitated by Hymans Robertson)

The group favoured targeted improvements over wholesale change to an LGPS that is largely working well. More efficient procurement, training and governance, supported by collaboration, could strengthen the system while keeping member outcomes at its heart.

- **Evolution over revolution:** Targeted improvements were favoured over wholesale structural change.
- **Efficiency should reduce complexity:** Procurement, training and governance offer scope for practical improvement.
- **Collaboration is key:** Change should be collaborative and measured against member outcomes.

Table G: Inflation and interest rates (facilitated by PIMCO)

Views differed on whether higher inflation would prove temporary or structural, but there was broader agreement on the portfolio response. Real assets, inflation-linked bonds and fixed income at current yields all offered potential ways to build resilience.

- **Inflation uncertainty remains:** Portfolios need to cope with both falling and more persistent inflation.
- **Real assets can provide protection:** Property and natural resources were highlighted alongside inflation-linked bonds.
- **Fixed income is back in focus:** Current yields strengthen the role bonds can play in resilient portfolios.

Where will equity returns come from over the next decade?

Ben Silver, Pzena Investment Management; Tim Garratt, Baillie Gifford

Ben and Tim brought contrasting value and growth perspectives, but both saw opportunities beyond today's concentrated equity market. The discussion focused on looking past short-term momentum to companies with strong fundamentals, durable business models and long-term growth potential.

- **Concentration creates opportunity:** Today's AI-led concentration is historically unusual. A broadening market could favour more companies and investment styles.
- **Look beyond the AI frenzy:** The biggest long-term winners may be companies that deploy AI successfully and build durable businesses, rather than today's infrastructure suppliers.
- **Patience can provide an edge:** Long-term, fundamentals-led investors can capture opportunities overlooked by markets increasingly driven by momentum and shorter-term signals.

Local investments in action: what we've done, what's next and who wants to join us?

Emmanuel Bocquet, Lothian Pension Fund; Laura Colliss, North East Scotland Pension Fund; Richard McIndoe, Strathclyde Pension Fund

Experience across Scottish LGPS funds showed how local investment can combine attractive financial returns with wider local impact. The panel emphasised patience, strong governance and a clear commercial rationale: investable opportunities take time to build, and geography or policy should not drive decisions.

- **Returns and impact can align:** Established local portfolios show that strong financial performance and positive local outcomes need not compete.
- **Investment discipline comes first:** Commercial fundamentals, robust governance and patience should drive allocations, not policy momentum or rigid geographic constraints.
- **Collaboration can unlock opportunity:** Closer cooperation across Scottish LGPS funds could strengthen deal flow and support a more coordinated approach to local investment.

Day 2: 2026 valuation outlook: Strategy, surpluses and what's next

Tom Hoare, Hymans Robertson

This session explored the choices strong funding creates for investment strategy and the use of surplus. With future returns still critical, funds need to balance short-term opportunities with long-term resilience, clear governance and a deliberate approach to sharing surplus across generations.

- **Surplus creates strategic choices:** An estimated Scottish LGPS surplus of around £25bn gives funds greater flexibility, but its use could have significant long-term consequences.

- **Investment returns remain critical:** Current funding positions depend on sustained real returns, making the investment assumptions behind reported surpluses important to understand.
- **Think across generations:** Protecting some surplus today can build resilience and help avoid more costly funding challenges as schemes mature.

Investing in Scotland's future: Turning national ambition into investable opportunities

Mariam Mahmood, Scottish Government; Mike Wedderspoon, Scottish National Investment Bank; Neil Meikle, Legal & General

The panel explored how Scotland can turn its strengths in energy transition, life sciences, housing and innovation into investable opportunities. Institutional appetite is clear, but delivery needs greater scale, a deeper pipeline and effective collaboration between government, pension funds and private capital.

- **Scale is critical:** Projects need sufficient scale and a credible pipeline to turn investor appetite into meaningful institutional investment.
- **Collaboration can unlock investment:** Public and private capital working together can overcome complexity and bring challenging opportunities to market.
- **Scotland has investable strengths:** Energy transition, life sciences, housing and innovation provide a strong foundation. Coordinated delivery will be key to realising that potential.

Artificial intelligence – the future of stewardship

Andy Moniz, Acadian Asset Management

Andy explored AI's potential to transform stewardship by analysing company information and identifying engagement priorities at scale. The strongest results come from combining purpose-built technology with proprietary investment insight and human judgement.

- **Stewardship can scale:** AI can process large volumes of company information, identify material issues and support more targeted engagement.
- **Investment context matters:** Effective AI needs a manager's own investment frameworks and domain expertise, not just off-the-shelf tools.
- **Enhance, rather than replace, judgement:** Used effectively, AI can make human-led stewardship more precise, scalable and consistently grounded in evidence.

The world isn't static. Your credit allocation shouldn't be either

Paul Skinner, Wellington Management

Paul made the case for credit allocations that adapt as markets change. Diversification and dynamic management can improve portfolio efficiency and manage volatility without materially sacrificing returns, while shifts in relative value offer scope for additional return.

- **Diversification can improve efficiency:** Combining high yield emerging-market debt and loans can reduce volatility while maintaining return potential, freeing risk budget for other investments.
- **Stay dynamic:** Adjusting allocations as relative value shifts can capture opportunities a static credit allocation may miss.
- **Active management can add value:** Over the period presented, sector rotation and security selection together added around 1.8% a year relative to a static allocation.

Credit where credit's due

April LaRusse, Insight Investment

April highlighted fixed-income opportunities supported by strong corporate fundamentals and attractive yields. Investment-grade credit and asset-backed securities can offer compelling risk-adjusted income, while carefully structured bond allocations can help LGPS funds meet cashflow needs without disrupting long-term growth assets.

- **Investment-grade credit looks attractive:** Current yields may offer greater compensation than underlying credit risks suggest, supported by relatively strong corporate fundamentals.
- **ABS offers additional opportunity:** Asset-backed securities can provide around 1% pa additional yield over comparable corporate bonds, alongside floating rates, shorter duration and liquidity.
- **Credit can support cashflows:** Bonds maturing alongside benefit payments can help cashflow-negative LGPS funds avoid selling growth assets at potentially unattractive times.

Governance for a changing LGPS

Jill Murray, Scottish Borders Pension Fund; Laura Robertson, Fife Pension Fund

Jill and Laura explored how clear accountability, appropriate delegation and access to expertise can strengthen investment decisions. Collaboration across Scottish LGPS funds can build capability, improve efficiency and support more agile implementation.

- **Clarity enables better decisions:** Good governance needs clear responsibilities, appropriate support and effective oversight, not everyone involved in every decision.
- **Delegation can improve agility:** Separating strategic oversight from implementation can speed up decisions while retaining appropriate committee control.
- **Collaboration builds capability:** Shared procurement, training and investment expertise can strengthen outcomes without every fund adopting the same model.

Final comments

Two days of fresh perspectives, lively debate and shared insight made the LGC Investment Seminar Scotland a clear success. Delegates left with plenty to take back to their funds, from investment opportunities to practical governance ideas. Above all, the conference reinforced the value of collaboration in shaping a resilient future for the Scottish LGPS.

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