



# Climate first

✓ **Following the June publication of its *Annual Climate Change Policy Review*, Duncan Ferris speaks to London Pensions Fund Authority (LPFA) chief executive officer, Robert Branagh, about the Local Pensions Partnership (LPP), climate issues and listening to members**

➤ **Can you tell me about the LPFA's relationship with the LPP since it launched?**

2016 was quite an interesting time as in 2014/15 the government set up a new pension scheme for public-service schemes. Final-salary schemes were far too expensive, even for the government, so career-average schemes were brought in for the public service. This was a big change in terms of the schemes to which local authority employees or even settled government employees contributed to after 2015.

The other thing that happened in 2015/16 was that the government suggested that, because local authority schemes had real money – as opposed to settled government schemes that were on a pay-as-you-go basis – the pension schemes in England and Wales should pool together their assets into a smaller number of investment managers. They alighted on eight pension fund managers to look after the approximately £250 billion of assets between the 88 funds. They set up investment pools, which were vehicles for taking local authority money and investing it for efficiency, savings, and consistency of approach.

The LPP is one of those eight pools, and was set up in 2015/16 by the LPFA and the Lancashire County Pension Fund. The interesting thing about the LPP is that not only is it

a pool for investments for us, but it also does administration for about 15 other local authorities. It's almost like a pensions business we own, although it is technically speaking a pool. So the relationship is quite interesting. We are 50/50 owners with Lancashire so we have a responsibility to grow this, develop it, nurture it and make sure that it thrives going forward as a standalone business.

➤ **What are the current goals of the LPFA?**

It's important to say that the LPP have now finished pooling all our assets, Berkshire's assets and Lancashire's assets. Strategically, these pools were set up to make efficiency savings and generate returns for their funds by taking things in-house. The LPP has finished doing that so, in a way, one of our three objectives for the fund is to make sure that LPP can thrive and develop, extending its position as a pensions business as well as a pool. So, we're going to be investing more time and support into the administration side, as well as the investment business.

It might sound a bit corny, but we have two main drivers, which are collaboration and sustainability. Collaboration sounds a bit cheesy but, if you think about the LGPS being 88 funds now and the London community for pension funds and local authorities, there are lots of other boroughs and councils within London, and we certainly don't do enough learning from or sharing with other London pension funds or other LGPS funds. There are lots of

people doing great work in pensions so collaboration is one of our strategic goals for the next three years, particularly learning from the London pensions community and the London local authority community.

The second of the two is sustainability. This is really important to us as we've spent the past three or four years setting up, implementing and monitoring our climate change policy. We're a bit different to many other pension schemes as most have come to climate change late after dealing with environmental, social and governance (ESG) issues or responsible investment. We have a very healthy relationship with the Mayor of London, who prioritised an awful lot of climate change and decarbonisation work as a city, so we started there rather than with a broader responsible investment policy.

We have a sustainability policy that we report against, that we monitor, we take to board meetings and have published externally, while last year we also published a responsible investment policy, which is basically us saying that we want to take a broader approach to responsible investment.

➤ **What encouraged the LPFA to establish its core policy commitments?**

There's a little bit of a divide between private-sector schemes and public-sector schemes. The LGPS has consistently tried to meet its members on a regular basis, like a member AGM, whereas a lot of private-sector schemes have stopped doing that. The LPFA still holds



a member forum every year and we get 300 to 400 members coming along. We hire a big venue and do a presentation on investment, a presentation on administration and we spend time answering member questions.

At that AGM last November, I spoke to 60 members after the formal sessions were over. Fifty of the 60 said they were reassured that we were looking after the fund really well. Ten of the 60 said they didn't know we were doing such good work on climate change, said they didn't know about responsible investment and commented that they hadn't heard funds talking about climate change.

I think when you ask, "why do pension funds change or do things differently", sometimes it is just to do with members raising their voices. It means that when you're sitting in front of 400 people and someone asks what you're doing to make the planet a bit better, this is some of the stuff that you can show off.

➤ **Would you advise other pension funds and the LGPS schemes to go**

**down to this grassroots level?**

Absolutely. Pension funds sometimes get disappointed that the level of member engagement they get is very variable. For example, when we ask our members to log on and do self service on their admin, there are relatively low levels of take-up. On big things, like climate change or responsible investment, much more engagement is always going to be useful. We are just looking after the money on their behalf, so finding out what they want is hugely beneficial in helping us run pension funds.

As much testing, querying and dialogue with members that you can afford or invest your time in is going to be really beneficial for pension funds.

➤ **How has the uncertainty of Covid-19 affected the LPFA's work?**

On the investment side there is obviously a huge reduction in terms of assets and performance but, interestingly, and I don't know whether this is over-optimism in the markets, it's come back to where it was before. So, in investment terms there has been minimal impact,

which is reassuring. Our assets went from around £6.5 billion down to about £5.8 billion over the couple of months but are now back up over £6 billion, and our liabilities have been reduced as well.

Of course, we're here for the long term, so we can weather some of those decreases in asset values and it's not a major problem. There is certainly no pressure on our ability to actually pay pensions because we hold the money to pay around eight or nine months' worth of pensions at once, so we have always got that buffer and long-term reserves.

I think the thing that has been more interesting for me is how we dealt with members during that time. We spent a lot of time communicating with members to reassure them that their pensions were safe, the fund was continuing as normal and that they could contact us with any queries. I think that played quite well because the volumes of work have been relatively similar to how they were before lockdown.

➤ **Written by Duncan Ferris**

