HYMANS ROBERTSON

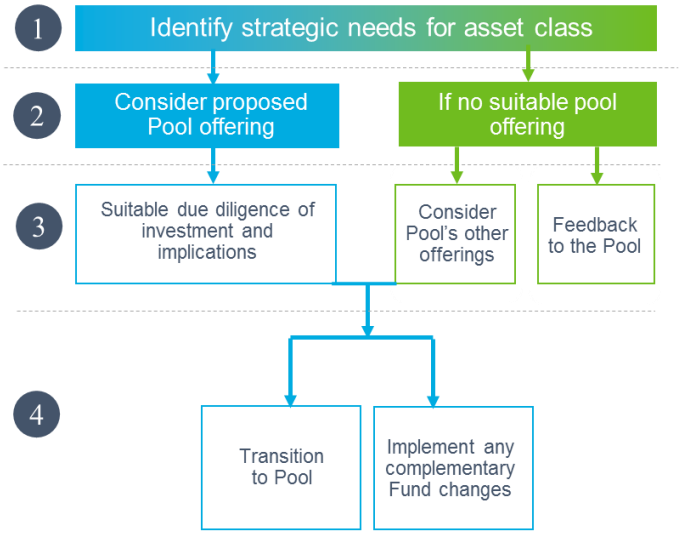
Looking back on 2018

Last Christmas, we gave you our … Local Government Pension Scheme priorities for 2018. This year, to save you from tears, we reflect on these from investment, actuarial, and governance & benefits perspectives.

Investment

The three main themes dominating the investment headlines have been structural reform (pooling in England and Wales, and the recently closed consultation in Scotland), strategy, and of course environmental, social and governance ("ESG") issues.

It's Beginning To Look A Lot Like **Pooling** - with assets starting to flow into the pools during the year. When working with Funds we have sought to use the following framework to ensure that Funds' strategic needs and beliefs are being met and the risks are being managed (we discussed the risks associated with asset transitions in our January summary).



ESG is now very much part of the main stream, with people realising it sits across all aspects of pension risk management e.g. our July report, "Hot and Bothered" discussed the potential implications for longevity assumptions: not much evidence of a Winter Wonderland here! The importance of ESG is reflected in the number of workshops and ESG related advice we have provided through 2018. Recommendations from the Taskforce for carbon financial disclosures and the IPCC October 2018 report mean we see this focus on ESG matters continuing.

On the back of strong funding gains over recent years, **investment strategy** discussions have largely focused on how Funds can generate the required returns but also their predictability, all with the aim of keeping contributions stable and affordable (our July 60 second summary discussed "What to do at 100% funding"). This typically has seen Funds seek to further diversify their assets or look to introduce some form of equity insurance. We anticipate this focus on seeking to generate returns, but with greater predictability, being a continuing theme for 2019. We also anticipate there will be a greater focus on cashflow management, which we discussed in more detail in our 60 second summary, as funding levels improve and Funds mature.

Actuarial

Once upon a time, LGPS funding was something which was only looked at every three years; now of course it's a topic to be regularly considered. We identified the need for better funding outcomes for the Funds and employers, helped by employer engagement and management of your resources.

The Scottish Funds completed their 2017 valuations, showing **better funding outcomes** and a reduced investment return required to keep their well-funded position. And this year, we have already been working with many Funds in England and Wales to help them set Council contribution rates ahead of the 2019 valuation date. The annual Celtic Manor Investment Summit saw us reflecting on how to separate actuarial reality from Fake LGPS News: I Believe In Father Christmas indeed!

2018 continued the increased focus **employer engagement**: we concluded our short series of articles looking at the scheme from different employers' perspectives, acknowledging that there are over 13,000 individual "stories" in the LGPS. We continue to help manage those situations which are described as "too expensive to stay, too expensive to leave", although we had previously outlined how that need not be the case. And the Amendment Regulations brought in a seemingly-simple adjustment allowing surplus refunds on cessation, which actually heralds many complications which Funds should tackle, summarised here.

However, **resourcing** continues to be an issue for most Funds, which is why we haven't slowed the pace of bringing you online services and refined processes. Two examples during 2018 were employer asset tracking and data handling.

Governance and Benefits

If there was one central theme that ran through governance and benefits administration this year, it had to be the increasing presence of **The Pensions Regulator**. In particular they issued a blizzard of notes as part of their "21st Century Trusteeship - Ignore at your peril!" campaign: Let It Snow, Let It Snow, Let It Snow! Part 4 of the tPR campaign covered the vital matter of training for committee and pension board members: our summary considered some of the ways to assess knowledge and skills, and design a training programme to address any gaps (we also took the opportunity to crowbar in some references to one of the team's favourite bands!). Subsequent instalments covered other skills to help committees function effectively: the importance of risk management and conflicts of interest.

Picking up the baton on LGPS-wide **risk management** in May, we launched the first ever national confidence assessment among LGPS committee and board members. This was designed to give funds a way to identify training and development needs and adopt best practice governance principles. Over 250 members from 50 funds responded making this a unique insight into how well prepared committees and boards feel to carry out their vital role. You can read all about the national results here. But what will the role of Committees be in the future, and how much separation will there be from the Administering Authorities (typically the principal Councils)? Our seminar in September considered the various options open: watch this space!

On the **data** front, 2018 saw many funds dealing with the continuing challenges of data in the tPR world, and increased complexity around annual allowances: from a pensions taxation perspective, Budget Day tends not to be The Most Wonderful Time Of The Year! Finally, let's not forget GDPR - this festive round-up from the Information Commissioner's Office is definitely worth a read.

Summary

So 2018 has been pretty eventful, with lots of genuine achievement which bodes well for 2019. In the meantime, all of us at Hymans Robertson hope you're Driving Home For Christmas for a wonderful festive period, and the very best for the New Year.