As ever, the conference covered a broad range of topics of relevance to the Local Government Pension Scheme. If you would like to discuss any of the issues raised below, please speak to your usual Hymans Robertson consultant.

Learning Zone Session 1: The LGPS – A sustainable success story?
Barry McKay and David Walker, Hymans Robertson

- Highlighted successes and addressed some of the criticisms of the LGPS.
- Unlike the unfunded public service schemes, extremely strong investment performance over the last 5, 10 and 20 years has funded 50% of the cost of LGPS benefits.
- Think of the move to cashflow negativity as part of the natural evolution of the LGPS which, if sensibly managed, won’t be an issue.
- The increase in assets held to meet the benefits, and resulting fall in required return, might be an opportunity to look at asset classes providing more certainty but still with attractive return.

Plenary 2 – The Year Ahead
Councillor Roger Phillips, Chair of SAB in England and Wales

- Encouraged LGPS Funds to be mindful of the political environment and the increasing need for transparency.
- Announced the publication of the 2016 LGPS (England and Wales) report which includes information on the growth of the scheme to c14,000 employers and reports positive messages on deficit reduction since 2013. Also notes the increase in the ongoing cost of the scheme. Available on the SAB website: http://www.lgpsboard.org/
- Also announced the launch of the Code of Transparency, a voluntary Code for LGPS asset managers to assist pension funds in obtaining the data they require in order to achieve transparency of investment costs.
- Trailed the expectation of a positive resolution to the MIFID2 issues in the near future and a workstream looking at Tier 3 employers in the LGPS.
Plenary 3 – Communicating Better
Ranila Ravi-Burslem, Director of Marketing, NEST
Kerry Tat-Maskill, Head of Marketing & Engagement, Capita
Dawn Turner, Chief Pensions Officer, The Environment Agency

- All speakers drew on their own experiences to illustrate key factors in successful communications with members and employers.
- Discussed the importance of segmenting your audience in order to provide targeted communication, the use of focus groups for feedback, and increasing engagement with the use of digital channels.
- Dawn brought with her most of her own shoe cupboard and entertained us along the way with great shoe analogies!

Stream session 1 – Making inroads on cost transparency
Jason Fletcher – CIO, West Midlands Pension Fund
Imran Razvi, Public Policy Adviser, Investment Association
Dr Chris Sier, Professor of Practice, Newcastle University Business School

- Jason discussed the important of cost transparency in maintaining good relationships between funds and their managers and allowing them to focus on cost management.
- He discussed the steps West Midlands have taken to achieve greater cost transparency which led them to initially disclose significantly higher costs but then manage these costs in the following years with considerable success.
- Jason and then Imran discussed the efforts to create a more consistent template for cost disclosure with funds and the Investment Association working together in conjunction with the LGA.
- Chris Sier then discussed the journey he has been on since 2008 to bring cost transparency into the spotlight. He set out the “half brick” proposition currently under discussion: an independent non-profit utility which would collate and check cost data. This would provide meaningful information for funds and managers, manage information sensitivities, avoid cost benchmarking, and instead help funds better understand and manage their investment costs.

Stream Session 1: Governance outcomes
Adrian Chapman and Lorraine Harper, JLT Benefit Solutions

- Outlined the governance arena in public sector, trust based and contract based schemes and reminded us all of the requirements of Code of Practice
- Current issues were summarised, including data integrity, GDPR and a high level overview of a fund’s requirements.

Stream session 2 – The Race is on, which return premia should the pools be chasing?
John Harrison, Independent Investment adviser, Surrey County Council
Jo Holden, Partner, Mercer

- Highlighted the importance of investment beliefs, and that pools should have a clear set of beliefs that will help shape the way in which they are governed and how investment options are structured.
- Tested the audience’s views on investment time horizons and attitudes to illiquidity premia.
- Considered examples of how opportunities in infrastructure and private equity could meet the requirements of the pools and how they might best access the available opportunities. The complexity premium or even the simplicity premium was also debated.
John also highlighted the growing importance of employer focussed investment strategies and the need for pools to offer the range of options that met their risk and return requirements.

Comparisons were made with other large pension funds and endowments to look at their approach to investing in a range of investment options. It was noted that given the diverse nature of the pools the route to investing would be driven to a large extent by their starting point.

Plenary 4 – The future of admitted and other bodies in the LGPS

Jeff Houston – Head of Pensions, LGA

Neil Mason – Senior Pensions Adviser, Surrey Council

Mark Packham – Director, PwC

Jeff and Mark talked about the work that has been done on academies for the SAB. PwC have researched and collated in their report the LGPS issues arising from the academisation program from the perspective of many different stakeholders.

Following a discussion with ministers (*tbc with any new ministers after the general election), it has been decided to look for solutions to academy problems within the LGPS structure.

DfE, DCLG and SAB have outlined their objectives that the solution should target: DfE are seeking more consistency in contributions and lower time burden on academy staff; and DCLG/SAB are looking to ensure that no debts are transferred from the academy sector to other areas of the LGPS.

Neil spoke on the many challenges faced by LGPS administrators in working with employers. (Including poorer quality accommodation and food available at administration conferences compared with investment conferences!!)

Plenary 5: Next steps for Scheme Funding

Fiona Farmer, National Officer, Unite the Union and Chair of the Cost Management, Benefit Design and Administration Committee, Scheme Advisory Board in England and Wales

Jon Bayliss, Government Actuary’s Department

Fiona covered cost management process in LGPS, legislative background, Treasury and SAB processes and the interaction between the two.

Conclusions that can be drawn at this early stage are:
- Cost management is a key component of the new scheme
- Both arrangements are untested
- There will be a lot of scrutiny, comment and interest
- There will need to be effective and meaningful engagement with all stakeholders

Jon spent 13 minutes on Section 13 including the process and timeline, learnings from dry run and what it means for funding.

Learnings from the dry run: increase stakeholder engagement throughout the process, populate missing measures, perhaps add some new measures and recognise covenant work carried out by funds.

Expect the 2016 valuations report in spring / early summer 2018.

What it’s not? It’s not the naughty step, about affordability, overriding funding decisions or forcing mergers or defunding the scheme.

But it is aiming to help funds understand risk and increase transparency. GAD are most keen that Section 13 provides scheme managers with what they need.
Plenary 6: A Global retreat

Isabel Oakeshott - Political journalist and broadcaster

- gave an entertaining overview of political observations and election highlights past and present
- most notably including famous manifesto cock-ups of the past, a league table of politicians to have lunch with, and the outlook for the June 2017 General Election for all of the parties.

Plenary 7: The Governance Premium

Fiona Frobisher – The Pensions Regulator
Steve Simkins – KPMG
Clare Scott – Lothian Pension Fund
Lesley Williams – PLSA

- The panel shared their experiences and thoughts on how to ensure that governance oversight is effective and adds value.
- Points raised included effective training, a board make up with a diverse skillset, experience and cognitive mindset, and pension fund and administering authority separation.

Plenary 8: Global Forces

Neil Williams - Hermes

- The outlook for the global economy. Key points were:
  - The US is leading a two-speed recovery, but recent upwards inflation is driven by cost factors not demand.
  - Fiscal policy is likely to be loose for longer – at least another two years of negative real interest rates.
  - Brexit is a global issue as is US protectionism.
  - Euro-zone is still a monetary rather than an economic union. QE is no panacea for this area and fiscal tools will be needed.
  - China has a range of options to soften their landing and will use them as needed.
  - In summary - predicting a year of two halves; even 10 years after the global financial crisis the quest for yield will continue.

Plenary 9: Delivering Local Solutions in a Changing UK

Lord Hutton

- spoke about how the LGPS is front and centre of pensions infrastructure in the UK
- he feels that pensions and savings will be at most a marginal issue in the general election.
- the 4 issues he believes are most important for the LGPS:
  - (i) MIFID II and the LGPS status as a professional investor
  - (ii) Continuing need for transparency and accountability in the governance of the scheme
  - (iii) The need to address deficits through improved investment performance
  - (iv) The opportunity for further cost savings through increased shared services and potentially a smaller number of bigger Funds. (Pooling, the return!)

Plenary 10: Complex Time: Embracing resilience and creativity

Tim Harford - Financial Times columnist, BBC broadcaster and author

- Explored the well-known phrase “Success begins with failure” noting that many failures do not lead to future successes. In order for success to follow failure, three key stages are necessary. These stages aren’t easy to implement and Tim talked through the key difficulties with each.
1. An open exploration of options or new ideas – the challenge to this step is group think and our tendency towards conformity.

2. An open and honest feedback loop – the challenge here is a reluctance to give or receive real feedback.

3. Rational thinking about changing course – the difficult part of this is often our reluctance to accept a loss without the loss impacting future decisions.