Room 151's

# LGPS INVESTMENT ROUNDTABLE

## LGPS WOMEN DISCUSS COLLABORATION, ADVISERS & RESPONSIBLE INVESTMENT

**July 2018**

The Local Government Pension Scheme is well known for its diversity, with many senior positions held by women who are helping to drive a generational shift towards asset pooling.

Courtesy of our sponsor Columbia Threadneedle, we invited a group of those women to take part in a wide-ranging discussion on the progress of pooling and the challenges and opportunities the LGPS is facing today at the partner fund and pool levels.

The roundtable discussion was moderated by Karen Shackleton.

## AT THE TABLE

**Karen Shackleton**
*roundtable chair and independent adviser*

**Sharon Smith**
*head of investments*
South Yorkshire Pensions Authority

**Eithne McManus**
*non-executive director*
LGPS Central

**Rachel Brothwood**
*director of pensions*
West Midlands Pension Fund

**Liz Woodyard**
*investments manager*
Avon Pension Fund

**Dawn Turner**
*chief executive*
Brunel Pension Partnership

**Moira Gorman**
*client director*
Columbia Threadneedle

**Jo Ray**
*pension fund manager*
Lincolnshire County Council

**Fiona Miller**
*chief operating officer*
Border to Coast Pensions Partnership

**Pauline Grange**
*global equities fund manager*
Columbia Threadneedle

**Bridget Uku**
*group manager, treasury & investments*
London Borough of Ealing

**Karen Shackleton:**
Fiona, now that Border to Coast is up and running, how is that changing the way you're working with members?

**Fiona Miller:**
Not much really. I've always had a close working relationship with my members and the committee chairs.

In some regards we're one step removed now as the direct relationship is with the pension fund managers but there are joint committees of members and officers, and anyone who wants access to the pool has that access and we're in touch regularly. I still talk to chairs on Sunday mornings which I always have done.

**Karen Shackleton:**
And you think it's going to stay that way now? Are you in a steady state?

**Fiona Miller:**
No, definitely not. Until we've got teams in and we're trading, and the systems are rigorously tested, we'll be in a very different place. We are at the start of a very long journey.

**Karen Shackleton:**
Jo, you're obviously working on transitioning assets now into the Border to Coast pool. Has anything changed from your perspective?

*Jo Ray*

*Karen Shackleton*

**Jo Ray:**
We're having to look afresh at our asset allocation as there isn't always going to be a 100% fit with the sub funds that are on offer.

I think we're quite lucky in that our first transition is probably not going to be until Q1 of next year, so we'll be coming in to a more tried and tested environment by that point.

We'll spend summer and autumn in discussions with our adviser, our consultant and our committee looking at how we get the same outcomes through the pool that we want now. How do we tweak our asset allocation to fit what is on offer?

That will entail lots of training and discussion but actually it's quite a valuable exercise to look from scratch and question why we've built our asset allocation the way we have. There may be ways of getting the same outcomes we want, within the same risk/return profile, but with different investments.

**Sharon Smith:**
We're going through a very similar process. There are things we do at the fund level that don't fit with what the pool can offer so we're questioning more now why we are holding certain assets, and what we really need from them.

**Karen Shackleton:**
And Sharon, I know at Border to Coast, there are in-house funds and there are externally managed funds. Are you looking at those differently at all?

**Sharon Smith:**
Until now we've mainly managed money internally, but I think we will be considering some of the externally managed funds if there's something there that we haven't been able to access previously as a small team.

One of the benefits of pooling is the additional dialogue we've had with other funds; there's a lot more collaboration among officers now and that's opening up lots of possibilities.

*"I'm looking forward to having a conversation with the advisers about the impact of the pool on strategic asset allocations and what due diligence they will need to do with us."*

**Dawn Turner**

**Karen Shackleton:**
Dawn, what approach has Brunel taken with adviser engagement?

**Dawn Turner:**
We've engaged with the advisers, although some of the advisers have moved around and we're really going to need to re-engage.

In particular, I'm looking forward to having a conversation with the advisers about the impact of the pool on strategic asset allocations and what due diligence they will need to do with us.

**Jo Ray:**
We're also reviewing how we use advisers and what we need from them going forwards; roles are changing and will continue to change for a period of time. That's given us a really good opportunity to look at everything we do and ask ourselves: Is there a different way we can do this?

**Dawn Turner:**
We need to be very open and transparent about our processes because as we've been selected as their fund manager, we need to be able to let clients, and their advisers, see exactly what we're doing to build up the trust they've placed in us. So, without doubt, communication is going to be absolutely key.

**Rachel Brothwood:**
One of the big benefits of pooling is that it brings with it more discipline in the fields of investment strategy and asset allocation. There's a real opportunity for investment decisions at the pool level, and asset allocation decisions at the fund level, to have a positive impact on each other.

**Liz Woodyard:**
I think at the officer level, we all understand that, but there's a challenge in keeping the committee and advisers on side. I agree that we have to think differently now, not just about asset allocation but about what outcomes we're looking for from our various investments.

**Fiona Miller:**
The advisers and consultants are key to this. It won't be easy to bring the investment committees on this journey without bringing the advisers too; they have to be on board. They have to be engaged in the process and be part of the due diligence. They should have access to the information they need to enable them to advise the individual funds in a meaningful way.

*Rachel Brothwood*

**Bridget Uku:**
Possibly a different perspective from the London CIV as, clearly, we're at a different stage having already transitioned some of our assets.

The role of advisers is changing and we have been getting support in managing transitions, but the main shift is away from advice on manager selection towards asset allocation and helping us map our strategy out against the provisions of the CIV. I think that's a change in mind-set and a change in role.

I know that the CIV is also engaging a lot more with the advisers, which is an important part of the process as we have to win hearts and minds.

*"…over time, as the CIV's resources grow, we might find that it becomes less attractive for boroughs to retain their own in-house investment expertise."*
**Bridget Uku**

**Karen Shackleton:**
Moira, as a manager, how are you seeing relationships change?

**Moira Gorman:**
There are additional relationships for us to ensure that we foster. We haven't had a direct impact as yet, in terms of our local authority clients moving their assets into pools, although I expect that to change in the next six to twelve months, particularly on the listed assets side.

But I've been really encouraged by the approach that the pools have taken in that they have been very transparent in what they're looking for from the managers and the sorts of relationships they want with managers.

Hopefully that's consistent with the level of service we've provided our local authority clients, some of whom have been with us going back 14 years.

There are going to be more people for us to interact with, at least initially as the pools come on board and become our primary client relationship.

*Bridget Uku*

**Karen Shackleton:**
Eithne, do you think that over time the pools will start to get more involved in asset allocation, or do you still see that resting very firmly with the partner funds?

**Eithne McManus:**
We have to remember that all of our clients are different, and I don't think a one-size-fits-all solution is necessarily what you can offer. So, some of our partner funds might be happy to involve us in asset allocation planning — and we'll be happy to offer that support — whereas others will prefer to continue working with advisers on strategic issues.

**Karen Shackleton:**
Bridget, what's your thought on the London boroughs? I know the London CIV has talked about the option to delegate some of those asset allocation decisions as an additional service. What's your view?

**Bridget Uku:**
I'd say that depends on the borough. Certainly, the London CIV doesn't have the resource to offer a targeted one-on-one service to 32 boroughs as of today. But, over time, as the CIV's resources grow, we might find that it becomes less attractive for boroughs to retain their own in-house investment expertise.

In five, ten years' time, people like me may have moved on and authorities may be delegating strategic decisions to the CIV. I think the CIV will end up assuming a lot more of the asset allocation work.

**Karen Shackleton:**
It was well publicised that a group of London boroughs, including Ealing, carried out a procurement together but not within the London pool.

**Bridget Uku:**
That's something we'd been working on since before the CIV and it took a long time to come about, largely because we were working as a group, and the various internal processes slowed the procurement down. That's not something we're generally planning to do going forward, and in fact the CIV are providing support on that work too.

**Karen Shackleton:**
Let's turn to equities now as that's one of the sub-funds many pools are focussing on, and tri-annual valuations are coming round again next March. Pauline, what do you think are the considerations as an equity fund manager?

*Pauline Grange*

**Pauline Grange:**
The investment landscape is becoming a lot trickier. As portfolio managers, we need to be mindful of broader themes in the market, not just macro and cyclical considerations.

Pools should want to know how we are managing these huge market disruptions, which are happening faster and in a bigger way than they ever have before.

The first area we're focussing on is this huge digital disruption. Typically, the impact of disruption in the tech sector would have been confined to the tech sector whereas today, you only have to open the newspaper to see how far-reaching the digital disruption is.

For example, House of Fraser closing half of their store base is closely linked to developments in online retail. The boundaries are shifting and you have to understand tech's impact across multiple sectors. Uber has had a profound impact within transportation; Amazon within the physical retail sector and Netflix within traditional media.

And when you look at companies, you need to not only be aware of the disruption they face but also understand what they are doing and how they are investing in their digital strategies, and how advanced they are, both in defending their core business but also opening up to these new growth opportunities.

In industrial companies they talk about the fourth Industrial Revolution; using robotics, artificial intelligence (AI), the internet of things and so on. Even in the energy sector, they're increasingly using big data and AI to become more cost efficient and to improve exploration success. No sector is immune from this.

And then the other aspect is just how the consumer is evolving. Partly, that's about technology too — increasingly people want digital platforms for their consumption, but it's also that they're much more aware now of environmental and social themes.

You only have to see how single-use plastic has captured the public's imagination. And if you're looking at a consumer company, what are they doing to address that?

As active portfolio managers we have to be increasingly aware of the broader forward-looking themes. A company may look like a good value stock today but if they're on the wrong side of one of these disruptions that's not going to be value tomorrow; they're going to be bust.

Whereas, what you may identify as being a growth quality but expensive stock today will, in fact, look cheap in three or five years, because it was on the right side of these themes and therefore has more sustainable returns.

**Dawn Turner:**
I think this is one of the added values that pooling brings because we will have concentrated resources capable of looking across these various risks.

Plastics and their impact on the oceans is a really good example, and one we were looking at with the Environment Agency some time ago. You could see that this was going to escalate, become a demand on business and an issue for investors.

We expect our fund managers, as part of their engagement with businesses, to analyse how well-prepared businesses are for disruptions in the market.

*Dawn Turner*

**Pauline Grange:**
Also, in addition to the risks, I'd say we have to be mindful of the opportunities. Those companies who are going to benefit from sustainable themes, for example companies investing in more sustainable packaging solutions; our job is to investigate and keep abreast of what they're doing, as well as see which companies are at risk.

**Jo Ray:**
A real benefit of asset pooling is that funds who have generally been quite lowly resourced, and not always had the time to look at sustainability and responsible investment, for example, are now able to use their pool who do have dedicated resource for this.

Within Border to Coast, we've agreed on voting guidelines and a responsible investment strategy, and we know that there will be someone looking far more closely at what all the managers are doing, both internally and externally.

*Sharon Smith*

**Karen Shackleton:**
I have to say, I was quite impressed that all of the Border to Coast members managed to agree an ESG and responsible investment (RI) policy. Sharon, what was South Yorkshire's role in that?

**Sharon Smith:**
As a fund, ESG has always been a large part of our investment strategy and our policy was used as a basis to form a policy for the whole pool. As Jo says, many of the partner funds didn't previously have the resource to look thoroughly at ESG and RI; it wasn't that they didn't want to be responsible investors, but simply that they couldn't devote the time to it.

**Liz Woodyard:**
We took our lead on RI from the Environment Agency. They had established best practice in the sector, so we aspired to do what they were doing. That was a fairly straightforward starting point.

Your policy has to set out very clearly what your expectations are but also recognise its own limitations and understand what you can deliver, without over-promising.

**Rachel Brothwood:**
I think you have to have the tools to embed this in your day-to-day decision making. Having the capability and expertise within the asset management teams at the pools enables you take ESG and RI to the next level.

I think there's a great opportunity now with pools and funds working together to go on, be a leading voice in ESG, provoke more debate and more action in managing ESG risks.

**Karen Shackleton:**
What about voting? Is that more of a challenge to get a consistent approach?

**Dawn Turner:**
From the conversations I've had, I'm hopeful that our voting policies at the various pools aren't going to be that different and, of course, if there are sufficient similarities, that opens up huge opportunities to collaborate on voting across the pools. If we were to have the combined voices representing £250bn of LGPS assets talking broadly as one, then you can make a very positive impact.

**Moira Gorman:**
What about collaboration with fund managers? There are times when our clients, or their agents, will vote their assets but there are sometimes concerns we have with certain stocks when we'll seek to bring clients on board in our engagement activity.

*Moira Gorman*

*"As portfolio managers, we need to be mindful of broader themes in the market, not just macro and cyclical considerations."*

**Pauline Grange**

*"I think there's a great opportunity now with pools and funds working together to go on [and] be a leading voice in ESG…"*

**Rachel Brothwood**

**Rachel Brothwood:**
That's really positive and for us that will be part of our ongoing manager due diligence.

**Dawn Turner:**
I agree, these decisions are informed by engaging and it's important to involve fund managers. It may be that we're not always entirely in agreement, but we have to have the conversations with managers, and other pools,to see where we share common ground and use our collective clout to drive positive outcomes.

**Karen Shackleton:**
Are you all positive about cross pool collaboration?

**Fiona Miller:**
The cross pool group has achieved quite a lot. It was originally conceived with very specific aims in mind, but there's no reason to assume it can't continue to create additional benefits for us all.

The infrastructure group is doing a good job of getting the message out that what you invest in has to be a fund decision, not a government decision, for example.

The one group we haven't managed to get off the ground, that would be very beneficial, is a cross-pool tax group.

There's a lot to be covered there; not just investment tax but VAT structuring and corporation tax. My members are still grappling with the notion that while we make no profit we will have to pay corporation tax.

The group will naturally splinter where there are niche issues to resolve. Tax for example is more of an issue for those pools who are FCA regulated entities, so not all of the pools need to be at the table for that one.

**Bridget Uku:**
Cross-pool collaboration is crucial in some areas. In infrastructure investing, for example, what we don't want is pools competing for the same deals.

If we really want the socio-economic transformation that many of us hope infrastructure investing can bring, we need collaboration across the LGPS, perhaps even a centre of excellence.

Where brownfield assets are concerned we're competing with huge global pension funds, so some coordination would be helpful to help us identify and pursue the right projects.

**Fiona Miller:**
Infrastructure isn't just about having the capital, it's also about being a credible investor, and I agree that you need an entity at the centre with decision making powers so you can act quickly enough to gain that credibility. You also need to know how to manage the assets if you're going to own something for twenty or thirty years.

**Karen Shackleton:**
Eithne, as a non-executive director, how do you perceive your role in terms of holding the executive team to account on issues like this?


*Fiona Miller*

*"Infrastructure isn't just about having the capital, it's also about being a credible investor…"*

**Fiona Miller**

*Eithne McManus*

**Eithne McManus:**
I think it is always about making sure management performs their role in line with expectations and agreed process. It's about making sure we have the right risk management framework in place and decisions are made in accordance with that framework.

I'm not an investment expert; I've been brought into LGPS Central for my experience in risk management and process management, so I shouldn't be able to start dabbling in investments. It's important that the right people are making those decisions and important that we're clear about that with our partner funds.

Previously, at the partner funds, investment decisions may have been taken by an investment officer, or they may have been taken by an investment committee — it varied from fund to fund. We have to be clear that as a regulated entity we have the right processes in place, and we are rigorous in ensuring that those processes are followed.

Sometimes, it can be difficult because everyone wants to be making the big investment decisions — that's the sexy end of the job. We all need that discipline to not get involved beyond our individual remits.

**Karen Shackleton:**
In my personal opinion, we're still a little bit in the honeymoon period with the pools and, if I have a concern, it's what happens if things do start to go wrong in one particular area.

**Fiona Miller:**
Well, it will be interesting to see what happens when the market turns, which it will do, given where we are at, or if something goes wrong at one of the pools, or all of the pools.

**Jo Ray:**
Communication is going to be absolutely key. We've chosen our partners and we are going to be with them for a very long time. It's got to be a proper partnership where everyone feels comfortable with raising any issues, concerns, any questions.

It's not the same as appointing an external manager because we are part owners of the pool. If you've got an issue, you've got to be able to raise it and it's got to be dealt with.

There have been difficult conversations that have been had between the pool and the partner firms, but you've got to have those conversations, get grievances or concerns out in the open and be very transparent about what's being done. We're all in this together, at the end of the day, and we need to make sure it succeeds.


*Liz Woodyard*

**Liz Woodyard:**
I think it's important that the partner funds all support each other too. We all have different priorities and different pressures as investors, and we're already seeing that some people want sub-funds delivered sooner than others.

You're right, Karen, it is the honeymoon period still, and I think we've done an awful lot of good work to get to this point. But this is now the actual letting go part, and that's going to be a real challenge if we don't get the communication right and foster a close working relationship with the pool and between partner funds.

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**Liz Woodyard**

## CONTACTS

### ROOM151

**Peter Findlay**
peter.findlay@room151.co.uk
020 8617 3119

www.room151.co.uk

### SPONSOR

**Moira Gorman**
*client director*
Columbia Threadneedle Asset Management

Cannon Place
78 Cannon Street
London EC4N 6AG

020 7464 5341

moira.gorman@columbiathreadneedle.com
www.columbiathreadneedle.co.uk

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