HYMANS ROBERTSON

Conference highlights

LGC Investment Seminar, Carden Park, 27-28 March 2025

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The spirit of collaboration was in full evidence at the recent LGC conference. It was great to see so many familiar faces and share insights and views in what is a very busy time for the LGPS (a selection of which are summarised below).

Day 1: Thursday 27 March

Introduction from LGC and the Chair

Dawn Turner

- Dawn welcomed everyone to the 20th year of the LGC running events for the LGPS.
- There's no space for complacency in the LGPS – financial strength is good, but we need to be even more alert given upcoming consultations and apply the skills required for good governance, due diligence and adaptability.

Economic market overview – current themes and future focus

James Ashley, Goldman Sachs Asset Management

- James explained how the nexus with geo-politics and structural change has not been this close for a long time. There is a need to understand them all and the interconnections. Climate change, geo-political shocks and our aging demographics are all inflationary in nature.
- Ageing societies create inflationary impulses. China's population is predicted to fall and age, increasing labour costs and prices.
- Central banks are likely to operate more hawkishly. The market is catching up to a new reality that interest rates will be higher than in the recent past.
- Despite the challenging outlook, disruption can create opportunities for solutions, such as infrastructure, real assets, private credit healthcare and technology, which need fundamental investment and will have increasing demand.

Investing in the UK to boost economic growth

Joe McDonnell, Border to Coast Pensions Partnership; Lorna Pimlott, National Wealth Fund; Rufus Parkes, Macquarie Asset Management; Trevor Castledine, LGPS Central

- Clearly the Government is focusing on LGPS for delivering investment growth.

- The conversation must evolve to delivering local opportunities, not just national priorities, so that motivations are clear, and allocations are diversified.
- The National Wealth Fund will help accelerate investment through being an enabler and co-investor. It will require effective collaboration at the due diligence stage, with the NWF supporting through free-to-use advisory services to cover capability gaps.
- Effective investment frameworks to support decision making and geographic clustering will be key.

Promoting local investment

Daniel Hobson, LPPI; Paddy Dowdall, Greater Manchester Pension Fund; Colin Thomasson, CBRE

- Paddy highlighted the UK's relatively higher poverty rate combined with greater regional inequality. The challenge will be to cover the wider GMPF area, instead of just cherry picking the easiest solutions (typically central Manchester). Measuring the materiality of impact will be key.
- Colin's been appointed to manage the Greater Manchester Property Venture Fund. It has twin aims – get risk adjusted returns and make sure they are achieving the right impact from investment (e.g. economic growth, regeneration and improving lives). He's wary of direct development risk and therefore favours working with partners.
- Daniel suggested the relaxation of strict place-based investment guidelines and instead focus on the themes required by local investment (allow for other non-financial factors such as understanding the local community and economy that you're investing in)

Birds of a feather discussion (covering 7 different topics)

Tim Dickson, Brunel Pension Partnership; Tim Manuel, Border to Coast; Alistair Coyle, ACCESS; Abigail Leech, Local Pensions Partner Administration Ltd; Dafydd Edwards, Powys Pension Fund; Nemashe Sivayogan, London Borough of Merton; Matthew Trebilcock, Gloucestershire Pension Fund

Feedback from the discussions were:

1. Administration collaboration: we're here to pay pensions and that's key. Members are less focussed on what the investments are doing as long as payments being met. Administrators are undervalued and underpaid as it is a very complex role. Collaboration does work and must continue as resource is scarce. LGA are great at providing things centrally in collaborative way.
2. Invest 2035: the UK's modern industrial strategy: UK investment has to stack up on risk adjusted returns. Scale mismatch and lack of expertise as some areas are specialised. Private credit to SMEs is a potential area but a plea for stability in whatever the industrial strategy is.
3. Setting targets for local investment: Government needs to define what local is. Is it national or regional? Local infrastructure is much harder than affordable and social housing. Agreed that there should be targets (or ambitions?) but pet projects shouldn't be allowed.
4. Economic growth and the risk of environmental degradation and sustainability: benefitted from industrial revolution. Sustainability and economic growth are linked. As asset owner, LGPS has responsibility to appointment right managers. There remains a fundamental mismatch between short-term nature of politics and long-term focus on investments.
5. Net performance is the only thing that matters: Two arguments; 'For - because that is fiduciary duty and delivers value and keep costs down, 'Against' - too narrow, needs to take account of risk and volatility of

rates, and noting that ESG and other priorities such as local investment can't be quantitively assessed in this way. LGPS procurement scoring and the need to invest in large RI teams (impacting costs and therefore fees) was also raised here.

6. Pool development: danger of failure of democratic accountability. There is potential merit in being FCA regulated due to a professionalisation of how pool operated, but questions around how this fits with a range of local investment opportunities. No real consensus was found in the discussions.
7. Consultants and pool advice: don't underestimate how difficult it is to build team and platform to deliver this advice. Concerns around conflicts; funds don't think just being a shareholder is enough (or if forced to merge and not a shareholder, where is the route to accountability?). 2028 is very difficult target to ensure no drop in quality from current arrangement with consultants. Still remains unclear why strategic advice from pools is being treated as a priority and included as minimum requirement for pools.
8. Cashflow needs: probable contribution rates reductions at 2025 valuation. Consequence is that it will bring forward cashflow negative position. Need to ensure pool is offering cashflow management solutions.
9. Net zero 2030-2040-2050 – Just transition?: brought discussion in committee rooms to life and how to work together and highlighted challenges and fragilities of net zero commitments. Those with most ambitious targets are being forced to face trade-offs of having set that ambition.

Valuation 2025 - what's going to happen?

Alex Younger, Norfolk Pension Fund; Matt Gurden, Government's Actuary Department; Rob Bilton, Hymans Robertson

- Funding levels will be higher and likely to exceed 110% on average which will grab the headlines.
- But contribution levels and risk of regret of lowering too much too quickly is what matters.
- This will lead to a landscape of 'positive uncertainty' as flexibility and differing beliefs potentially leads to more dispersion in approaches and outcomes. However, GAD will be monitoring this to enable comparability.
- Funds preparing the ground with employers will be key to managing conversations.

Day 2: Friday 28 March

Chair's welcome

Nick Buckland, Kent County Council

- Nick introduced the session by saying how good it was that the LGPS was such a collaborative group.
- The primary focus should remain on delivering member benefits and this should not be lost in the ongoing investment structure discussions and consultations.

Pensions review update

Teresa Clay, MHCLG

- Pensions review aims to ensure long-term sustainability focussing on scale, governance and UK investment.
- Consultation on 'Fit for the future' remains work in progress, but funds are encouraged to start setting local investment targets.

- Final decisions are imminent, but the direction is set. The details will come with the response to the consultation in the next 4 to 8 weeks.

Pension consolidation – Fit for the future part 1 and 2

Part 1: Rachel Brothwood, West Midlands Penson Fund; Chris Rule, Local Pensions Partnership Investments; Euan Miller, West Yorkshire Pension Fund

Part 2: Rachel Elwell, Border to Coast Pensions Partnership; Andrien Meyers, London CIV; Richard Law-Deeks, LGPS Central

- Ongoing societal and market shifts – including workforce changes, scheme maturation, and consultant and asset management consolidation – require funds and pools to adapt while staying focused on member outcomes. Structural reforms must be built on the strengths of the LGPS.
- There is no ‘one size fits all’. Flexibility to reflect this is very important as starting positions are different for various funds and pools.
- Governance and oversight processes need to evolve given increased number of providers. Delegation of responsibilities and clearer guidance is required.
- Local investment was highlighted as a major opportunity, particularly in the context of regional devolution and with Government interest in unlocking pension capital for domestic growth. However, larger pools may make the implementation of “niche” local investment more difficult. Clear fund-level objectives could preserve and even enhance approaches.
- The session stressed the need for the clarity on roles and responsibilities between funds/pools –particularly around strategic asset allocation and implementation –to ensure objectives are achieved without undermining fiduciary duties. There was also discussion of the need for 3rd party evaluation of pools looking at structures and policies (but not micromanagement of decisions).

Securities and litigation session

Guillaume Buell, Labaton Keller Sucharow; Mike Weston, Institute of Cancer Research Pension Scheme; Peter Wallach, Merseyside Pension Fund

- Shareholder litigation is a powerful tool to recover losses and drive corporate governance reform. LGPS funds are increasingly engaging in litigation, moving beyond just US markets.
- However, it’s important to be careful when selecting cases and legal partnerships to mitigate reputational risk. Driving corporate behaviour change—rather than just recouping losses—has become a key aim, particularly for funds committed to the Stewardship Code and responsible capital management.

Private markets: options to maximise investment allocations throughout the term

Amanda Stitt, T. Rowe Price; Peter Wallach, Merseyside Pension Fund

- Investing in private markets is complex, particularly when navigating the challenge of managing liquidity for capital calls, maintaining returns, and avoiding forced asset sales. This can be managed via a dynamic approach which could combine holding cash, retaining legacy assets and diversifying fixed income.
- Pools’ increased roles in managing liquidity strategies could improve visibility and coordination across legacy and new assets.

The latest developments in governance

Becky Clough, LGPS Advisory Board; William Bourne, Linchpin Advisory; Anthony Parnell, Carmarthenshire County Council

- The implementation of Good Governance recommendations through the 'Fit for the future' consultation marks a significant step for LGPS governance. There's a need for better oversight, accountability, and value-for-money assessments of LGPS pools. Governance structures must evolve, with questions around committee vs. board roles and member representation.
- The discussion stressed the need for clear mechanisms to monitor pool performance, ensure appropriate strategic advice, and address underperformance. Independent and informed advice will be crucial for strategic insights and reducing lobbying influence. The 2025 local elections may affect governance continuity, emphasising the need for strong training and engagement.

An outside perspective on the political and economic landscape

Ian King, Sky News

- Financial markets remain volatile, and the UK's economic outlook is mixed, with GDP forecasts revised upwards for early 2024, but recent growth remaining stagnant. Government is prioritising fiscal caution, mindful of market reactions and the legacy of the Truss era, limiting the ability to implement bold policies.
- Despite gaining £9.9bn in fiscal headroom, this amount is relatively insignificant in the context of UK government spending, and could be quickly undone by international events, like Trump's proposed tariffs. Personal diplomacy and international relations will play a key role in shaping these UK-US trade dynamics, with Trump's return influencing UK economic strategies.