

Conference highlights

Room 151's 4th LGPS Investment Forum (8 November 2023)



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The annual Room 151 LGPS Investment Forum took place on 8 November. The event was expertly chaired by Aoifinn Devitt and covered a wide range of investment-related issues for Local Government Pension Scheme funds, including asset allocation, investing in sustainable infrastructure and inflation & interest rates.

Chair's opening remarks

Aoifinn Devitt, Moneta

Aoifinn opened the conference by talking about the high levels of volatility in markets, the K-shaped recovery from Covid-19 and the wide-ranging crises being witnessed across the globe at the moment.

Asset allocation – strategic choices and tactical opportunities

Philip Pearson, Hymans Robertson; Laura Coliss, NESPF; Sean Johns, Cornwall County Council

- Philip discussed current issues that are driving asset allocation changes at LGPS funds, noting that some are pulling in different directions. Despite strong funding levels, de-risking opportunities remain relatively limited. Market opportunities include investment grade corporate bonds, factor-based equities and absolute return.
- Laura discussed NESPF's high 2023 valuation funding level. The fund is more likely to cut contribution rates rather than de-risk its investment strategy. Reduced contributions will affect cash flow, and needs considered in future.
- Sean noted the strong funding gains Cornwall has seen recently and that cash flow would soon become a concern to the Fund, causing changes to their strategy such as allocating to investment grade corporate bonds. Contribution rate reductions would likely be considered alongside de-risking.

Investing in sustainable infrastructure – net zero ambitions and novel opportunities

Gianfranco Saladino, Swiss Life Asset Managers; Peter Bachmann, Gresham House; Luke Webster, Greater London Authority; Paul Guillioti, Richmond & Wandsworth Councils

- Gianfranco discussed the importance of decarbonising the transport industry, but noted challenges in this area, such as the large levels of investment required. He provided an example investment in rail infrastructure technology which should reduce the reliance on road transport and emissions.
- Peter explained the challenge of decarbonising, providing the example of agriculture, noting that globally cows produce as many greenhouse gases as Europe, Japan and the US combined. He discussed the benefits of various investments in vertical farming and fibre broadband, including to the local areas.
- Luke discussed the returns offered by sustainable investments. These come from the efficiency improvements that businesses offer, or behavioural factors leading people to use sustainable solutions. Investments that aren't yet economically viable need long-term commitments to achieve this.
- Paul discussed Richmond & Wandsworth's investments in the energy transition, which help the Fund's transition to net zero as well as earning strong returns. Meeting different political views on these issues is challenging, but the benefit these investments offer can be communicated to climate pressure groups.

Keynote – 'If I were Chancellor for the day'

Chris Hulatt, Octopus Group

- Chris suggested how he would try to support economic growth in the UK if he were the Chancellor.
- More financial support and better role models are needed for entrepreneurs to help new businesses form and help create jobs eg as achieved by the Enterprise Investor Scheme and venture capital trusts. The next stage of finance to help businesses to scale up is missing in the UK.
- Efforts to commercialise intellectual capital from UK universities/research institutes are needed, noting that the risks and timescales meant it was often ignored. The Government needs to make investment easier and even offer first-loss positions to help institutional investors. Benefits can also be realised via individual savers, through improved education and the ability of ISAs to invest in start-up companies.

LGPS survey presentation

Paul Myles, Schroders

- Paul ran the audience through the key findings of the Room 151 [annual survey](#) of the LGPS.
- This included beliefs around pooling, such as it being a success now or in the near term and the potential for changes in the number of pools and ability for funds to invest in other pools. There are strong signals of further commitments to private markets by the LGPS.
- Levelling up investments are expected to focus on renewable energy infrastructure and residential housing. Meanwhile, uncertainty remains around carbon-reducing investments.

Inflation & interest rates – investment opportunities and challenges for the LGPS

Piers Hillier, Royal London Asset Management; Seth Meyer, Janus Henderson Investors; Andrew Parry, J O Hambro; Peter Wallach, Merseyside Pension Fund

- Piers discussed how short-term inflation appeared to be on its way down, but that over the longer-term it was expected to be higher. Interest rates were at, or almost at their peak, with the greater dispersion in markets leading to opportunities for active management.
- Seth debated the challenge higher interest rates were bringing to markets, including the difficulty in finding businesses that could survive and produce positive returns. Yields are at attractive levels and duration risk would be rewarded. Recent high correlations between assets were also due to inflation being high, but that they would fall again once inflation was back below 3% pa.
- Andrew believes that listed markets were being undervalued due to an investor preference for private markets. He discussed the challenge for investors in predicting the future – whilst the market's moving to more normal conditions, it was coming out of an extended period of unusual conditions.
- Peter discussed the challenge high inflation was creating for the Merseyside Pension Fund. The Fund has been increasing investments in fixed income assets for the purpose of generating cashflow.

CIO panel

Gordon Ross, LGPS Central; Joe McDonnell, Border to Coast Pensions Partnership; Richard J Tomlinson, Local Pensions Partnership Investments

- The session debated the government's latest consultation on LGPS investments, levelling up and the pools meeting demand from their partner funds.
- Gordon stated that LGPS Central are not attempting to second-guess the outcomes of the consultation but address them once they had been confirmed. He also mentioned the strong demand for private markets assets from partner funds.
- Joe discussed the push for increased internal management from the consultation and Border to Coast's efforts and experiences in that area. He noted that levelling up investments were a contentious area but that there was general support from their partner funds to do more.
- Richard said that levelling up and investments that supported the UK were fine, but that they needed to produce the right levels of return and risk if the LGPS was going to invest. He also discussed the challenges to investing in the UK, such as a less entrepreneurial spirit when compared to the US.

Private markets – what role going forward for the LGPS investor?

Nick Holman, Kartesia; Ernie Chesculescu, Barings; Neil Berry, East Riding of Yorkshire Council; Phil Triggs, Westminster City Council

- Nick discussed the private debt market, noting the large growth in investor interest and commitments, the high levels of yields and the increased risk of defaults. He also noted several loans Kartesia had made in the UK, and how they supported levelling up and the growth of the UK economy.
- Ernie presented on private placements, explaining what they are and the current market opportunity.

- Neil discussed his Fund's private markets allocations, noting they had been investing in the area for a long time. The Fund divides its investments into private equity, private debt and "other", which included climate opportunities, local impact and natural capital. He noted the benefits of diversification, but that they were hard work to manage and limited an investor's ability to make tactical changes.
- Phil discussed the variety of investment strategies across the funds that he works with, noting the diversification benefits private markets have offered to the funds that invest there. The fund with the simplest investment strategy had done very well historically.

Theme of the local heroes – levelling up & impact

Louise Evans, Franklin Real Asset Advisors; John Styles, Knight Frank Investment Management LLP; George Graham, South Yorkshire Pensions Authority; Jonathan Digges, Octopus Investments; Mark Gayler, Devon County Council

- Louise manages a social impact infrastructure fund, with dual aims of financial return and positive social impact. She talked about the areas of focus for the fund, in housing, healthcare and education.
- John manages a portfolio of local investments for the Lancashire Pension Fund, including assets in Blackburn and Lancaster and their positive impact on the area. He noted the challenges in local investments, such as the ability to deploy capital at scale, the potential conflicts of interest and the risk.
- George was asked why he had wanted to start making local investments when he had worked for the Lancashire Pension Fund. He noted the large investment opportunities he saw in the area, and emphasised that they never made a local investment where they felt they were compromising on returns. He noted the benefits of diversification and the ability to see the real world impact the investments had.
- Jonathan discussed how Octopus were looking to help investors who wanted to overweight investments in a particular area whilst still investing in nationally run funds, through the use of co-investments.
- Mark explained how his Fund had decided to invest in local impact opportunities, noting the interest from the pensions committee. Investments focus on Devon or the wider Southwest, and they'd partnered with Brunel on the opportunity. Due to resource constraints at Brunel, they also worked with other partner funds. Having an investment manager in the process helps to remove conflicts of interest and ensure that financial return and risk requirements were still being met.

Nature capital & nature-positive investments

Stephen Addicott, Stafford Timberland; Robert Hall, Federated Homes Limited; David Spreckley, London Borough of Barnet, Alex Younger, Norfolk Pension Fund

- Stephen discussed the important role trees played in decarbonising the planet; they absorb 20-25% of global carbon emissions. He discussed the various risks when investing in forestry, noting the largest was pricing risk, as investments were so difficult to derive a fair value for.
- Robert's managing a new fund that's invested in nature-based solutions. He outlined the solutions and the universe of investment opportunities, dividing these into real assets and private equity. Businesses are seeing increased demand for their products because of the benefits they provide to nature.
- David discussed the work that Barnet had done to achieve a net zero target of 2030, including investing 20% of their assets in forestry and renewable energy infrastructure.

- Alex discussed some of the forestry investments Norfolk have made in forestry, for financial return and diversification purposes, rather than net zero or nature reasons. He discussed how they can be complex investments but also very beneficial to a portfolio.

The outlook for equities – active, passive, impact and sustainability

Rosie Rankin, Baillie Gifford; Lauren Juliff, Storebrand Asset management UK; Neil Mason, Surrey Pension Team; Bola Toburn, London Borough of Harrow

- Rosie covered BG's Positive Change fund. It invests in solution providers to a wide range of global challenges, including demographics, healthcare and biodiversity loss. Issues can't be fixed with exclusions policies; instead investing in companies helps to fix problems and produce attractive returns.
- Lauren discussed passive "Paris-Aligned" investment funds. Research shows that issues with data and portfolio construction leads to solution providers to climate change being excluded by these funds and the "Magnificent 7" companies being significantly overweighted.
- Bola debated the benefits of active and passive management in decarbonising and sustainable investments. Whichever approach applies, investors need to be very clear with their investment managers over expectations. Active management has a greater ability to affect change at companies.
- Neil discussed how many passive strategies were not truly passive and were in fact making large bets relative to market cap weighted indices and were undertaking high levels of trading. Surrey's allocation to different equity regions explores the different approaches of market cap-weights and GDP-weighted.

Chair's closing remarks

Aoifinn thanked everyone for their attendance and noted the importance of the LGPS working together on the wide range of complex issues that had been discussed.

If there is anything in this conference highlights document which you would like to discuss further, then do get in touch with your usual Hymans Robertson contact, or [get in touch here](#).