MEETING:	**PENSIONS COMMITTEE**
DATE:	**16 December 2009**
TITLE:	**LGC INVESTMENT SUMMIT, 10-11 SEPTEMBER 2009**
PURPOSE:	**To inform the members of the Pensions Committee of the benefits gained from attending the conference**
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1. INTRODUCTION

After successful events last year and in 2007, this year's 'LGC Investment Summit', was again held at Celtic Manor, Newport, and attended by Councillor Gwilym Euros Roberts, Councillor Tudor Owen and Dafydd Edwards, Head of Finance.

2. THE ECONOMY UNDER REPAIR

In the opening session, Andrew Milligan, Head of Global Strategy, Standard Life Investments reflected on a year of economic turmoil, suggesting that "the world had changed", 2008/09 was a "wartime scenario", but that we are getting back to normality. Whilst car sales had risen due to Government intervention, "quantitative easing" (or "desperately printing money") had made little impact (globally) but may create inflation by 2012. Most speakers were optimistic of recovery, and thought there would be no "double dip" (unless we see policy errors), and Milligan's prophecy was neither a "V" nor a "W" recession, but a "square root recovery" ($\sqrt{}$).

3. DIVERSIFICATION OR NON-CORRELATION

The relative merits of various asset classes were discussed, for a future of volatility, complexity, uncertainty, and opportunity for pension funds. Ewen Cameron Watt, Managing Director and Portfolio Manager, Black Rock, argued in favour of diversification, and that alternative asset classes had produced higher returns than equities (over 40 years). He recognised the "appalling failure of regulation" over B Madoff, but believed that hedge funds will now be safer due to improved regulation.

Quentin Fitzsimmons, Head of Government Bonds and foreign exchange, Threadneedle, pointed out that diversification had failed to protect funds' interests last year, as bonds had been the only asset class with a positive return. He explained Threadneedle's "absolute return strategy" of "not being too rigid" and having the "agility to mould a portfolio to react to market opportunities". Fitzsimmons gave examples of how they could "quietly add value" by trading foreign exchanges.

4. RISK REARS ITS UGLY HEAD

Nick Vickers, Head of Financial Services, Kent County Council, continued the debate regarding asset allocation and alternatives, concluding that local authority pension funds are “equity junkies”, and alternative allocations were “too low to impact on fund performance”, but investment in alternatives requires due diligence. Vickers’ preferred options, as Kent’s ‘alternative investment’ allocation was increased “in a very risk managed way” from 11% to 20%, were ‘infrastructure’, ‘sustainable investments’, and ‘private equity’, while he preferred to avoid “hedge funds’.

Simon Savage, Asset Manager – Active Risk Control and Allocation, GLG Partners, explained that ‘leverage’, ‘liquidity issues’, and ‘fraud’ (Madoff) had made pension funds hesitant regarding investment in hedge funds, but he was of the opinion that weaker hedge funds and frauds had by now been “washed out”, and that fund advisers should “eliminate minefields”. Savage (“Risk-man”) was engaged in conversation by Gwynedd representatives on the GLG stand, and advised that in a fund of funds model, fund trustees could ask the manager how they accomplish “due diligence” regarding structural and subjective (investment) risks, expect a straight answer, and “walk away” if the manager uses excessive jargon (a sign of “bluffing”).

5. EQUITIES HAVE HAD THEIR DAY, OR ARE THEY STILL IN FASHION?

Ravi Mantha, a Senior Portfolio Manager with Fidelity, explained how the value of equities was based on investors’ future expectations, and that over time, equities could be relied upon to provide growth of 8% - 10%, whilst also being a hedge against inflation (which he anticipated would rise to high single figures).

Scott Berg, a Portfolio Manager from T Rowe Price showed that 2008 had been “a crazy year”, with an “equity sell off”. Annual returns for US equities in 2008, along with 1931 and 1937, were the worst recorded, following ‘good’ years 2003-2007, and the previous ‘slump’ of 2000-2002. Berg set out the conditions required for recovery and saw the current state of the market as moving out of “transition” to “normalization”.

6. IT’S ALSO ABOUT FUNDING, ACTUARIALLY?

Ronnie Bowie, Senior Partner - Hymans Robertson, delivered an entertaining final session, with an optimistic message that funds “have a better than 50% chance to be fully funded within 15 years, without changing the LGPS benefits design”.

Bowie’s perspective was that local government pension funds had lived through “20 years of plenty” to 2000, then had a difficult decade for asset performance 2000-2009. His recommended changes were to change from a final salary based pension to a career-average scheme, change the accrual rate from 60ths to 70ths, and raise the retirement age to 68 (then adding some “actuarial pixie dust” in order to get employers’ contributions down below 10%). Bowie concluded that pension funds were “in a bad spot, but not so bad that we can’t get out of it. We need to hold our nerve, as there is an optimistic long run investment outlook”.

7. CONCLUSION

This special venue, the Celtic Manor, once again gave a high profile to the conference and to Wales. It provided an ideal environment to meet, learn and listen to a valuable debate on leading edge investment issues, and the conference will return to the same venue in 2010.