

Conference highlights

Local Government Association - LGPS Trustees' Conference - Bournemouth, 29-30 June 2017

This conference covered a broad range of topics relevant to all Local Government Pension Scheme Funds. Please get in touch with your usual Hymans Robertson contact if there is something you would like to discuss further.

Chair's Welcome

Denise Le Gal, Chair, Local Government Pensions Committee (LGPC)

- The theme is "Brave new world", post-EU Referendum, developments in LGPS asset pooling, actuarial valuations completed in England & Wales;
- Spelled out all the acronyms which float around in the LGPS!

Keynote Address

Bob Holloway, standing in for Roger Phillips, Chair, National Scheme Advisory Board

- We are in a challenging financial environment, and the LGPS is the 5th largest pension scheme in the world, the 3rd biggest in Europe;
- SAB can address some of the (sometimes poorly constructed) criticisms of the Scheme;
- Much information available on www.lgpsboard.org;
- Member survey currently underway re 50/50 option – HMT imposed assumption of 10% take-up in 2013, whereas actual experience more like 1% - has an impact on cost management;
- Survey also underway just now re Local Pension Boards;
- LGPS nationally moved from c.72% funded at 2013 to c.85% funded at 2016, and deficits fallen;
- Main issue re academies is the administration impact on Funds. Government Actuary's Department (GAD) collected some data on this employer group, preliminary results due very soon;
- Commissioning some work on Tier 3 employers (those without tax-raising power or guarantee), along same lines as recent work on academies;
- Investment manager voluntary cost transparency code recently introduced: 10 managers signed up, relating to over 20% of assets. However, asset managers sign up as long as this isn't passed to third party benchmarking companies;
- Minority Government and Brexit negotiations mean that contentious legislation is less likely to come through;

- However, SAB advised DCLG that work still needed in meantime for this live Scheme (e.g. still no sign of New Fair Deal regulations). DCLG now have 5 staff working on LGPS, albeit inexperienced – they are trying to engage with the LGPS;
- Bob knows that Funds do some things which are the right thing to do, even if Regulations don't quite cover.

The ESG and Responsible Investment agenda

Alan MacDougall, Managing Director PIRC Limited

- The new LGPS investment regulations from last year are very helpful in this respect;
- The LGPS has been at the forefront of Environment, Social & Governance (ESG) for over 20 years;
- Funds retain fiduciary responsibility, even in a Pooling world;
- Interesting to ask Funds “what's stopping you from doing X”, rather than trying to instruct Funds to do X;
- Stewardship is important for long term success of companies;
- There are different levels of approach to Responsible Investing, involving different degrees of proactivity, engagement, development of strategy etc;
- No matter what pressures a Fund is under, it's hugely beneficial to have an ESG policy as a framework for discussions etc.

Pooling Update

Jill Davys, London CIV

- London CIV has received £5bn of assets under management from Funds, transitions of existing managers;
- Pools and Funds need to be open & transparent with each other;
- Pool can't provide everything at once, so will focus on the areas of commonality (other than insured Passive Investment Vehicles which can remain outside, albeit being monitored – would be helpful for more Government clarity on what they think is needed);
- London experience of FCA is that they have been helpful & responsive, and have LGPS-dedicated resource now;
- Pools need key personnel, oversight & reporting processes, etc – will always take longer than you think it should! For instance, two Funds with same manager in same asset category may have different benchmark, fees, etc – Funds may need to compromise, and agree how to procure managers as opposed to just “lift and shift”;
- Funds should consider how to transition their assets across (use a third party?), and will still need resource at the Fund afterwards eg on tax;
- London CIV asking Funds to sign transition agreements which detail costs and also savings (vary by asset class and Fund's existing agreement);
- Need to be future-proofed following transition – Funds don't stay still!

Legal Update

Gary Delderfield, Eversheds Sutherland

- “You can’t take over the world without a good acronym!” – C.S. Woolley
- **IORP II** – EU Directive for Occupational Retirement Plans – focus on governance & communication – been in place from January 2017, member states must implement within 2 years;
- Will it apply to UK? Depends on timing & terms of Brexit;
- Will it apply to LGPS? Yes, but UK Gov’t can disapply certain elements for public sector schemes;
- Main requirements relate to governance (written policies across various areas), outsourcing activities (need to notify Regulator), remuneration policy, Regulator scrutiny of “fit & proper” persons running Funds, requirement to consider ESG;
- **MIFID II** – EU Directive definitely applies to UK and the investment managers (including the Pools) of LGPS – new UK regulation applies from January 2018;
- Provides increased protection to Funds as an investor, but protections include restrictions of possible investments and managers;
- Would generally want to “opt up” to allow greater flexibility, albeit with extra required admin work, however an LGPS-friendly process is still being discussed with FCA (may be an announcement early July);
- **GDPR** – major data protection changes apply from May 2018 (regardless of Brexit);
- Watch e.g. transfer of data for GMP reconciliation purposes;
- Cyber security is a focus of the Pensions Regulator – recent global news - is it only a matter of time before an LGPS Fund is hit by an attack?
- Security can be just easily breached by personal access to the building as by remote hacking (example of someone wearing a hard hat and high-vis jacket walking into the pension team area!);
- **GRUOOBAP** – General Round Up Of Other Bits And Pieces!
- Court case coming soon for a CIO in an LGPS Fund accused of stealing >£1 million from the Fund - timely reminder of need for risk controls etc;
- Recent Palestine/investment case – ruling that Secretary of State power to make LGPS guidance may only be exercised for pension purposes;
- Noted that a Pool-owned Operator may be subject to Freedom of Information requests, as opposed to an outsourced Operator.

Apples with Apples – LGPS data quality

Bob Holloway, Pension Secretary, Local Government Association

- LGPS not close to ideal data management at moment – we need to be honest about data shortcomings;
- Recent Pension Regulator survey: 1 in 5 schemes hadn’t undertaken data review in last year, and issues identified by more than half of those who had;
- More than half of employers not providing timely, accurate & complete data;
- Distinction between issuing annual benefit statements, and checking they are being received;
- More important to identify accrued pension than projected pension at Normal Pension Age?
- Rightly or wrongly, the Pensions Regulator more likely to exercise its powers on an “easy target” aspect such as annual benefit statements;
- Suggested having proactive discussion with tPR if not able to issue 100% of annual statements accurately;
- Good data is essential for good outcomes! Keep on top of it regularly.

Actuarial Smörgåsbord – three courses!

1st course - Deficits Down? Employer Contributions Up?

Leanne Johnston, Mercer

- 2016 valuations in very broad terms saw higher funding levels and lower deficits
- Contributions generally increased in a manageable way, and recovery plans not extended
- Taking English & Welsh Funds' results at face value, total liabilities = £254bn, assets = £216bn, giving lower deficit than at 2013
- Short term risk management re equity etc volatility
- Medium term risk management needed re employer covenant – Funds should be proactive re different funding/investment strategies & provision of security
- Longer term, risks around whether Funds can deliver the required real returns

2nd course - Are Public Service Pensions affordable?

John Bayliss, Government Actuary's Department

- Combined public service pension schemes' liabilities c.£1.49 trillion
- GAD advise Government on the costs of the schemes, the Government then decides what is affordable
- LGPS doesn't fit in neatly to the wider cost cap framework, due to being the only funded Scheme: Funds have assets which are in effect ignored for cost cap purposes
- John is working on the LGPS cost cap calculations right now, plan to engage with stakeholders in winter 2017/18, and formally report Spring 2018
- Two cost cap mechanisms – HMT and SAB – latter has more graduated approach within the 2% corridor

3rd course – Actuarial Panel Session

Alison Murray, Aon Hewitt; AnneMarie Allen, Barnett Waddingham; Douglas Green, Hymans Robertson; Glyn Jenkins, Head of Pensions, Unison

- The panel answered a variety of questions regarding the sustainability of the LGPS, political impacts on the Scheme and its members, the place of pooling, funded vs unfunded schemes
- Does sustainability just mean long term affordability?
- Communication with Westminster is key to mitigating potential adverse decisions for the LGPS
- GAD and the four LGPS actuarial firms are working much more closely together, and more generally there is a sense of better working together across the Scheme and its various stakeholders
- Remember that actuarial valuations are only estimates, and the true costs are the actual benefits paid
- The majority of LGPS active members are part-time women, so steps which would seriously undermine the LGPS would therefore affect this section of the public sector workforce
- Pooling may benefit the Scheme by allowing Committees to focus on strategy as opposed to interviewing fund managers
- There is a need for Government and others to appreciate the costs and risk associated with the unfunded schemes, to ensure a consistent approach is taken to all public service schemes.

National LGPS procurement framework

Nigel Keogh, National LGPS Frameworks Operations and Development Manager

- Seeds of the Framework planted by broader “smarter procurement” initiatives in the public sector, and then grew in LGPS from Hutton report recommendation re efficiencies;
- Framework does the majority of work, which helps both Funds and suppliers;
- Framework leaves local Fund discretions & decisions, whilst leveraging better rates;
- Any surpluses are reinvested in the Framework;
- LGPS frameworks have delivered c. £35m in savings to date, and counting.

Investment Spotlight

Atul Shinh, Investec Asset Management

- Consider UK economy not to be in best of health: imports exceed exports, debt levels still high etc;
- Combined with unsettled domestic and international political situations;
- Imports and currency exchange rate changes have led to increased UK inflation;
- Possible other EU departures to come on the continent? “Quitaly”, “Departugal”, “Oustria”?
- US – Trump policies being watered down for various reasons?
- China – “One belt, one road” programme to create new trade routes to rest of Asia and Middle East. Significant that 200 Chinese companies now included in MSCI Equity Indices;
- Current equity bull market is second longest in history, as is bond bull market;
- Think of economic growth like a party: starting to see signs of flagging, but not yet time to phone the taxi;
- Combined value of “FAANG” companies (Facebook, Apple, Amazon, Netflix, Google) is more than the FTSE100. However, this is not a re-run of 1999 as there are lower valuations and the presence of a track record;
- Passive (“zombie”) investing generally means buying the largest stocks: does that give over-concentration? Unintended investment positions if most of the largest companies at any one time are in the same sector? ESG in passive funds has improved but still more could be done;
- More Funds becoming cashflow negative sooner, so looking for income mandates, but these can be hard to source.

Chair’s closing remarks

- This was Tim Hazelwood’s 14th and final Trustees Conference, before he retires next month. The attendees gave him a warm round of applause!