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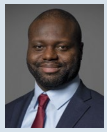
PANEL

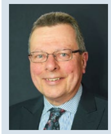
Phil Triggs, Tri-Borough Director of Treasury and Pensions, Westminster City Council

Phil has been tri-borough director of treasury and pensions for Westminster City Council, Royal Borough of Kensington and Chelsea and London Borough of Hammersmith and Fulham since 2017, having also worked at Surrey County Council, Warwickshire County Council and Buckinghamshire County Council. He has worked in local government finance his entire career, previously specialising in revenues collection and rating valuation at Havant Borough Council.



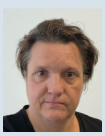
Tony Appiah, Managing Director and Senior Fixed Income Specialist, Nuveen

Tony is a managing director and senior fixed income specialist. In this role, he serves as strategy specialist. Prior to joining Nuveen in 2022, Tony spent seven years at UBS, five in the firm's global wealth management business as lead funds analyst for fixed income. Prior to joining UBS, Tony worked at Brown Brothers Harriman Private Bank where he oversaw the firm's platform of private and public credit strategies. Tony began his career at Clearbrook Global Advisors in Stamford, Connecticut as an investment analyst.



Councillor (Cllr)John Beesley, Dorset County Pension Fund, Brunel Pension Partnership & LGPS Scheme Advisory Board

Cllr Beesley is a member of the Local Government Association Scheme Advisory Board. He was chairman of the Dorset County Pension Fund for five years, and served on the pension fund committee for 20 years. He was chairman of the Brunel oversight board, which set up the Brunel pension pool and represented the Dorset fund on Brunel. He was leader of Bournemouth Council until 2019, at which time local government reorganisation formed the new BCP council.

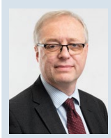


Laura Colliss, Pension Fund Manager, North East Scotland Pension Fund

Laura has over 20 years of experience with the North East Scotland Pension Fund (NESPF). Initially responsible for the fund's accounting function, Laura's remit expanded to include investment oversight as the fund's assets increased. In 2013, Laura was appointed pension fund manager, assuming full responsibility for all aspects of NESPF operations. She serves on the executive committee of the Local Authority Pension Fund Forum and is an adviser to the Scottish Scheme Advisory Board.

Maria Espadinha, Policy Lead, Pensions UK

Maria is policy lead at Pensions UK (formerly the Pensions and Lifetime Savings Association) policy and advocacy team, with a focus on the LGPS, after joining the trade association in 2023 as senior policy adviser. Previously, Maria had a career in journalism in London and Lisbon. She was editor of *Pensions Expert* at the *Financial Times*; and previously worked as a senior reporter for *Financial Adviser* and *FTAdviser*, receiving the Personal Finance Society Trade Press Personal Finance Journalist award in 2018-19.



George Graham, Fund Director, South Yorkshire Pensions Authority (SYPA)

George joined the South Yorkshire Pensions Authority as director in 2018 and, as head of paid service, is responsible for the management of all aspects of the authority's activity that is concerned with the management of a £10.5 billion pension fund with over 170,000 members. Previously he was managing director of Local Pensions Partnership's pension administration business. A fellow of CIPFA, he previously held roles at Lancashire County Council and Rossendale Borough Council, among others.

Alistair Jones, Senior Managing Director, Investor Relations and Business Development, Leadenhall Capital Partners

Alistair has over 20 years' experience in asset management and consulting advising institutional investors on investment strategies including insurance-linked securities, ESG, credit and fixed income. Alistair has worked with DB pension funds, DC pension funds, charities, corporates and other institutional investors over his career at Leadenhall, SEI, Schroders, Aon and WTW. He is a regular speaker at pensions and investment events.

James Murray, Head of Social Infrastructure, AlphaReal

James is head of social infrastructure and co-fund manager of AlphaReal's Social Impact Fund. James focuses on social infrastructure fund growth and leading the origination process. He joined from specialist property consultants, Gerald Eve. He has over 20 years' experience in real estate with a focus on the social real estate sub-sectors: Health, housing and education. James is a qualified Chartered Surveyor and a regular speaker at industry events.

John Nestor, Client Director, Capital Cranfield

John joined Capital Cranfield in 2016, and has more than 14 years' experience as a professional trustee. He is an experienced chairman who also works as trustee board member and leads a sole trustee appointment. As a trustee, John has worked widely across DB and DC benefit structures, including chairing a DC master trust. He also sits on an independent governance committee and is the senior non-executive director of a LGPS pooling asset management company. John also worked with Henderson, Citi and UBS Global Asset Management.

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Chair for the discussion: Neil Mason, LGPS Senior Officer, Surrey Pension Team
Neil leads the £6 billion+ Surrey Pension Fund, one of the 11 LGPS partner funds that make up the Border to Coast Pension Partnership. With nearly 130,000 members and over 500 employers, the Surrey fund has received acknowledgement for its outstanding approach to risk management, governance, responsible investing and admin. Neil is a member of Pensions UK's local authority committee, independent chair of the Local Pension Board for the London Borough of Hounslow and independent adviser to the local pension board of the SYPA.

LGPS: Staying on track

As the government ramps up its focus on the LGPS, our panel looks at what lies ahead for the scheme, the challenges it faces and the investment opportunities out there

Neil Mason *[Chair]*: What is your current feeling about the Local Government Pension Scheme (LGPS) landscape? Is it a time of opportunity, frustration or both?

Maria Espadinha: It's both – it is a time when maybe some of our members are frustrated, but we need to look at it as an opportunity and there is an opportunity to create bigger and better pools. A lot of our members are thinking this is pooling 2.0 and that there will be a pooling 3.0 and they want to be in the best position they can be. The most important thing though, at the end of the day, is the member, and I don't think that any of the funds are not thinking of their members at this point.

So, I do think that there is an opportunity to grow and to make what is already a great scheme even better.

Chair: I agree. It's incredibly important that we don't, in all of this noise and opportunities and product launches, lose sight of why we are in this sector and that it's member outcomes that need to drive all decision-making. I do hope government has that in the forefront of their minds.

George Graham: It's an interesting time, not just because of all the pooling conversations – which is the area that understandably gets a lot of focus – but it's as if, suddenly, a dam has been broken over all the things that have been on the 'to-do' list for the LGPS for the past five or six years. We recently had a consultation on a whole raft of changes to the benefits regulations that put right a lot of things that should have been put right many years ago. The fact that they've not been put right many years ago means there's a massive backdating job to be done.

To summarise, you could say all our Christmases have come at once – all the things we've been asking for, for many years, and asking the government to fix, are being fixed, but do we have to have it all at once? There's an awful lot of change.

It is an opportunity, yes, but some people are underestimating the impact of that on our operations because people are forgetting this is also a valuation year, and that's a lot of work for our teams already. We're all reviewing our investment strategies and many other things that are part of the usual business cycle. So, challenging, but there's opportunity.

Chair: There is lots going on, not least the valuation you mentioned, but also local government reorganisation and where administering authorities are going to reside after that plays through.

Councillor Beesley: Well, I chaired the body that set up Brunel right at the beginning of pooling, and we went about it with 10 funds in a way that was truly collegiate, with trying to make sure we ended up with the outcome the then-government was looking for and, to a large extent, we succeeded in doing that.

We carried on doing that in consultation with the previous government and indeed with the

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current government, and the 10 funds as constituent parts of Brunel have been completely on board in that journey – so it came as a massive shock to the officers and members of Brunel when we found out that, along with the ACCESS Pool, we were being asked to change direction.

The individual constituent funds are now looking to see whether or not we want to go en masse to join another pool, or whether we want to break away and do our own thing for our own fund. Also, Brunel has just recruited a new Chief Investment Officer (CIO), so they're probably wondering why they said yes at this stage, given the uncertainty ahead.

John Nestor: I was shocked by the announcement. Pooling has been around since George Osborne decided it was something the then government wanted to do. It hasn't been perfect, but it's been on a progressive journey and, in the past few years, there has been a lot more cooperation between the funds and the pools. But when you are dealing with an asset management business – which pools are – uncertainty is not your friend. You have people's careers in your hands, and they make decisions based on longevity. There are limited numbers of CIO positions around the country. Therefore, the individual who recently joined Brunel would have thought long and hard about making that choice.

Mergers are very destructive activities, especially in people businesses, and fund management organisations/pools are people businesses. In the private sector, when we announced a merger, we

would have pre-planned exactly when that announcement was going to take place, and we would have secured the vital people who would be in place to manage the transition, and they would be rewarded financially. That hasn't been the case here.

So, this is a difficult situation. There is a huge amount of money invested by the local authorities within the pools of Brunel and ACCESS, and they are being asked to transition at a time when the people with the knowledge and the skill in order to do that may be tempted to move to other jobs which have a better chance of longevity.

Chair: I understand in Scotland that consolidation has also happened to some extent, but more organically?

Laura Colliss: There has been some pooling in Scotland. Lothian Pension Fund is working with several other Scottish funds around managing some money for them and helping to assist with their investment strategies, which has just come out of conversations and working organically with each other. That's probably the preferred way for Scotland to continue. Pooling hasn't particularly been on the agenda.

We have been talking about restructuring Scottish funds for years, and it's never achieved any firm outcome, and I don't think it ever will if you talk to the funds that are involved. Hopefully it will continue that way. We can work together in an organic way that works for the individual funds and for all stakeholders without getting embroiled in the very complicated setting up of pools or then having to merge. No one wants to feel like they're being taken over, whether it's at fund level or pooling level.

So, if we can manage it in Scotland in a way that is more comfortable for everybody, I think that's the way to go.

I know pooling is the big focus at the moment in England and Wales – there are demands on you to deal with that and address the government's requests. But, at the end of the day, the LGPS is made up of the underlying funds, and offering the right remuneration and having the right resources is vitally important at fund level across the UK, whether it's Scotland, England or Wales and Northern Ireland.

The funds need to be able to recruit, retain, remunerate appropriately, because recruitment is very challenging for the LGPS, wherever you sit. So, the future of the LGPS needs to be addressed and have some element of further separation in a reasonable way with the administering authority/council that they're attached to, for us to continue to deliver an efficient, cost-effective service.

Alistair Jones: I would like to offer an investment perspective in terms of opportunities and challenges in the LGPS space. We have been talking of course about the change in the governance arrangements but there's been a change in the world of investment management as well. The past few years has seen a raft of rationalisation in investment arrangements to get to the current pooling status and, from the sounds of things, will continue going forward. So, for all the investment managers around the table, there have been challenges, but there are opportunities as well going forward to work with the pools. But there have been challenges for managers going through that process as well.

Chair: Has it been a positive development?

Jones: Well, we've talked already today about how it can disrupt organisations. It can disrupt relationships as well and you have to forge new ones looking ahead. But it can be a similar disruptor in our space as well. It presents lots of opportunities to work with bigger pools, theoretically more dynamic going forward. But challenges come with it as well to forge those new relationships.

Beesley: I would highlight that performance is the most important thing for all of us in the LGPS. Some seem to be quite keen to just talk about costs. Cost savings are always welcome but performance is what really matters, and getting an understanding through to Ministers about the difference between those two is key.

Even more important is making sure that performance stays on top of the agenda at all the funds – how do we make sure that the focus is on that rather than everybody trying to secure their own territory, or trying to make some kind of piecemeal arrangement with other pools? We've ended up in a really muddled way of thinking, which perhaps we need to get out of quickly. The Scheme Advisory Board (SAB) – and there are only six councillors nationally on the SAB, of which I am one – is doing its utmost to try and focus back through the department about these issues for all the pools.

Nestor: Performance is always paramount in terms of reducing the overall cost, because if you get good performance, the employer contributions can be less. I just wonder if the surplus of the LGPS is what the people at the Treasury might be looking at, and this has taken their eyes off performance as being a priority.

Graham: If it has, they are looking at the wrong thing. From an overall public finances point of view, they want to be looking at the gradual repatriation of surplus as a way of reducing financial pressure on local authorities. If they are thinking they want more investing in the UK, and that's going to lead to growth, they are looking at the wrong thing.

LGPS already invests in the UK – close to 30 per cent of my fund is invested in the UK. That's not untypical. That's massively disproportionate relative to the UK's scale in the global economy. I might not be invested in the things they want me to invest in, that's a different debate. But do the things they want me to invest in match my risk profile? Arguably not.

Phil Triggs: Some might argue that what's happened with Brunel and ACCESS doesn't affect the rest of the LGPS, but it does, because the precedent has now been set that pools can be disbanded and that could happen to any of the six remaining. So, we need to know how this is being done, what criteria is being used.

Chair: Do we agree the government's focus is perhaps on the wrong things?

Triggs: Well, years ago, I devised a conference speech where I compared running a pension fund to piloting a plane – I discovered that, in every facet of flying, there's an equivalent in pension fund governance.

Running an LGPS fund is a bit like piloting a plane, in that we're tasked with reaching a safe and secure destination. But the guidance we're receiving from government is possibly risky, which makes it harder to feel confident that we'll get there as planned.

We need to arrive somewhere decades ahead, still with plenty of fuel in the tanks, and get that plane safely landed. There seem to be loads of distractions aside from paying pensions in full and on time. Lots of other things that we need to worry about, apart from keeping that plane straight and level with sufficient fuel and flying in the most efficient way. This latest draft legislation is very much a distraction.

Before all of these recent developments, each of us as individual fund administrators were required to get the best investment performance out of the fund, and that's the way that

we've tried to keep things on target in the funds I work with. We have managed to keep our performance going and get the funding levels to an enhanced level without being distracted by the other things that we're required to worry about. We do look at responsible investment. We don't get distracted too much by climate change apart from some really good investments in renewable energy infrastructure. We try not to get distracted by the other pressures that exist on divestment. We stick to our stewardship responsibilities.

Chair: Are we potentially losing sight of the retired member in all of this?

Triggs: I imagine we've got our retired pensioners at home looking at this and saying, 'what has all this new legislation got to do with me in terms of paying my pension in full and on time?'

We are required by our fiduciary responsibilities to get the best investment performance, not to invest 10 per cent of total funds in UK venture capital or any of these other things that we're being encouraged to get into; and that process of getting pools reduced to six, or maybe even further down the line to four, is a means of government having some form of influence on the way that the pools are managed with this supposed encouragement to invest in UK, which is not necessarily what's best for the pensioner or the employer whose contributions we rely on.

Economic backdrop

Chair: How are you feeling about the

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macro-economic and geopolitical backdrop, particularly given recent events around Trump's tariff negotiations and current conflicts around the world? What could be the investment return impact, for example, on US tariffs if implemented in future?

Colliss: There's always volatility and there's always geopolitical events going on in the world that affect markets. With Trump's tariffs recently, we all felt that pain when those markets plummeted. But it's generally a short-term pain. The LGPS has always had the ability to ride out that volatility, and it also creates opportunities. We saw that when Covid came, which was right before the Scottish valuations. But markets bounce back, and often bounce back higher, as we saw back in 2008/2009 also.

There's an awful lot of noise out there, and we've talked about noise when it comes to governments already. That's never going to go away. But, for the LGPS in particular, it's about diversification in your portfolios. If you've got good diversification and you need to have a mind on cashflows, you can ride out those storms reasonably well, and don't make immediate reactions when it comes to those fluctuations in markets. One man having the ability to wipe trillions off the markets is a very dangerous position to be in, but markets do tend to bounce back, and I think we can ride out those storms quite comfortably at the end of the day. It's just unfortunate if it happens to be in your valuation year.

Espadinha: Pensions UK did a survey of its members in April and, even though 91 per cent were affected by market volatility, 64 per cent said they were just waiting to see if the market settles. So, yes, volatility is something that is frequent for schemes, including the LGPS, but I don't think that anyone is panicking, even though there has been a big impact. Our members did say, 'we are not currently panicking, pensions are a long-term investment', and we've all heard this over and over again, and this is another situation like that.

Chair: Tony *[Appiah]*, what's your view on the global economy?

Tony Appiah: Coming back to Phil *[Triggs']* airplane analogy, 10 years ago I also decided to take flying lessons, and I had to do my first not quite solo flight, but one where you had to do a lot of the flying. So, we slowed the plane down considerably, and then we intentionally stalled, and the plane just dropped – and you're supposed to recover. I never went back after that! So, my point is, we're slowing, we're not quite stalling. Our view for the global economy is, if you look at the US, heading into 2025, we thought the US would be growing closer to 2-3 per cent. Now, we're thinking more 1 per cent based on all the tariffs, the uncertainty, some of the difficulties there.

In terms of Europe, on the flip side, we expect the continent to grow about 1 per cent – yes, the tariffs are still an overhang. But we think this 50 per cent is more of a bargaining chip than anything because I think Europe has a bigger bite than it sometimes seems. It could inflict a lot of pain on the US. Trade negotiations will remain noisy and take a longer time between the US and Europe so we remain watchful on developments.

But we think Europe is going to grow, given for example what's happening in Germany and some of the fiscal things going on there, and even within the periphery the story is quite strong. Then if you look at the UK, earlier in the year, it looked like there was a lot of faux run-ins in terms of what was going to happen with tariffs. So, we saw a bit of a bounce up in growth.

That, we think, is going to slow down for the rest of the year. So, we're thinking 0.8 per cent GDP growth for 2025 for the UK. Then, at the same time, inflation remains a challenge.

Chair: What does this mean for emerging markets (EMs)?

Appiah: Well, emerging markets continue to be very robust. One of the attractive aspects of emerging markets is their heterogeneity. For instance, you have certain countries that have an even higher credit rating at the sovereign level than their developed market counterparts and then you have others that might be more challenged and perhaps even distressed. Interestingly, in the International Monetary Fund's most recent growth forecasts, they expect emerging markets to grow at nearly twice the rate of developed markets, with a fundamental picture that's actually quite healthy as well.

The bottom line here is, yes, volatility will absolutely remain. Being long term makes a lot of sense as a sound investment strategy. The stock markets have gone down and literally all the way up. So, if you traded them down, you probably made a lot of mistakes.

But on the flip side, yields are elevated and will likely remain so, which is quite attractive (from a historical perspective). In fixed income, it was not so long ago that there were no yields (low or even negative across most of the developed government bond markets) anywhere and now the yield picture is quite attractive in the UK and globally. So, we're really urging clients to think very

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global, to think very strategic and take advantage of yields, particularly at the front of the curve because I think there's going to be a lot of volatility in back-end yields for some time to come. But if you're getting 4 per cent in gilts, you're getting north of that in treasuries, we think it's quite attractive.

Finally, given trends with US credit rating deterioration and policy uncertainty, we are advising clients to think about wider diversification options within high select developed markets (Europe, UK, Japan, etc) and EM bonds, without sacrificing income or quality

Chair: When I started in the business, very few funds had as sophisticated a portfolio as they do now. What place does alternative strategies hold in the portfolios that you look at?

Triggs: It's an interesting one because the Westminster committee made somewhat of a challenge when we put an alternative strategy to them following the Covid situation. There was a bit of a downturn in the market. We were looking to alternatives for further diversification/risk reduction in the overall portfolio and gilt yields were slowly rising. So, we thought gilts and bonds were attractive – and it was time to switch to a small amount into that class. We would have done quite nicely if we'd taken up that recommendation at the time. The committee rejected the option that was put to them.

So, we suggested putting further funds in our infrastructure renewable energy, which has done extremely well. So, it has turned out well for the investment performance and our overall funding level. But it was quite telling to me at the time that I couldn't get funds into the areas that we recommended because it was deemed to be too uninteresting.

The Kensington and Chelsea (K&C) committee has always been a steady racehorse in terms of sticking to its investment beliefs, which is that long-term equities will win the day because we're running with an open, long-term fund, and that is true.

K&C switched £300 million-worth of equities to UK commercial property, whereby we buy the properties direct outright and the fund takes the rental income: the properties are in a bespoke commercial property portfolio, not in a pooled fund. That portfolio belongs to K&C. The chairman's vision was that we would have those properties in the fund for 70/80 years and maintain a steady rental income with future capital growth, which has been a winner because it transformed the fund from cashflow negative to comfortably cashflow positive; when you look at a 5 per cent yield on £300 million and zero write-offs so far in terms of the rental income that is generated and very little in terms of voids. So, that has been a winner, and global equities have tended to still hold together despite the global upsets that have transpired.

We've also looked carefully at other options for K&C, including fixed income. The only recent move there was a 5 per cent holding in index-linked gilts bought at the right time such that there is a positive real yield on those linkers.

So, on the alternative options open to us, it's all very well with consultants generating interesting ideas, but getting your committee to adopt them can be somewhat of a challenge.

James Murray: In terms of social infrastructure, which is what I am keen to talk about today, it's an asset class that can offer consistency of returns when times are more challenging. If we look at the returns that we've had in our fund over the past three and five year period, we've delivered a consistent 7 per cent IRR and income yield of 4.5 to 4.8 per cent. During that period, we've had Covid-19, we've had rising interest rates, and we've had rising inflation that's impacted some of the development opportunities that we've been looking at. But that's one of the strengths of social infrastructure – it's needed by the people and that feeds into that sort of low standard deviation that we see between the good and bad times.

When times are particularly good, we're not going to see that significant yield compression that we might have seen with, say, the industrial sector back in 2022/2023. But equally, when times are more challenging, we're not going to see the yields move out that significantly. So, if we can deliver that appropriate risk-adjusted return alongside that impact as well as that very stable IRR, that's an attractive proposition to form part of an LGPS allocation.

Chair: It is interesting to hear how social infrastructure and EM debt can potentially fit into pension portfolios, especially in the current environment. Alistair *[Jones]*, can you tell us about Insurance-Linked Securities (ILS), and why pension funds might consider them as an option in their portfolios?

Jones: The insurance-linked asset class is very much a pure diversifier from cyclical market events. It provides societies with protection from insurance market events providing investors premium income along the way. What we've mentioned already is that a lot of local authorities, hopefully over the long

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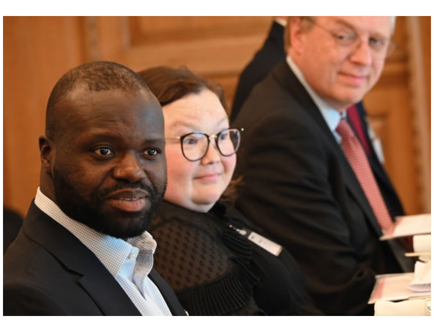
term, can look through volatility and remain heavily invested in equities. But we do have actuarial valuations to worry about every three years when deficits and cash contributions are set. So, a lot of people have looked at ILS for their diversification characteristics especially with all the economic worries at the minute, whether it be Trump, deficit concerns, the US being downgraded or the geopolitical front more generally.

So, liquid public traded cat bonds over the past few years have delivered cash plus 10 per cent. That's very much a middle-of-the-road plain vanilla strategy in our space. So, when people talk about cashflow or yield or income, ILS are very generative for people looking to cover their liability cashflow and pension payment needs. It's a floating rate asset as well. So, when you invest in an insurance-linked security, the underlying collateral is invested in cash, which has been yielding 4 to 5 per cent for the past few years. So, it gives you a good starting position. Then, with an extra fixed coupon on top of 10 per cent per annum (pa) over the past few years, it's been a nice return-enhancing and diversifying strategy as well as providing liquidity.

Also, local authorities with their long-term time horizon can look to the private side of the asset class and where instruments can yield up to cash plus 15 per cent, cash plus 20 per cent pa. So, there's been a big opportunity, and is exactly why some local authorities have been investing historically, and pools have been looking at it now too.



Chair: What about the default rates?

Jones: Well, what you're doing here is protecting society and properties from disaster events, including from climate and meteorological events. This is through the provision of insurance and reinsurance. ILS can default (or attach) and be used to help pay insurance claims. The historic loss rate in liquid ILS has been around 1 to 2 per cent pa. So, similar to corporate loan, private credit and high-yield debt markets (towards the higher quality end of high yield). In practice, the default rates have been lower than expected. The reserving, the modelling that goes on in the insurance industry has been prudent and cautious. Modelling is continually updated on that front. When it comes to the biggest disaster events, whether it be hurricanes or earthquakes, for example, there is data going back a long way to the 1850s, pre-dating a lot of stocks and bonds. So, there is a lot of data, analysis and modelling that can give investors comfort with premiums, income and pricing in the asset class.

But, as with any portfolio, it's about managing the risks, diversifying across risks, regions and counterparties. The Sustainable Finance Disclosure Regulation and EU also recognise (re) insurance as providing resilience and name it as a climate adaptation solution, because it protects people from these climate and meteorological events that are going on. If anything, the world needs more of this to help societies through the risks that we're facing. Large institutional investors around the world such as in Australia, Canada, America and Japan have been providing this protection and benefiting from nice premium income along the way. As the LGPS continues to pool and develop, there's an opportunity for the LGPS to similarly benefit.

Recently, UK investment has been a theme in the LGPS world. Over the last year, a UK reinsurer came to market issuing ILS. That's been great for UK societies protecting them with investors also benefiting receiving premium income, showing how our ILS market continues to develop.

Chair: John *[Nestor]*, where do alternatives sit from your perspective for the funds you look after?

Nestor: You have to appreciate where you are on a scheme's maturity spectrum. It was mentioned earlier today that the mandate is to get the best performance for the fund, and I think that's right. But you have to temper that, to an extent, i.e. are you going to fully invest across all the asset classes to achieve that return?

The way I look at it is, what level of return do I need and where do I achieve diversity from? I believe alternatives do play a useful part in that and, until recent times, I've been invested in real estate debt, infrastructure debt, and private debt and those have done well. But you need to understand what your investment time horizon and what your investment return needs are. As schemes grow more and more mature, they will need to understand this further.

Appiah: When you see all this volatility, I think liquidity is actually a very underrated asset class right now. It speaks to some of the things that I talked about earlier in the emerging markets on the fixed income side. When I look at the different LGPS funds, I see quite a bit of exposure in equities in the emerging markets. A lot of the pools, I believe, have dedicated EM equity allocations. But on the fixed income side, only one in eight have dedicated EM debt exposure. Most choose to access that through multi-asset credit. But if you think of emerging markets as a £23 trillion asset class, that's

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a lot of opportunity.

Historically, it has returned around 4 per cent over gilts, going all the way back 20/30 years. What's even more interesting is, if you look at EM equities and EM hard currency fixed income, their returns have been literally the same although the latter has exhibited just a fraction of the volatility of the former.

So, to John *[Nestor's]* point, what exactly do I need from a return standpoint and how do I get there? Yields are elevated. So, that's attractive in places like EMs where the fundamental backdrop is very nice – if you're getting paid and still having that liquidity, that's quite precious. Another angle to your point on opportunity set is that EM fixed income is much more diversified from a country and regional perspective, so when investors allocate to EM equities, they are typically getting very concentrated exposure to a few countries/regions (i.e. Asia) – this is not case with EM fixed income.

Beesley: I would like to make a final point here and it is about the position of being steered by government as to where we invest and how we invest. That's fine at one level, perhaps. We've all been doing it for as long as I can remember. But the government takes no risk in any of this. The government isn't saying, 'if we don't get this right, we'll co-underwrite it with you'. It is saying, 'get on and do it, you're on your own'. I don't think that's how the LGPS is meant to work.

Sustainability

Chair: How can we do sustainability well in an LGPS context?

Graham: Our ultimate investment objective remains: As a minimum, you must make the discount rate that the actuary sets and, unfortunately, one of the things that's happening now is, because interest rates are going up, discount rates are going up. That's not helpful. I've got a higher discount rate this valuation than I had at the last valuation, despite the fact my funding level has gone up massively. So, that objective remains the same and that's the ultimate thing we've got to do.

But return is more difficult to find if you look in the places you've always looked. So, we go and look in places that we haven't looked before, or that we don't ordinarily look; and we have all these subsidiary objectives around net zero, making sure we invest sustainably and responsibly, and all of those things which are important. We also have some objectives around local impact.

So, we start looking at what opportunities we can find in those spaces and, in some cases, we consider how we can make better use of the assets that we already own. For example, we did a lot of work to turn our agricultural land holdings into an asset that positively contributed to our climate transition. But, as a consequence, we'll ultimately make greater returns than previously.

It's a similar thing with our local investments – we're looking to make investments in things, in places, that we wouldn't ordinarily have looked, but the opportunities are there because no one else is looking. There's a lack of competition for those assets and we are well placed to act because we have connections to the local authorities and other people in the place. Now, we serve a sizeable urban area. It's probably easier for us to do that than in other more rural areas perhaps with less opportunities. But you play to your strengths.

Espadinha: I think there's an optimal situation right now. We have the government saying LGPS funds need to increase their investment in local communities, and there's a very good link to sustainability and investing in those kinds of assets. So, there should

be a greater link between what the government wants and what sustainable assets there are available. This link is also missing when we're talking about growth and the growth debate, and the government wanting to have more investment in UK growth. But it's been siloed in terms of what sustainable assets there are around the country.

To Councillor Beesley's point, they're asking for all the risk to be on the LGPS side, but what about also having a pipeline of assets? This is something Pensions UK has been arguing for – a pipeline of assets that can identify those opportunities would help immensely and unify those two objectives.

Murray: We have a mandate with the Greater Manchester Pension Fund (GMPF) in which we look to invest in social infrastructure in the northwest of England. One of the strengths of being given an area in which we need to invest – in social infrastructure to deliver returns alongside impact – is we, as investment managers, can establish relationships at a local level, both with tenants and with local authorities, to understand what their requirements are. We have the opportunity to develop relationships with developers too, to build up that pipeline of opportunities because what we also want is repeatability. We don't just want to deliver one opportunity. We want to use that team, that partnership approach, to deliver a series of opportunities to maximise the impact being delivered.

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In Dorset, we are working on the potential delivery of a medical centre. The developer has been struggling with rising build cost inflation, and a bit of intransigence from the NHS in terms of what rents might be signed off. However, it's a live opportunity that would deliver genuine impact to around 12,500 people by improving the quality of the local primary medical facilities, but also the range of services that can be delivered. From our perspective, this is a compelling investment proposition delivering that appropriate risk-adjusted return alongside genuine impact.

So, for us, it's that ability to focus on an area, develop those relationships, and then hopefully deliver new social infrastructure at scale.

Chair: Brunel had a very strong focus on sustainability so, as you look to the new landscape, what are the threats and challenges to that if you have to come together with other funds that perhaps don't have that same view?

Beesley: It's an interesting question, because the ethos of Brunel was very much steered towards sustainability. The Environment Agency has been an important part of Brunel, and it necessarily follows that those principles were embedded right at the very start for good reasons and for sound investment reasons too.

Sustainability is fundamental to pooling working, and the reliability that the component parts can place on that carrying forward almost in perpetuity. Fine, you change things along the way, but you need that strong foundation on which to build. If that is then put in some kind of jeopardy, everybody will be looking to their own interests.

Graham: There's also an increasing political challenge, given the results of the local elections in recent months. There's a whole raft of new councillors in positions of responsibility, generally within councils but pensions in particular, who have a much more sceptical view of sustainability and responsible investment than the norm in the marketplace. Now, each pool has had to accommodate a spectrum of views on these issues, ranging from the moderately sceptical to the wildly enthusiastic. That spectrum, I think, has shifted significantly in one direction, which is going to be somewhat challenging, because the reality for people like me, who are officers and do this job, is that these are risks to the value of our investments, which we need to manage, rather than policy imperatives.

A company that has not got a credible climate transition plan is not a sustainable business, therefore why am I investing in it? But trying to make that argument in the context of the current political debate, and appear to do it as a neutral officer, is going to become increasingly challenging.

Looking ahead

Chair: What do we think the future of the LGPS can or should look like?

Colliss: I would like politics to remove itself from the LGPS. We're here to pay pensions. I probably repeat myself at every committee meeting that I attend by emphasising that this is not a political committee.

Looking ahead, the LGPS is always going to adapt and evolve. We've got a lot of employers, and the majority of the funds are encapsulated with the authorities. For my fund, I have three local authorities, and a number of other employers that have come along on that journey throughout the years.

I think those employers are leaving the pensions marketplace, taking advantage of being in surplus, where they've been in deficit for a very long time. So, I think we will come back to perhaps a lot less employers and back to what the LGPS was set up to do in the first place which was to deliver pensions for local authorities.

Also, this is not government money, it's the members' money, and I think that's what we need to hammer home to government, whether it's local or whether it's central. There are bigger issues for government to deal with when it comes to unfunded schemes.

But getting back to the LGPS, for all the time there's local government, there should be a local government pension scheme. Officers over the years have done an amazing job in managing those funds, and we need to continue to do that, and we need to continue to bring people on, and to deliver those services. It's a very niche area, and we need to bring on staff and continue to build that expertise.

On the investment side, whether it's pooling or not, you still need to manage it at a fund level. So, you still need to have that experience, that staff, those capabilities, and those resources. But we will continue to deliver. Most of us that work in this space are very passionate about what we do, and we do need to focus, and the government needs to remind itself that this is about paying pensions. Paying pensions to, generally, members that are on lower salaries. The average pension is very low when it comes to the LGPS. It's a vital part of those members' future financial status, and that's what we, and the government, should be focusing on.

Final thoughts

Chair: What would be your key takeaway message from today?

Murray: I appreciate Councillor Beesley just actually explaining what it means to him in terms of the potential loss of Brunel, the impact it's going to have on the staff, and the risks there are to the investments going forwards. That's been very enlightening.

Graham: I think it highlights the uncertainty that we face. The 21 funds in ACCESS and Brunel are in, arguably, an impossible position. But that is also a challenge and a difficulty for the funds in the other pools because this is going to be about the creation of new pooling partnerships. It's not about *x* pool takes over Brunel or ACCESS. This is about the creation of something that's new, or if it isn't, it's doomed to fail. It's possible to get that done by next March, because all you've got to do is sign a series of legal agreements.

But actually, the real work's in the next two to three years, and that's the really hard thing. Some of what we've been talking about actually reflects how difficult that's going to be.

Espadinha: My closing message would be to highlight the importance of never losing the member focus. The other thing is timelines – decisions need to be good and sound, not rushed.

Appiah: In a world where the narrative around US exceptionalism appears to be fading, we think the LGPS funds could really benefit from looking at areas like EM fixed income. Historically, the returns have been there. Going forward, we think it looks even better.

Then, one last thing, which I didn't point out earlier on sustainability and impact, is on the public market side – impact bonds are now a $5 trillion asset class, larger than a lot of public markets. So, that's just something to think about when you look at sustainability – complementing what's happening in the public markets with private exposures.

Triggs: Sticking to the topic of sustainability, it's important not just for the investment portfolio but also in terms of the governance backdrop. This is a long-term game – we'll be paying pensions in 75 years' time, so guard your current surpluses with your life, and guard your long-serving committee members too, because the long-serving ones are experienced and increasingly rare these days. Those long-serving members that you've trained up and looked after, they are so valuable to your quest for a well-governed pension fund.

Colliss: The Labour government needs to listen to officers; needs to listen to the people that manage the funds on a day-to-day basis. Central and local government in general needs to listen to us as well, and very much needs to listen to you, as pools, and how you manage those pools. Governance is key, whether it's down to the underlying funds, or whether it's down to the pools, and government needs to take time, take a step back, and listen to the people that are involved on a day-to-day basis.

Beesley: On a similar theme, the importance that the officers play in the LGPS is underplayed. My experience has always been that, in my locality, we've always had great officers, and very good external advice and that has helped members beyond measure in reaching the right sustainable decisions. That is way above everything else, and to be consulting on that as far as government is concerned is going to be key.

Nestor: Markets hate uncertainty, and we're entering into an era of uncertainty. I'm very fortunate that I've had a great deal of exposure to the LGPS. I first came across the GMPF in 1986 and, in my private world as being a trustee, I pull on my experience of working in markets since the late 1980s. I worry about the exposure of the newly elected politicians going into an environment where they're being asked to make these decisions without the right experience.

Jones: Today's conversation re-emphasises to me that times continue to change, not just from a governance perspective. That throws up challenges but also opportunities for the LGPS. What we're dealing with here are long-term investment strategies, and you don't want that to be too influenced by short-term deadlines to pool, or by changes in personnel at various levels of government.

We work with a lot of long-term overseas pension pools, like Canadian pension funds, Dutch, Australian supers, and you want to see that long-term focus on investment strategy and the ability to take advantage of investment opportunities. Hopefully LGPS pooling will similarly focus expertise and the types of investments that can be invested in by large pools.

To leave it on a positive note, hopefully we'll see the fruits of the benefits of pooling come through, despite the short-term challenges.

Chair: The key message from me is clear – from the discussion that we've had today, whether it be consultants, fund managers, committee members or officers of funds, we need to work together if we've got any chance of solving the challenges that lie ahead.