MEETING:	**PENSIONS COMMITTEE**
DATE:	**21 October 2014**
TITLE:	**LGC INVESTMENT SUMMIT** **9-10 SEPTEMBER 2014 - “Investing for Growth”**
PURPOSE:	**To inform the members of the Pensions Committee of the benefits gained from attending the conference**
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INTRODUCTION

1. Once again, this year’s ‘LGC Investment Summit’, was held at Celtic Manor, Newport, and attended by Councillor Margaret Lyon, Councillor John Pughe Roberts and Dafydd Edwards, Head of Finance. The following brief report refers to a selection of the presentations, and opportunities to learn from informal networking.

ECONOMIC AND MARKET OUTLOOK

2. **Josh McCallum** and **Kevin Barker** both from UBS, advised that “more volatility to come is the only certainty”. They spoke of concerns that inflation may get out of control (with pay awards in Germany at 3%), and that as inflation becomes self-fulfilling, it is painful to get under control.

3. Further, they explained that deflation, as in Japan, leading to huge debt, can be worse than inflation. They also added [on Quantitative Easing] that if printing money was the way to promote growth, then Zimbabwe would be the World’s richest nation!

4. Applying this to investment strategy, their opinion was that if inflation happens, then pension funds need not to be in bonds, certainly German bonds. Concluding, they re-appropriated the popular acronym “TOWIE” to mean “the only way is equities”.

GENERATING ATTRACTIVE RETURNS WITH LOW RISK

5. **Phil Apel**, Head of Fixed Income, Henderson Global Investors, and **Alex Younger**, Investment and Accountancy Manager, Norfolk Pension Fund, presented a session discussing diversification to gain attractive returns with low risk.

As well as endorsing an absolute return mandate for a fixed income portfolio, they discussed the risk and reward from diversifying into Credit Default Swops (derivatives). Henderson’s expert voiced a note of caution when explaining how CDS’s can behave differently to the underlying fixed income securities they’re based upon, and venturing to the top end of this asset class would be getting into hedge fund territory!

6. In order to protect from volatility, Henderson's specialist suggested that funds could consider tolerating lower liquidity to increase returns. However, as volatility will pick up, funds will seek to de-risk via liquidity. The speakers concluded that duration of portfolios is key – and the "trick" is knowing when to take advantage of illiquidity premium.

7. Delegates' informal networking opportunities with Hendersons featured a display of Welsh produce, with experts discussing Welsh food and drink such as Pant Du cider, etc. Further, the Celtic Manor also served food from the Gwynedd Fund's area, including Blas y Castell welsh cakes from Cae Groes Bakery, Llanllechid.

NEW DOORS OPEN IN SECURE INCOME AS BANKS RETREAT

8. **John Dewey**, BlackRock, discussed investment opportunities when UK Bonds have negative yields. He noted that equities have done well since 2008, but now we have low expectations of future performance. He added that Private Equity might provide good returns, but was less reliable / secure.

9. He noted that Secure Income Assets give additional yield (over bonds) reflecting credit risk and illiquidity risk, but local authorities need secure cashflows (not being locked in to defaulting borrowers, "haircuts", etc). BlackRock's specialist concluded that funds should generally pick and choose opportunistically from a broad range of investments, not one sector which can get overheated.

SOCIAL IMPACT INVESTING

10. **Simon Bond** of Threadneedle Investments explained that "Social Impact Bonds" are not really a "bond", but argued that there is "no need to sacrifice financial return in order to receive a social return". His theory was that the "social universe" exists where yield, liquidity and "social intensity" overlap. He explained how Manchester University assessed ESG factors and outcomes into a spectrum of low / medium / high social intensity. However, the social impact from the bonds available was general, rather than favouring any specific need or area.

11. Later, Gwynedd delegates informally networked with Alex Younger and Nicola Mark of the innovative Norfolk Pension Fund and various firms' fund managers, considering "local" investment opportunities for diversification. We concluded that there were no appropriate opportunities or vehicles (funds) for "local" investment in more rural regions, and that the security, liquidity and yield was not yet proven in metropolitan funds.

TOP QUALITY GOVERNANCE IN YOUR SIZE

12. **Ronnie Bowie** and **John Wright** from Hymans Robertson presented the final session, Ryder Cup - Fairway to Heaven, entertainingly applying golfing logic to investment. Ronnie compared Tiger Woods' demise and LGPS funds' recovery during 2010 to 2013, before John presented an analysis of Hymans' like for like comparison of funding levels, showing how some funds are more dependent than others upon higher notional investment returns.

13. In 2013 (to recover reduced deficits), funds now have a lower required return. On average, there has been a reduction of 1% due to good investment performance 2010-2013, but also due to increased employers' pension contributions.

14. Ronnie presented Hymans' data for CLG showing that active management had generally detracted from funds' performance over 10 years. However, he countered that over 3 years 2010-2013 more local government funds have outperformed their benchmark, and that active management has contributed positively during that time. Hymans did not argue for 100% passive management, they felt that was not the answer, but it might be imposed by CLG. The outcome of Hymans' review for CLG was not to encourage a performance flatline, but improve the poorest performers, avoiding the downside.

15. Further, Hymans' review had reported that small funds achieved less than big funds when both used active management, smart benchmarks, and alternatives. With regard to medium to large funds, Ronnie confirmed that there is no correlation between size and performance.

CONCLUSIONS

16. 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 delegates attending this year feel it would be worthwhile for the Gwynedd Fund to be represented again if the conference returns to the same venue in 2015.

17. Further, the event's format continues to provide useful opportunities for frank 1:1 discussions with investment managers between sessions, and opportunities to network with other funds' delegates, as all Welsh funds were represented, and contacts were also made with peers from England and Scotland.