Conference highlights

Room 151's LGPS Investment Forum (16 November 2021)
London Stock Exchange

Philip Pearson
Head of LGPS Investment

This in-person event covered a wide range of investment-related issues for Local Government Pension Scheme funds, including valuations, strategy, COP26, the macro-economic outlook, social infrastructure, a panel of Pool CIOs, and a neuroscientist's view on cognitive bias in decision-making.

If there is something here you would like to discuss further, please get in touch with your usual Hymans Robertson contact.

Welcome and Introduction

Aoifinn Devitt (CIO Moneta, and Independent Adviser) was chair for the day, and outlined the structural changes for which LGPS funds need to be poised to adapt.

Valuations, cashflow & strategy

Philip Pearson, Head of LGPS Investment, Hymans Robertson,
Jill Davys, Head of LGPS, Redington,
Phil Triggs, Tri-Borough Director of Treasury & Pensions, Westminster City Council

- Philip pointed out that reduced investment risk needn't mean "de-returning", and described three scenarios a fund may adopt in view of a strong funding position: accumulation (maintaining contributions and investment risk), affordability (reducing contributions), or stability (reducing investment risk);
- Phil highlighted the questions funds may ask themselves, such as "How comfortably funded should we be before considering relaxations?" and "What are the fund's investment beliefs?". He reminded us of the two-decades-long hangover of the few years' contribution holiday which some funds took in the early 1990s;
- Jill pointed out that some funds may face pressure from councils on the need to find (say) adult social care budgets. It was agreed the fund still needs to be able to answer the question "Why can't we reduce contributions?" if that is to be ruled out.

COP26

Meryam Omi, Head of Sustainability and Responsible Investment, LGIM,
Abbie Llewellyn-Waters, Head of Sustainable Investing, Jupiter Asset Management,
Richard McIndoe, Director, Strathclyde Pension Fund

- Meryam summarised the key COP26 outcomes, including that 1.5 degrees remains possible but difficult, and that the focus will need to be on short term targets rather than 2030, 2040 etc;
- Abbie discussed TCFD requirements, confirming these are in effect predictions of preparedness, based on strategy and risk management. She said that quantifying the internalised cost of carbon emissions is becoming a reality;
- Prospective regulation on biodiversity – the Taskforce on Nature-Related Financial Disclosure – was also mentioned;
- Richard spoke about Strathclyde's experiences in these areas, in particular highlighting the great importance of engaging with managers, the limitations of ESG-tilted benchmarks, and making sure any divestment policy is targeted in scope.

The Macro View: The economy, global markets, inflation

Kallum Pickering, Senior Economist, Berenberg,
Jamie Dannhauser, Economist, Ruffer

- If we consider that the decade following the financial crash is **not** a realistic template for the future, then there are optimistic signs such as the unprecedentedly fast recovery since Spring 2020, strong fundamentals, and confidence in policymakers' reactions to the pandemic;
- Whilst not returning to 1970s economics, inflation may become higher and more volatile, with the pandemic being an accelerator rather than a cause. Current inflation increases arise from firms needing to invest and hire;
- How central banks react to current inflation will be very important to future economic direction, but is currently uncertain.

Fixed income focus

Sergei Strigo, Co-Head of Emerging Markets Fixed Income, Amundi Asset Management,
Lee Clements, Head of Sustainable Investment Solutions, FTSE Russell,
John Harrison, independent adviser, Border to Coast

- There is arguably a greater case for fixed or index-linked income assets now that cashflow is becoming increasingly negative, employers looking for more tailored investment strategies, increased value of inflation protection, and greater need for diversifiers;
- Gilt yields have broadly halved in each of the last four decades;
- Bond investors have significant influence over companies, and can invest in a specific project rather than holding equity in the entire company.

CIO Panel

Daniel Booth, CIO, Border to Coast,
Jason Fletcher, CIO London CIV,
David Vickers, CIO, Brunel Pensions Partnership,
Richard Tomlinson, CIO, Local Pension Partnership Investments

- A moderately inflationary environment is not a problem, and is already priced in by markets;
- Most asset classes look expensive but equities at least offer potential upside so are likely to form a significant part of Funds' portfolios for the foreseeable future;

- Commodities were flagged as an asset class to consider, particularly metals given the strong demand from decarbonisation initiatives and the structural constraints on supply which will likely take longer to fix than energy supply;
- Higher inflation puts more pressure on cash holdings as they may lose c.10% in real terms over the next two years;
- Impact sub-funds can have great influence on companies' behaviour;
- Climate transition in reaction to COP26 will likely give infrastructure opportunities;
- ESG/net zero considerations are already woven into Pools' working, with ESG and investment teams being integrated.

The Built Environment

Gaston Brandes, Director, Franklin Real Asset Advisers,
Simon Chisholm, CIO, Resonance,
Tim Mpofu, Head of Pensions and Treasury, London Borough of Haringey,
Paddy Dowdall, Assistant Executive Director, Greater Manchester Pension Fund

- Impact investing in real estate is possible via social infrastructure (healthcare, education, social housing, justice buildings), providing both financial and impact returns (the latter being assessed by specialists, on both social and environmental criteria);
- Dual objectives: financial return (typically CPI+5%) and social impact;
- Housing associations are less risky landlords than in the private sector;
- Tim and Paddy spoke about their respective Funds' experiences in this area, including their reflection of the Funds' investment beliefs.

Emerging Markets - Special Focus

Krishan Selva, Client Portfolio Manager of Emerging Market Equities, Columbia Threadneedle

- Krishan showed how the EM universe has shifted in the last decade or so from cyclical industries with large state presence, to structural growth firms in the private sector;
- The Chinese population is getting older, richer and sicker, all of which points to expanding healthcare infrastructure markets;
- In China, it is critical to invest with policy not against it – investments in sectors such as semiconductors and EVs for example have benefited from their Made in China 2025 policy;
- EM has great depth and quality, leading to various opportunities across various themes.

Private Markets & Alternative Investments

Tricia Ward, Director, Private Markets Research, Redington,
James Penney, Chairman, Darwin Alternatives,
Gillian de Candole, Portfolio Manager, Lothian Pension Fund,
Andrien Meyers, City of London & London Borough of Sutton

- There is increased demand for sustainable impactful strategies, in particular James discussed his experience working with fragmented overlooked areas such as holiday parks and the bereavement sector;
- These strategies may be able to deliver ESG results also;
- Gillian and Andrien spoke of their Funds' experiences here, including the need to weigh up opportunity value vs governance burden (eg the likely added number of managers). It was also noted that smaller funds could collaborate or work with their Pool to achieve suitable scale.

Cognitive bias and how it affects people's decision making

Professor Tali Sharot (Cognitive Neuroscientist, University College London) rounded off the conference with thoughts on how understanding the human brain helps us understand markets:

- Confirmation bias – disregarding information which disagrees with our view (NB those with better analytical skills are **more** susceptible to this);
- Overconfidence bias & optimism bias mean we are more likely to seek out good news, but also over-react to bad news;
- The above can be countered by strictly assessing competence (not confidence),and having an impartial third party to review decisions. Policies should be used to guard against our biases.