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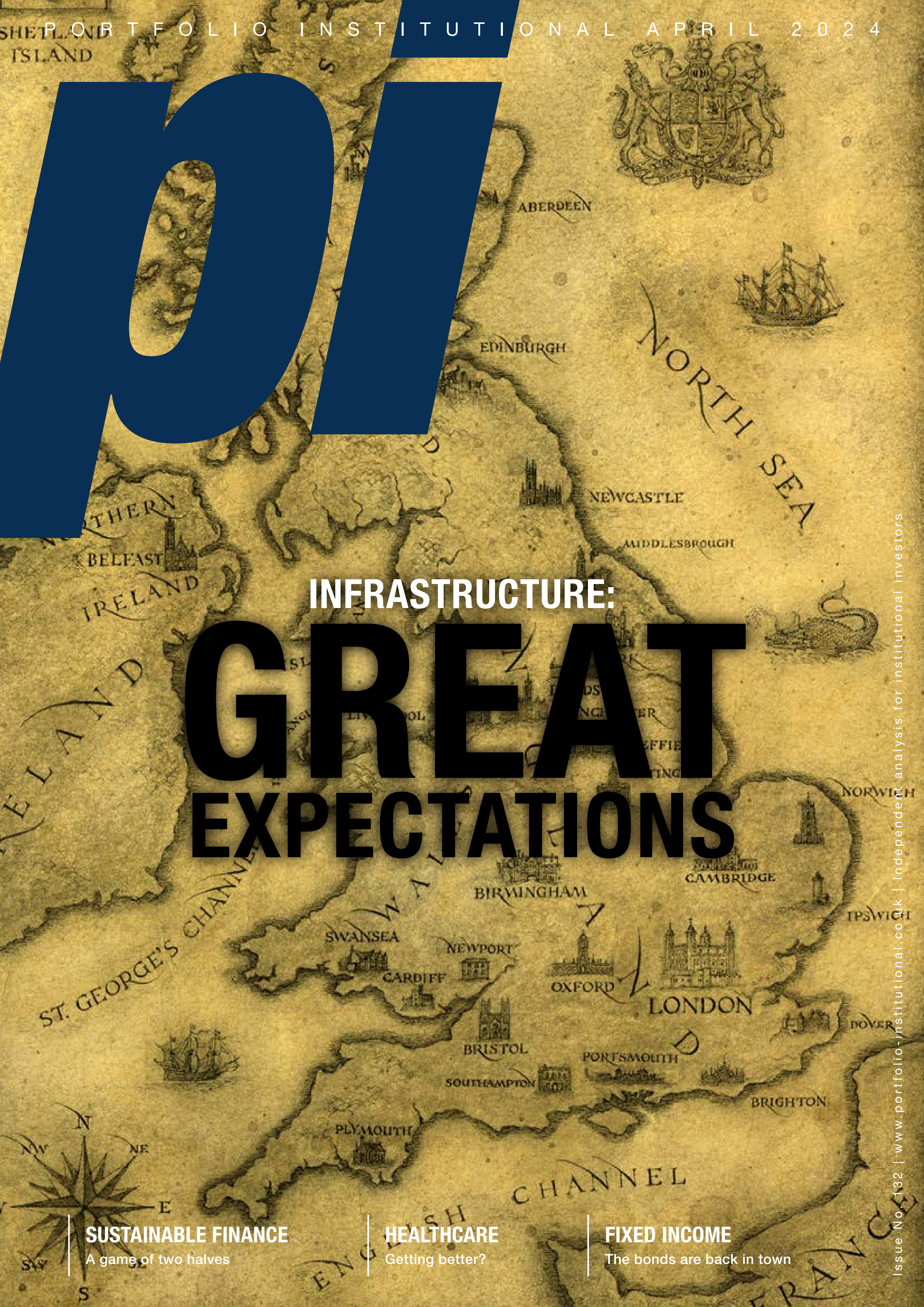

INFRASTRUCTURE:
GREAT EXPECTATIONS

SUSTAINABLE FINANCE
A game of two halves

HEALTHCARE
Getting better?

FIXED INCOME
The bonds are back in town

Issue No. 132 | www.portfolio-institutional.co.uk | Independent analysis for institutional investors

INFRASTRUCTURE: GREAT EXPECTATIONS

Britain needs an upgrade. We don't have enough houses or hospitals to serve our growing and increasingly ageing population.

And then, to create a sustainable world for the future generations of Britons to live in, we need to transition the sources of our energy from extractive to renewable as well as fix our crumbling freshwater supply system.

Added to that, we are living in the digital age and need sufficient networks given how reliant our lives and businesses have become on electronic devices.

Then there is the legacy of Covid. One of the lessons of the pandemic was connected to the huge risk we take by spreading our supply chains around the world. Our suppliers now need to be closer to home.

All of this is a big and expensive job. So who will fund it? Britain is suffering from a lack of productivity given its low birth rate and growing pool of long-term sick and people living on a pension.

So the government wants defined contribution schemes, which are set to become the future of the British pensions system, to foot the bill, which, according to the Second National Infrastructure Assessment, up to £50bn a year will be needed between 2030 and 2050.

But are the stewards of retirement savers capital interested in the asset class? And who is matching them with suitable assets? The month's edition takes a look at the politicalisation of infrastructure.

This is a theme that will be discussed in more detail in front of an audience of pension scheme trustees and their in-house investment managers in The Shard at *portfolio institutional's* inaugural Private Markets Conference on April 25th.

The other themes we will be discussing include real estate and private lending.

We look forward to seeing you there.

Mark Dunne
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IN THIS ISSUE

BANK OF ENGLAND'S RATE HOLD OFFERS INVESTORS INSIGHT ON OUTLOOK

The bank's rate stance sets the scene for cuts later in the year, says *Andrew Holt*.

The Bank of England (BoE) holding interest rates at 5.25% in March was probably expected, but it does seem to set out a road map for investors going forward.

Chris Arcari, head of capital markets at Hymans Robertson, understands why the Bank of England decided to err on the side of caution with regards to easing policy.

"Core inflation, which excludes volatile energy and food prices, is still more than double the bank's target at 4.5%, year-on-year," he said. "And service-sector price and wage growth, both running at 6.1%, year-on-year, are closely watched measures of genuine domestic price pressures. These data points more than justify the bank's current wait-and-see approach."

Arcari noted that declines in inflation are likely to open the door to rate cuts this year. "Even though the bank stopped raising rates in August last year, monetary policy has continued to tighten as real interest rates have risen as inflation has declined, and so a moderately restrictive monetary policy stance can be maintained, even as interest rates are lowered," he said.

Additionally, he said that central banks do not target "realised inflation", rather where they believe inflation will be over a forecast horizon. "Which may be a reason for a central bank reducing rates even if core or headline inflation is still above target," he said.

Weak growth

Arcari said that given weak real GDP growth and declining inflation, "we see scope for two to three 0.25% rate cuts this year". However, he expects central banks, including the BoE, to err on the side of caution and look to slowly make rates less restrictive, rather than cutting rates to levels that would be considered stimulative.

"Given still strong underlying inflation pressures, we see the balance of risks pointing toward the central bank reducing rates less, rather than more, than the market expects," Arcari added.

Damien Hill, senior portfolio manager at Insight Investment, also believes the Bank of England is nearing the peak of this rate hiking cycle. "But monetary policy uncertainty remains in the face of inflation remaining stubbornly above central bank targets and a tight labour market," he said.

"The positive environment for risk markets looks likely to last for longer into 2024 than previously expected but it could still prove to be more transitory in nature if core inflation remains sticky and monetary policy has to remain tighter for longer to ensure more permanence in the move of inflation back within central bank targets," Hill said.

Getting some credit

This leads Hill to a big conclusion: the demand picture for investment-grade credit appears strong looking forward, with institutional investors attracted by high investment-grade yields that now exceed the dividend yields of their headline equity counterparts.

"We will look to take advantage of any periods of spread weakness to add exposure, but we remain cognisant that there is significant uncertainty around the trajectory for inflation, central bank reaction functions and market volatility," he said.

"Investment grade credit spreads continued to tighten in February as risk markets performed strongly with expectations remaining high that economic growth can remain resolute as monetary policy brings inflation back to central bank targets," Hill added. "European investment-grade credit significantly outperformed its US dollar equivalent as a combination of weak relative value and record year-to-date issuance halted spread tightening in the US."

Moreover, Hill said that valuations in sterling, and particularly euro investment grade, remain attractive versus those in the US dollar. "We have a neutral valuation score based on global investment grade spread levels but a positive from our spread momentum indicator. In this environment we are happy to run a directional long in credit and ready to add on weakness," Hill said.

"We have a credit-cycle score in positive territory given the outlook for growth, real rates and inflation," he added.

Easing cycle

In a similar way, April LaRusse, head of investment specialists at Insight Investment, believes that August is the likely starting point for the easing cycle. "With lower levels of inflation allowing rates to be gradually eased into year end.

"In our view, major central banks are likely to be far more conservative on inflation in the years ahead, meaning that the easing cycle could prove shallower than other periods in history," she said.

Looking at the UK situation slightly differently, Philippe Noyard, global head of fixed income at Candriam, said the economy is still anchored in Europe, with weak inflation like the eurozone and a similar inflation trajectory.

"In light of this, we see market pricing of only two cuts from the BoE as probably not sufficiently aggressive," Novard said. "With UK inflation set to fall markedly in the coming months, we see a first cut in the base rate coming at around the same time as those of the European Central Bank and the Fed.

"We are also somewhat reassured following the vote on the budget, the last one before the next general election, with the risk of pre-election fiscal largesse having now subsided. This has prompted us to re-introduce our long position on gilts."

WHY INVESTORS ARE ALTERING PORTFOLIOS

The energy transition, direct lending and private equity dominate investor thinking, finds *Andrew Holt*.

Many investors are significantly reformulating their approach to risk management and asset allocation as they diversify their portfolios in response to heightened geopolitical tensions, higher rates, ongoing market volatility and upcoming national elections.

Three clear themes are dominating investors' focus as they position their portfolios, according to Nuveen's fourth annual EQuilibrium Global Institutional Investor Survey.

The first is the huge appetite for exposure to energy infrastructure projects as the energy transition plays out.

The second is private credit and private equity being prioritised among growing allocations to alternatives.

And third, as a way to position themselves to take advantage of these opportunities, investors are holding portions of their portfolios in higher-quality liquid fixed-income instruments.

In addition, more than half (55%) of global investors feel they can significantly influence the energy transition through their investments, with 57% indicating that they have or are seeking exposure to alternative energy, such as renewable energy, nuclear and hydrogen.

And 51% are interested in allocating to infrastructure, including energy storage/grids and battery storage. Almost 90% of investors are focused on the energy transition in some way.

Across Asia Pacific (APAC), interest in nature-based solutions among corporate pension funds was above average. In Germany, pension funds showed higher than average interest in carbon credits, while North American public pensions showed higher than average interest in legacy infrastructure upgrades.

The smallest group, representing 9%, are first movers in the transition. The largest cohort (37%) is "keeping pace" through structuring portfolios to reflect the energy mix in the economy, while 23% are "getting started" and 19% are doing what is needed to meet regulatory requirements.

"Investors clearly understand their influence and see government policy and technical innovation as the biggest tailwinds for investments in the energy transition for the year ahead," said Mike Perry, head of Nuveen's global client group. "Thirty-nine percent consider politicisation to be the biggest headwind, highlighting the importance of partnering with active managers who have robust experience sourcing and navigating the most attractive opportunities."

Investors are continuing to allocate to private markets, with 55% planning to increase allocations over the next five years with private credit and private equity allocations as leading choices.

The trend, however, is less pronounced than last year when 72% planned to increase their exposure to private assets. Some investors also are planning to increase allocations to unlisted real estate (24%), commodities (22%), hedge funds (21%), private placements (19%), timberland and farmland (both 12%).

Public pensions in APAC are leading the way, with 72% planning to increase their private investments during the next five years. North American insurers and foundations are not far behind at 68% and 71%, respectively.

Private credit and private equity were deemed the most attractive asset classes among investors looking to lean into alternatives, led by North American public pensions (57% plan to increase private credit) and Japanese investors – 59% plan to increase private equity. While interest in private credit and private equity is strong in all regions, it was not the top pick everywhere: private infrastructure was the main choice for German investors (53%).

New regime

Nearly two-thirds (65%) of investors said we are in a new market regime that is reshaping how they manage risk and return, while eight in 10 believe we have left the era of ultra-low interest rates for a higher-for-longer environment.

Half of investors plan to increase portfolio duration this year, up from just 39% 12 months ago. At the same time, the percentages of investors planning to increase "inflation-risk mitigation" and "cash" have decreased compared with last year's survey – from 64% to 41% and from 41% to 37%, respectively.

For liability-driven investors, higher interest rates and the resultant improvements in funded statuses represent an opportunity to de-risk portfolios by adding duration.

The normalisation of interest rates has created new opportunities for many investors to de-risk, moving away from equity markets toward high-quality public and private fixed income.

Compared with last year's survey, significantly more investors are decreasing their equity exposure.

Almost half of investors say they plan to increase allocations to investment-grade fixed income, likely reflecting investor expectations regarding a coming economic slowdown. Thirty-eight percent plan to increase allocations to private fixed income, where investment-grade credit is the top pick.

About one in five investors indicated that, over the next two years, they intend to increase allocations to public securitised debt and high yield fixed income. "Across all fixed-income segments, corporate debt is attracting interest from investors," Perry added. "Corporates were the top choice for investors allocating to investment-grade and below investment-grade fixed income markets as well as private fixed income markets."

Insurance companies show a stronger preference for private infrastructure debt while endowments and foundations picked private opportunistic and North American public pensions strongly preferred senior middle market loans.

PEOPLE MOVES

LGPS Central, the £30bn pool for eight local authority pension schemes across the Midlands, has welcomed **Richard Law-Deeks** as its new chief executive.

Law-Deeks has quit the Royal Mail Pension Plan, where he was chief executive, to take up this role. He starts in the summer, if the regulator approves the appointment.

He cut his teeth in pensions through roles in the local government retirement schemes for Hackney and Hertfordshire.

Law-Deeks also sits on the defined benefit (DB) committee of the Pensions and Lifetime Savings Association and is a trustee of a DB scheme sponsored by a charity.

Laurie Lee has been appointed chief executive of the **Guy's & St Thomas' Foundation**, a charity that seeks to create a healthier world.

His previous roles include chief executive of Care International UK, where he helped establish a law across 50 countries that protects women against sexual violence and harassment at work.

Lee has also held a senior position at the Bill & Melinda Gates Foundation and been a government adviser. He sits on the board of several other charities.

Rebecca Whelan has joined the £5.4bn **Avon Pension Fund** as a senior investment officer.

She will manage the fund's carbon disclosures and invest £150m with the aim of making local impacts.

Workplace pensions provider **TPT Retirement Solutions** has appointed **Adam Tudor** as its head of DC distribution.

He will play a key role in launching the firm's new DC proposition in the second half of this year. The proposition is being designed to ease the complexity of the retirement process for members by simplifying the transition from accumulation to decumulation.

Tudor has held senior positions at Smart Pension and HSBC retirement services.

Cushon has named **Veronica Humble** as chief investment officer. She joins from LGIM and will develop the master trust's investment strategy, which includes reducing carbon in its portfolios.

CALENDAR

Topics for upcoming *portfolio institutional* events*

25 April
Private markets conference

May
Defined contribution roundtable

June
Fixed income roundtable

03 July
ESG Club Conference

September
DC and private markets roundtable

24 October
The *portfolio institutional* Awards

November
Natural capital roundtable

*Subject to change

Kate Whittingham has joined **Pan Trustees** as a partner and independent trustee. She also joins the firm's partnership board and its central governance committee.

NOTICEBOARD

Australian Super is intending to invest £8bn more in the UK by 2030. Australia's largest superannuation fund has already backed the Canada Water urban regeneration project, London's King's Cross Estate, Peel Ports and Vantage Data Centers.

In its bid to increase its exposure in the UK to £18bn in the next six years, it will target the energy transition, digital infrastructure, mixed-use estates and logistics.

Workplace pension scheme **The People's Pension** has moved £15bn of its assets into climate-aware investment strategies.

So 70% of the scheme's main investment fund will aim to limit average temperatures rises to 1.5-degrees. This could reduce the master trust's carbon footprint initially by 30%.

Lifesight is now the master trust for all UK defined contribution pension schemes offered by electricity distribution network operator, **Electricity North West**. The schemes have almost 2,750 members and £140m of assets.

The trustees of the **Debenhams Retirement Scheme** have agreed a £600m deal with defined benefit pension scheme consolidator **Clara Pensions** in what is the UK's second superfund asset transfer.

The deal takes the scheme out of the Pension Protection Fund's (PPF) assessment, restores the benefits to the scheme's 10,400 members and pays any shortfall owed for the restrictions that were put in place when the scheme's sponsor entered administration in 2019.

The deal means that Clara now has £1.2bn of assets under management following a similar deal with the Sears Retail Pension Scheme in November.

Pension Insurance Corporation has completed full scheme buy-ins of three defined benefit pension schemes for the employees of holiday firm **Thomas Cook**.

The £50m deal, which was concluded in November, secured the benefits of 520 members.

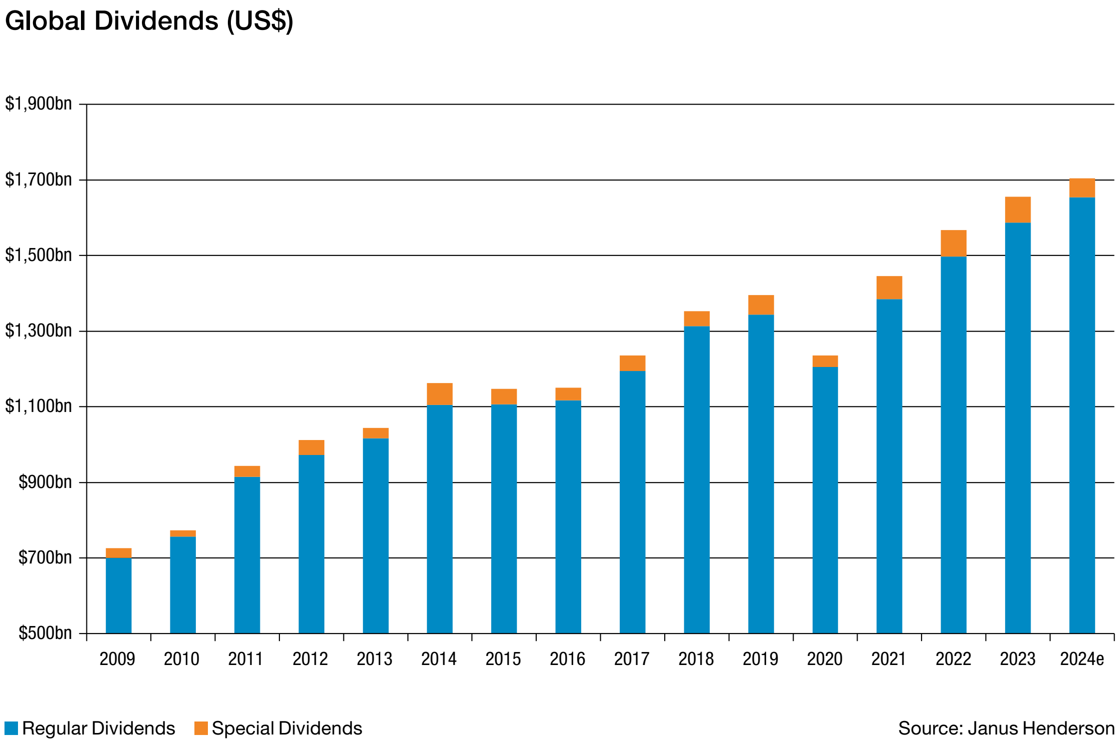
The Thomas Cook Travel Schemes came under the protection of the PPF when the administrator was called in five years ago. The schemes will continue to be protected by the PPF until the deal closes later this year.

Just has completed a £37m buyout of the pension scheme sponsored by an engineering and construction company.

The deal secures the benefits of 34 pensioners and 132 deferred members. This is the third and final de-risking agreement between the two parties meaning that all 350 members are now covered.

Finally, Just has also completed an £11m buy-in with the trustees of the pension fund sponsored by convenience store chain **Spar**.

THE BIG PICTURE: INVESTORS ON COURSE TO SHARE ANOTHER DIVIDEND BONANZA



Banks, corporate reform in Japan and a strong fourth quarter in the US point to another bumper year for dividends, despite the economic outlook, finds *Mark Dunne*.

Companies across the globe are expected to shrug off economic uncertainty to return more of their cash to investors this year, one asset manager believes.

Investors could share $1.72trn (£1.3trn) of dividends this year, almost 4% more than they pocketed in 2023, according to Janus Henderson.

If the firm's projections prove to be correct, dividend payments this year could be 3.9% higher on a headline basis, the equivalent of an underlying 5% rise in 12 months.

And dividends could still rise this year, despite an expected decline in special one-off payouts, which have hit record levels in the past three years.

However, the growth of regular dividends is also expected to be lower. Last year a record $1.66trn (£1.3trn) was handed back to shareholders, which was a 5.6% headline rise year-on-year, although on underlying basis it was flat at 5%.

Pessimism over the global economy did not impact company balance sheets last year, and so Janus Henderson has a strong outlook.

Despite slower economic growth and higher funding costs, strong US dividend growth in the fourth quarter bodes well for the year ahead, while Japanese companies are returning more capital to shareholders and dividends in Europe are well covered by earnings.

Then there are banks, which delivered record payouts last year thanks to higher interest rates.

Ben Lofthouse, Janus Henderson's head of global equity income, said pessimism over the global economy has proved ill-founded and although the outlook is uncertain, dividends are well supported. "Corporate cashflow in most sectors has remained strong and is providing plenty of firepower for dividends and share buybacks," he added.

THE PORTFOLIO INSTITUTIONAL AWARDS 2024

With the *portfolio institutional* Awards taking place in October, *Andrew Holt* sat down with two of the judges to discuss a few categories.

INTRODUCING HEMAL POPAT, JUDGE IN THE BEST PENSION SCHEME, OVER £1BN CATEGORY

Hemal Popat is a senior investment consultant and partner in Mercer's London office, and has more than 25 years of experience within pensions and investment. He advises investors on all aspects of their arrangements from strategy to implementation and is one of Mercer's specialists in derivatives structuring. His portfolio comprises a mix of pension funds, insurers and foundations based in the UK and Europe, but he regularly works with other types of investor in other regions.

Hemal, you were a judge some years ago, when the *portfolio institutional* Awards were in a previous incarnation. What do you remember from those?

I recall some excellent submissions by pension schemes, and a thorough process to identify the strongest candidates. It wasn't always easy to decide on the leader in each category, there were often several outstanding case studies to rank. There were definitely some heated debates within the judging team.

This time you are one of the judges in the best pension scheme, over £1bn category: it has been a challenging time for pension funds during the last 18 months. What do you expect to see from entrants?

Pension schemes have had a busy couple of years, with rising interest rates, inflation and the gilts market crisis to grapple with. The whole industry has risen to these challenges, improving resilience whilst innovating in areas such as sustainable investing and real assets.

I'm hoping to see some good examples of schemes building on funding level improvements of the last few years and aligning investment strategies to their long-term mission and objectives, improving their risk management and governance whilst meeting the evolving needs of their stakeholders.

What would impress you in an entry?

I'd look for a well-rounded entry that covered a number of areas. Having well-articulated objectives, investment strategy and robust performance measurement criteria are essential. The entry should also mention some of the scheme's unique challenges and how they have been addressed, with examples of stakeholder discussions and communications.

Do you think awarding asset owners like this is a good thing?

Yes absolutely, there is a great deal of innovation in the UK pensions market and awards like this help promote industry leading practices and recognise the teams who have worked so hard to improve their scheme's outcome. Awards like this promote healthy competition, which benefits members and the industry as a whole.

The *portfolio institutional* Awards have impressed me with their fair and transparent judging process, with robust criteria to ensure they focus on excellence in the industry.

I'm looking forward to seeing some great submissions over the next few months, and when we get to it, having a fun evening celebrating the successes.

Entries for the *portfolio institutional* Awards open in May. These awards are unique, as they are given to only asset owners for excellence in seven specific categories.

But while the awards are focused only on asset owners, asset managers can play their part by entering an asset owner for excellence. Entrants can enter more than one category.

Each category is based on a specific criteria, which entrants are advised to follow carefully when making their submission.

The seven categories are:

- **Best pension scheme, under £1bn**
- **Best pension scheme, over £1bn**
- **Best DC pension scheme**
- **Best charity/foundation/endowment**
- **Best responsible investment**
- **Best risk management**
- **Best local authority pension scheme**

The judging process is completely independent, with a carefully selected group of industry experts chosen to assess and then select each category winner.

The awards will be announced at a glittering event in London on October 24.

INTRODUCING SAM MAHTANI, JUDGE IN THE BEST RESPONSIBLE INVESTMENT CATEGORY

Sam Mahtani is the founder of Alpha ESG Consulting, an independent sustainability and investment advisory firm. He sits on the investment committee of a leading animal welfare charity in the UK. He is passionate about sustainable investing and has spent the past 12 years identifying quality companies that help provide solutions to some of the world's big challenges, such as ageing populations and climate change. Mahtani has more than 30 years of investment experience. Prior to founding Alpha ESG he was portfolio manager for Columbia Threadneedle Investments.

Sam, you are a judge in the best responsible investment category: what do you expect to see from entrants?

When analysing the entrants I look at the '4 Ps' – people, philosophy, process and performance. These are all important factors in analysing a fund manager, but process is of particular importance to me. I want to ensure that a process is replicable and has longevity, should for example a key member of the team decide to leave.

It is important to me that a manager is 'true to his/her word' and runs the portfolio in the way that is described in the process. A manager who can demonstrate that they have met and passed my requirements on the '4Ps' has in my opinion a good opportunity to grow its assets from the institutional distribution channels if their story is appropriately communicated to the market.

What would impress you in an entry?

In particular, a clear explanation of how ESG is integrated into the investment process. Also, it is important to see evidence of how the portfolio companies in the fund are making a difference to society, and the engagement milestones that the manager has achieved with the companies it has invested in.

Do you think awarding asset owners like this is a good thing?

Yes, definitely. It is important to look for who we believe are the best in the responsible investment space and highlight these managers to the wider investment community. It is often the leaders in a field that can have an influence on the rest of the industry.

Any other observations on the awards?

I would like to thank *portfolio institutional* for inviting me along to be a judge on these prestigious awards and looking forward to the events evening.

WHY WE NEED TO PLACE DB PENSIONS POLICY ON FIRM FOUNDATIONS

Con Keating is head of research at Brighton Rock Group, while Iain Clacher is a professor of pensions & finance at the University of Leeds.

The Pensions Regulator's (TPR) quantitative analysis is central to the impact assessment of the new funding and investment regulations.

TPR's data is based upon scheme returns, to which models are applied to derive an estimate of asset values. However, these scheme returns are between two to four years out of date. Simply put, these models cannot cope with the unprecedented developments of 2022/23, nor do we believe they can adequately capture the level of leverage in schemes, which was a material factor in the LDI crisis.[1]

While TPR's data suffers from lags in collection, the Office for National Statistics (ONS) conducts a quarterly survey of scheme assets and liabilities.[2]

As of September 2023, TPR's models, we believe, overstate scheme asset values as compared with the ONS by £249bn; ONS assets are £1.12bn and TPR assets £1.37bn. This discrepancy has steadily developed since December 2021, when the ONS reported scheme assets of £30bn above TPR's estimate. Our interpretation of this is the failure of TPR's asset models to capture the effects of leverage, collateral calls and scheme rebalancing over the period, all of which were material during 2022 and into 2023.

This difference in asset values calls into question the pronounced improvements in technical provisions (TP) scheme funding claimed by TPR – from 103.3% to 127.4% (23.3%). If we take TPR's estimate of TPs and use ONS asset values, the ONS assets imply a small decline in the overall funding of DB schemes of 105% to 104.3%. By ONS statistics, 57% are in TP surplus, not the 87% claimed by TPR.

We should also offer a small caveat here, in the use of TPR's liability value. Over the period, TPR appears to have lowered the spread above gilts of the liability discount function from 126 basis points to 100 basis points. The cut will tend to overstate the liability value by 5%. Adjusting the liability values to reflect this would increase the ONS funding ratio to around 110%, and the number of schemes in TP surplus to 3,530, or 70% of schemes. Our hypothesis here is that TPR's discount rate of 1% is lower than that being used by schemes in practice.

Low dependency funding and management strategies are the core of the proposed new funding regulations. Using TPR's figures, we see a 33.8% improvement in the funding ratio, but this would be just 7.7% by the ONS estimates. Schemes in low-dependency deficit improve from 77% to just 20% using TPR's figures, but the improvement is far less pronounced using the ONS asset estimates, from 75% to 54%.

If TPR were correct, there would effectively be no cost to the low dependency regulatory requirement. TPR indicates that schemes in surplus at September 2023 had a surplus of £225bn, which with an aggregate surplus of schemes of £206bn, would imply that schemes in low-dependency deficit had a deficit of just £19bn. All else equal, the schemes in deficit under the ONS figures would be £268bn.

TPR's analysis was fundamental to the impact assessment of the proposed new funding regulations. In light of the ONS survey results, we have no confidence in that assessment. The costs of the legislation look to be extremely high. If the ONS figures prove accurate, this will place a large new funding requirement on sponsors. Clearly, this would run counter to the investment policy of government and the Mansion House agreement.

Our own modelling suggests that this cost will be of the order of £150bn to £200bn, rather than the £268bn above. The cost of corporate taxes foregone would be of the order of £30bn to £40bn. We can expect reality to become evident as scheme returns are filed over the 2025 to 2027 period. However, waiting until 2027 for this picture to emerge from TPR's scheme returns will place a huge burden on sponsors, starving businesses, and the economy, of much needed capital for investment and growth.

With this in mind, we believe it would be sound and rational risk management to defer passage of the new funding regulations until such time as the uncertainty in the aggregate funding position of defined benefit pension schemes has been resolved.

1) There are three channels used by schemes to gear their investment holding, direct (e.g., repo), derivatives (e.g., interest rate swaps) and indirect (e.g., borrowing within a pooled investment fund). All are material in their own right.
2) Currently the ONS does not capture pension scheme liabilities, but this is something that the ONS is planning to capture in the future.

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TNFD AND THE WAVE OF CHANGE IN OCEAN FINANCE

In 2023 the world's oceans absorbed record levels of heat and broke the record for average surface temperature.

Our oceans are under immense pressure. Rising greenhouse gases are warming the seas, disrupting delicate ecosystems vital for human survival. Humans are reliant on ocean ecosystems for everything from food and oxygen to natural storm defences and ocean-related industries.

The OECD predicts that 40 million people will be employed in ocean-related industries by 2030. This 'blue economy'– which includes energy, foods, shipping and port activity, tourism and marine protection – has an estimated value of $24trn (£19trn). However, for too long, the effects of human activity have been allowed to damage and endanger this crucial ecosystem, threatening the oceans with massive biodiversity loss, acidification, oxygen loss and coral reef degradation. To compound the problem, investment in sustainable ocean development is severely lacking. Of all the UN's Sustainable Development Goals (SDG), number 14: *Life Below Water* is the least funded. The World Economic Forum estimates that $175bn (£139bn) per year is required to achieve that goal by 2030, yet total investment between 2015 and 2019 amounted to just under $10bn (£7.9bn). A business-as-usual approach jeopardises our vital blue ecosystems, as well as our global economy. A WWF report estimated that a business-as-usual approach to our blue economy could reach up to $8.4trn (£6.6trn) in economic costs over the next 15 years.

Fortunately, a wave of international agreements and national policies are setting the stage for a more sustainable blue future. The landmark agreements of Cop 15 [in 2022], aiming to protect 30% of the planet's land and oceans by 2030, signified a global commitment to ocean health. The adoption of the agreed UN High Seas Treaty text would provide a legal framework for managing and safeguarding two-thirds of our blue planet. These agreements, alongside regional initiatives like the EU Green Deal with its focus on blue economy strategies, pave the way for responsible development.

Policy frameworks alone aren't enough. Investors need clear guidance to navigate the complexities of the blue economy. Initiatives like the Taskforce on Nature-Related Financial Disclosures (TNFD) are crucial. Taking insights from the Task Force for Climate-related Financial Disclosures (TCFD), the TNFD sets out recommendations aiming to help businesses and investors understand their nature-related dependencies, impacts, risks and opportunities, with the aim of diverting capital flows into nature-positive outcomes and away from outcomes that do harm. This will allow investors to make informed decisions that contribute to a healthy planet, including natural life in the oceans.

Understanding the vulnerability of the oceans, and the harmful effects which its degradation will have on businesses and communities, is for the long-term benefit of companies' business models. TNFD seeks to reflect that, as well as to encourage organisations to increase their ambition to proactively reduce the harm they do. Hundreds of organisations from around the world have joined the early TNFD adopters list, signalling a turning tide.

The appetite from investors is already there. We have witnessed real enthusiasm for ocean-positive investment, and the creation of innovative financial instruments like blue bonds facilitating investment in sustainable projects. These bonds guarantee performance against key indicators related to ocean health, offering environmental positives and financial returns.

And investors are going further, pushing organisations in their portfolios to progress their sustainability practices, such as actively managed funds like the Credit Suisse Rockefeller Ocean Engagement fund, while impact funds like Ocean 14 Capital, focused exclusively on the blue economy, have attracted Ingka Investments (Ikea's parent company), who are also among the TNFD early adopters, and invest in organisations and projects which are beneficial for the environment.

With the right policy frameworks and financing mechanisms, key sectors of the blue economy can flourish, reviving the health of our oceans and, by extension, our planet. The investment case for a thriving blue economy is clear.

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INTERVIEW – EMMANUEL BOCQUET

"Focus on what makes a difference to your objectives, what 'moves the needle'."

The chief investment officer of the Lothian Pension Fund (LPF) talks about being on a learning curve, having a clear strategy, managing assets in-house, a 20-year track record in infrastructure and having an open-door policy. *Andrew Holt* met him.

You took up this role in November. How have the first few months been?

It's been great. It has been a learning curve as I'm new to the local government pension scheme (LGPS) environment.

Everyone has been helpful. And everyone is passionate about the objectives we have in terms of running the LGPS for the members and employers.

Even though I didn't know the LGPS, I have knowledge of pensions in general, whether it is governance, asset classes or asset managers. That has helped me to get up to speed relatively quickly.

Bruce Miller, the previous chief investment officer, stayed on until January. Did that help?

Absolutely. It was helpful to find out about the existing state of the fund and the team. He helped me to get to know the people, the processes, the providers and the systems in a more efficient way than if I had to do it without him. I wish him well.

You joined the scheme from pension fund consolidator TPT Retirement Solutions and before that spent more than 10 years at the investment management arm of the National Grid's UK pension scheme [Aerion]. So what appealed to you about your new role and what experiences have you brought with you?

It is different, yet with some similarities. I came from an in-house asset management arm at National Grid, which was running one scheme. After that was

wound up, I joined TPT, which had a different, multi-employer dimension and so was broader in terms of its funding and investment and sponsor and trustee stakeholder management than I had experienced before.

Even though I didn't have any direct experience with the LGPS, the asset classes were the same, the portfolio was similar. Yes, the governance is different, but every structure has its own governance.

So for me, it felt like a natural progression and even though I had no direct knowledge [of the LGPS] I could bring that different perspective.

So it was a mixture of a challenge while still exploiting your experience?

It is definitely a challenge. There are new things, in terms of governance structure, various priorities, different asset portfolios compared to what I had seen in the corporate world. But the basics of asset liability management, stakeholder management, asset class knowledge and strategic portfolio construction were things I had done quite extensively.

What have been your priorities for the fund?

My priority has been to get to know what is going on. Before I joined, I briefly spent time getting to know the team in an informal setting. That was the priority: to get to know the team, what motivates them and how they operate.

The second centered around the governance structure, discovering how the LGPS operates.

Then there are the processes, providers and asset managers that we use, and get to know, inside out, the state of the fund. Then I could start thinking about how I want to evolve it.

I gave myself six months to get my feet under the desk. We are coming to the end of that. Are there any changes I want to make yet? The answer is: not quite. I'm finalising my ideas and proposals and testing them internally, as well as with the various stakeholders. So there will be changes. But I don't have anything to share yet.

There is no pooling in Scotland. We have 11 funds in the country and that is a good forum for us to share information as we face similar challenges.

What are your ambitions for the fund?

We have a clear strategy. It is not original, but the goal is to pay pensions. What, of course, does that imply for the investment function?

We are an LGPS, we are multi-employer and we are running the fund for several councils as well as other employers. We are focused on delivering risk-adjusted returns and they have been excellent. The other dimension is responsible investment.

The interesting point is that the latest funding level is high, in line with what most of the LGPS are experiencing, particularly in Scotland. But that doesn't mean there is going to be a significant change in strategy. We are a long-term investor.

Another point is that we collaborate with four other funds. That includes direct investment management, so running portfolios for them, as well as advising on some private market transactions.

To be clear, this is not Lothian acting as a 'standard' asset manager. It is not pooling. It is effectively sharing expertise, knowledge and bandwidth with our partners. It benefits all parties and the people we support. And when we go to asset managers, we can access different deals.

The final item is people. I met the team before I started, and they are passionate about what they do. But it is important to make sure they are recognised and continue to be developed.

These are my various ambitions.

Lothian is the second largest local government pension scheme in Scotland and has its own FCA-regulated investment team. So does that mean you manage all of your assets yourselves?

Not 100%, but a significant amount is managed in-house. For example, in listed equities we run 90% of the assets ourselves, with internal portfolio managers. And equities are the largest asset class. We have some sovereign debt exposure, (but not traditional LDI, we don't have any levered exposure). We also run property in-house. That gives us significant benefits, particularly around cost.

Then there are the other real assets, which we have been managing for a long time, using secondaries as well as co-investments on top of traditional primary funds. Of course we do have external managers in some asset classes. We do not shoehorn everything to an in-house approach. But if we can deliver great net returns with a reduction in cost, which is what we do, then that is worth doing.

What are the other benefits of this approach?

You pay a lot less than you would for an external manager, and there can be a potential misalignment of interest between an asset manager and an asset owner. We have no such conflict on what strategies to run. It comes down to delivering the best returns.

Could you give me an insight into your investment approach?

I believe any investment approach should start with the objectives we are trying to achieve. So different things will be relevant based on different circumstances which differ for each fund.

The second, related point, is to avoid being dogmatic. Market circumstances should mean different approaches. You need to be able to adapt. Be sure to retain flexibility and then focus on what matters. Finally, focus on what makes a difference to your objectives, what 'moves the needle'.

Could you therefore give me an investment breakdown of your portfolio?

At the moment the strategic allocation to equities is 60%, and that is a broad listed-equity allocation. We have 20% in real assets, including property and infrastructure.

The rest is across fixed income, which is in gilts and US treasuries which have been built up in the last few years. And some credit split across investment-grade mandates, which are managed externally, as well as some private debt exposure.

So it is quite a simple mix of asset classes. And there is a key focus on equities and real assets, which I think is right, but the increase in government bond allocations has been a response to the huge increase in yields.

You mention you have a good chunk in infrastructure, which will please the government. What is the reason for that?
This started around 20 years ago, before infrastructure was an established asset class. The recognition at the time was that it diversified commercial property, the classic real asset that pension funds held, and is a nice bridge between bonds and equities: with income at a lower risk. 20% to real assets including property, seems the right allocation.

Will the economic or political outlook lead to any investment adjustments?
There probably will be, but it will not be a knee-jerk move. We want to avoid too much tinkering. We are a long-term investor so there will be no significant movements. It could be movement at the strategic level and there could be changes on a tactical basis in terms of how we are positioned.

David Vallery, LPF's chief executive, has said the fund is known for its commitment to "sustainably growing its pension fund through good stewardship of its assets". What does this mean in reality?
It is very important. I call it responsible investment (RI) rather than ESG. And what David says means that we make sure RI is embedded in all investment decisions across asset classes.
I am sure everyone says that, but in practice for us, running equities and property in-house means we have a real consistency in our approach with access to the relevant data. Having that consistency across the team is important.

We want to avoid too much tinkering.

So responsible investment is central to the fund's investment approach?
Absolutely. And you could say it has to be, because of regulatory pressure which is only going one way. But that shouldn't be the only reason. In a public fund you are going to get pressure from multiple stakeholders. But again it is not only that. It is the right thing to do. It is not just climate. It is broader than that. It is aligned with our objective to pay pensions.

Presumably, you want to build on this.
Yes, of course. What I would say is some asset managers have disassociated portfolio management and RI functions. We don't have that at Lothian, RI considerations are embedded into the portfolio managers' processes.

The LGPS system has evolved differently in Scotland given the LGPS 2014 Act included only England and Wales. How do you view it?
There is no pooling in Scotland. We have 11 funds in the country and that is a good forum for us to share information as we face similar challenges.

Is pooling something you would welcome in Scotland or does the more collaborative model you have work well?
If the collaborative model is a route to pooling, then that is fine. If pooling doesn't happen then it is fine as well. Collaboration is something we can do within the current set up and we should continue, as long as it benefits all parties.
If pooling was to be mandated like it was in England, we would of course follow any requirements.

So the collaborative model is working effectively?
We collaborate with three of the Scottish funds and one in Northern Ireland. But the way we exchange knowledge across all the funds is something we want to preserve and maintain, regardless of the developments on pooling.

EMMANUEL BOCQUET'S CV

November 2023 – present
Chief investment officer
Lothian Pension Fund

May 2016 – October 2023
Head of investment
TPT Retirement Solutions

May 2005 – February 2016
Head of alternative investments
Aerion Fund Management

March 2003 – December 2004
Portfolio manager
Gulf International Bank

June 2001 – February 2003
Director
HypoVereinsBank

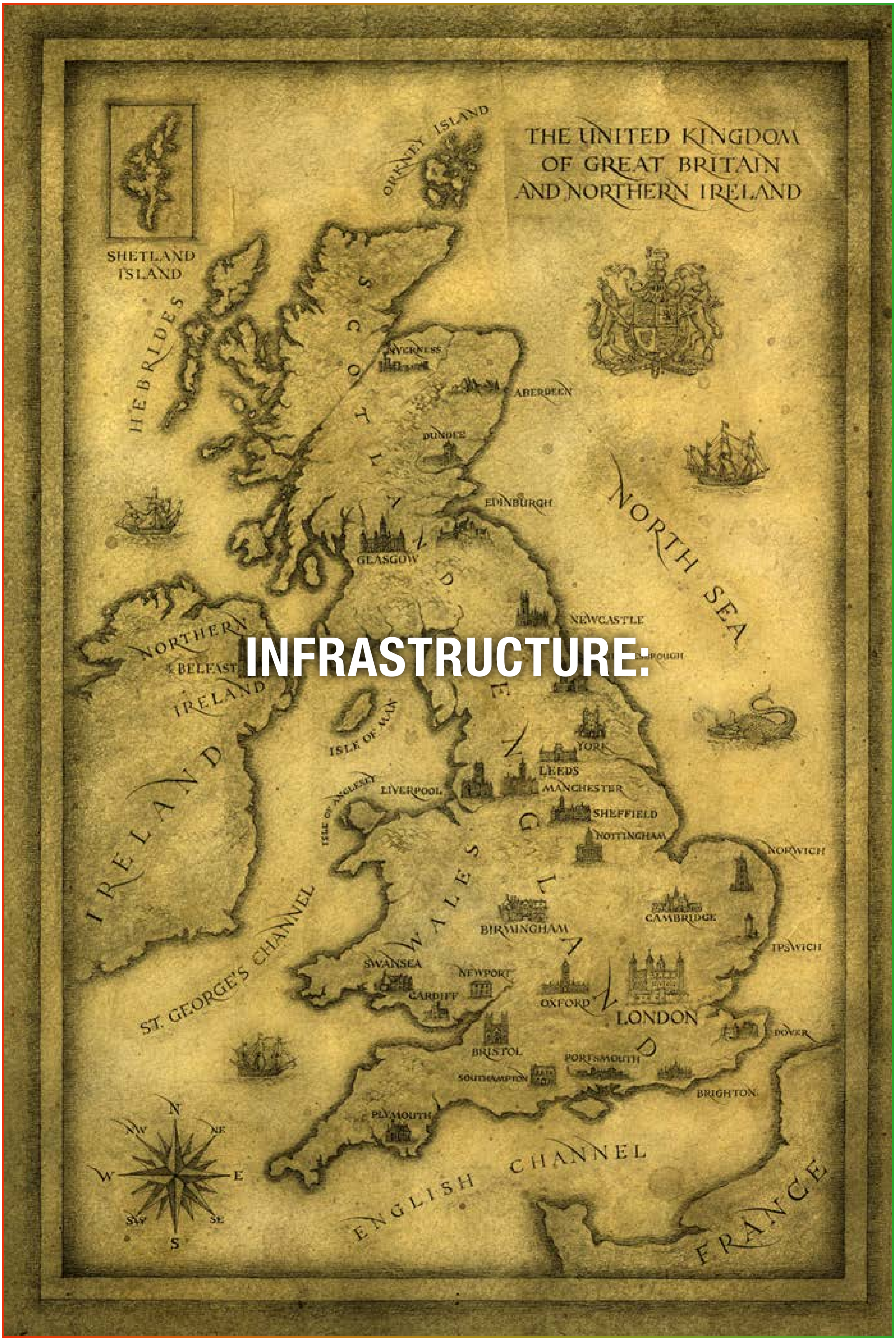
November 1996 – June 2001
Manager, interest rate options
ANZ Investment Bank

November 1994 – November 1996
Trader, JPY interest rate options
Credit Lyonnais

What do you believe will be the biggest challenges that you will face in your role?
The market environment goes without saying. Then there will be continuing to get to know the governance, the LGPS environment and potential pooling.
But the biggest challenge is to continue to fulfill our objectives: responsible investment, correct allocations, managing the portfolios in an appropriate way, controlling costs and generating the best risk-adjusted returns. As well as responding to directives, responding to stakeholders and, importantly, how the team is resourced and structured.

What has been the biggest lesson you have learnt from your career?
Two things. The first is to be transparent. Always be open.
The second is to be approachable. Make sure you interact with people. Make sure your door is always open.

INFRASTRUCTURE:



GREAT EXPECTATIONS

The government has big plans for the UK's infrastructure, but who wants to pay for it? *Chris Newlands* reports.

It was an eye-roll moment for some during Jeremy Hunt's Mansion House speech last summer when he outlined his grand vision to get UK pension funds investing in unlisted companies to try and boost Britain's economic growth.

The indifference was not down to a lack of appreciation of his drive to get defined contribution (DC) funds investing a proportion of their assets in infrastructure, as well as startups and green technology. It was because they had been here before.

Hunt is not the first chancellor to try and persuade large investors to finance the upkeep of the country's much-needed infrastructure, such as new roads, hospitals and energy upgrades, and he will not be the last.

In November 2011, the then chancellor George Osborne used his Autumn Statement to declare that he had negotiated a deal with the National Association of Pension Funds and the Pension Protection Fund to "unlock" £20bn of retirement fund savings to be used to "overhaul the physical infrastructure of our nation".

Almost four years after Osborne's speech, the Pensions Infrastructure Platform, which was created to try and unlock that £20bn, had raised just £1bn. By 2020, the platform was quietly sold to private equity firm Foresight.

But, as well as apathy over Hunt's latest plans, there is also a feeling that the government is being a little heavy handed in its approach. Indeed, in March's Budget the chancellor went further than the comments he made at Mansion House, announcing a requirement for pension funds to report how much they have allocated to the UK. He suggested he would examine what further action might be taken if this reporting requirement did not lead to an increase in investments.

The move has drawn much criticism, with the government's top infrastructure adviser, Sir John Armitt, telling attendees at the Trades Union Congress pension conference held in London in March that there is "no reason" a pension fund should be told it must invest in the UK.

Robin Powell, a campaigner for what he calls positive change in global investing and the author of the blog, The Evidence-Based Investor, agrees with Armitt. "I'm uneasy about the politicisation of pensions since Jeremy Hunt moved into Number 11," he says. "The government is treating pension funds as a quick fix for the UK's ailing economic growth. But the primary objective of pension fund trustees is to ensure the best possible outcomes for members. It's not their job to fund large infrastructure projects."

The biggest problem with infrastructure, like private equity and venture capital, he adds, which the government also wants to promote, is its illiquidity. "Yes, in theory, this means higher potential returns, but it also means higher risk and higher costs. Another concern I have is that, if the chancellor has his way, pension funds will become too heavily exposed to the UK economy," Powell says.

"Pension fund members already have high exposure to the UK, because they live, work and own property here," he adds. "The evidence shows, time and again, that global diversification reduces risks and yields superior long-term returns."

The government is treating pension funds as a quick fix for the UK's ailing economic growth.

Robin Powell, campaigner

Show me the details

Hunt's Mansion House speech and his later announcements during the Spring Budget in March, although long on aspiration, were also short on detail. Far from ideal for pension funds that have to cross the i's and dot the t's when it comes to their investment allocations.

The concern is that bluster has crowded out the finer details. Amin Rajan, chief executive of Create Research, an asset management consultancy, says: "Most previous government initiatives in this area have turned out, in hindsight, to be pious hot air."

Maybe more information will become available if and when the latest initiatives get off the ground, he adds, but – until then – pension funds and their advisers will be reluctant to get involved to the extent the current government wants them to.

"Infrastructure projects have a history of cost and time overruns," Rajan says. "Such projects need catalytic investors, such as governments, that are willing to take the 'first loss' in order to leverage private capital. What has not been made clear is the role the UK government would take and what guarantees will be given to investors willing to invest in projects that have long gestation periods and an unpredictable policy regime."

The Cabinet Office declined to comment.

Time, money and regulation

So what has been holding back investments in infrastructure among pension funds up until this point? In short, for defined contribution plans it is cost, while for legacy defined benefit (DB) plans, which are more or less closed to new money, it is time.

Matt Tickle, partner and chief investment officer at pension consultancy Barnett Waddingham, puts it simply: "Closed DB schemes will not be interested – the timescales are not consistent with liabilities, certainly not for new infrastructure projects. The long-time horizons required are just not compatible with their strategic objectives."

Linda McAleer, senior investment research consultant at pensions advisory Hymans Robertson, adds: "Unless there is a shift in the DB landscape, we don't expect much growth from this subset of pension funds."

Meanwhile, the costs required to facilitate more expensive investments in roads or digital infrastructure, despite the potential for higher returns, are not suitable for workplace DC schemes, where employees are automatically enrolled and protected by cost ceilings.

Roger Pim, senior investment director of infrastructure at Abrdn, says: "Infrastructure is [in theory] an ideal investment asset class for pension funds given its focus on generating long-term stable returns, typically with a high degree of inflation protection and a low correlation to listed market volatility.

"But many of the UK's DB schemes are closed to new investors, are moving towards buyout and so are unable to invest in new long-term asset classes, while the majority of the UK's open pension plans are DC schemes and these are prevented from investing in illiquid infrastructure funds or assets due to the regulatory constraints."

Furthermore, he adds, DC schemes have stringent cost caps that prevent investment in private assets, "even if they are anticipated to generate higher and more attractive risk-adjusted returns".

Destination: Britain

Perhaps the most galling aspect of all this for Hunt is that overseas pension funds are choosing to invest big in the UK. Only last month Australia's largest pension fund, Australian Super, announced it would place £8bn across a range of sectors, including the energy transition, digital infrastructure, mixed-use property and transport.

The latest allocation will take the pension fund's total investment in the UK to more than £18bn by 2030, which includes more than £2.5bn in UK-listed equities.

The pension fund's chief executive, Paul Schroder, said: "Despite ongoing global economic uncertainty, the UK remains an attractive destination for global investors like Australian Super, which is evidenced by our forecast £8bn commitment to the market over the rest of this decade."

The fund already has around £8bn invested in the UK, including a majority interest (74%) in the King's Cross Estate in London; a 32% interest in Peel Ports, the UK's second largest ports group that handles more than 70 million tonnes of cargo each year; a 50% joint venture with British Land to deliver the Canada Water Masterplan in East London, which will deliver up to 2,600 new net-zero carbon homes and 2.5 million square foot of workspace; and a 27% interest in Vantage Data Centers, one of the fastest growing hyperscale data centre platforms.

All of this is in line with the pension fund's goal for £7 of every new £10 it invests will be deployed outside of Australia.

Surinder Toor, managing partner at Arjun, an asset management firm specialising in infrastructure, says: "As seen, there is strong demand for infrastructure assets among overseas pension funds but the interest from UK pension funds is severely lacking.

"Most pension schemes in the UK have virtually no infrastructure exposure compared to pension schemes in the Nordics, Australia and Canada that have allocations in the region of 15% to 20%. In fact, many UK defined benefit schemes are instead trapped in low-performing assets," Toor adds.

Fallen idol

The timing of Hunt's push is also proving a little awkward. Almost at the same moment the chancellor spoke to attendees at Mansion House, Thames Water – what should have been a poster child for infrastructure investment – was in urgent funding talks amid fears of collapse. And, by the time Hunt had made his Spring Budget speech, one of the biggest investors in Thames Water, the Universities Superannuation Scheme (USS), had disclosed that it had written down the value of its stake by nearly two-thirds.

According to financial accounts published at the end of last year, USS' investment is valued at around £360m, down from almost £1bn a year earlier.

USS said in a statement: "While the value we place on our Thames investment may go up or down as part of our regular revaluations, we continue to view this as a long-term investment, in line with the long-term needs of the scheme."

Elsewhere, the mothballed northern leg of the HS2 rail link also perhaps showed investors all too clearly how the government can lose its nerve and throw in the towel at a crucial stage of a flagship project.

They have not been the best adverts for infrastructure investing. When asked if pension funds have been discouraged by the controversy surrounding Thames Water, Arjun's Toor says: "Yes, I fear they have."

He adds: "Political sensitivity has deterred pension funds from large-scale investment in infrastructure projects, exemplified by Thames Water's situation, where short-termism and political decisions at the time led to financial difficulties, deteriorating water infrastructure and risk of environmental harm."

However, the underlying truth remains, he continues, that infrastructure assets need long-term investors like pension funds. "The £160bn invested in the water industry since 2010 was only achieved with the help of private investment." he says.

There is strong demand for infrastructure assets among overseas pension funds but the interest from UK pension funds is severely lacking.

Surinder Toor, Arjun Infrastructure

Land of confusion

The final hurdle Hunt faces in his quest to get UK pension funds bankrolling the country's infrastructure projects is whether the current government can be taken seriously. A general election is fast approaching and, after 13 years of Conservative rule, Keir Starmer's Labour Party has been continuously ahead in the polls for the past couple of years. According to the latest YouGov/Times voting intention poll, Labour leads with 44% of the vote, while the Conservatives have 19%.

Powell says: "True, Jeremy Hunt's plans will come to nought if the Conservatives lose the election. But Labour are also talking about using pension funds to 'reinvigorate' the UK's capital markets to boost investment in the UK economy."

Barnett Waddingham's Tickle is more optimistic. "Investors are already considering infrastructure and other private assets," he says. "Asset managers and the industry are already innovating and looking at structures to help investors access these. This will continue regardless of the government [in power]."

UK INFRASTRUCTURE: BOOM TIME

An economy is only as strong as its infrastructure. Good quality roads, bridges, telephone networks, airports, hospitals and schools are needed to keep a country moving.

However, as the world changes, so does the nature of the infrastructure it needs. And funding these changes has become a political issue.

The government through slogans like “levelling up” and “build back better” wants to build new homes, schools and hospitals to serve its growing population.

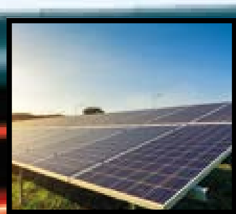
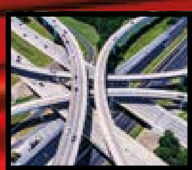
But the three Ds of de-carbonisation, de-globalisation and digitalisation are also creating a thirst for more investment into infrastructure. For example, to remain competitive Britain needs secure and reliable internet coverage and the data centres that feed them.

Then there is revamping the energy market to decarbonise the economy.

The opportunity to meet the changing needs of society means that infrastructure could become something of a boom industry. Read the following pages to find out how.






INTERVIEW – ACHAL BHUWANIA

UK INFRASTRUCTURE: A PRIME MARKET

The chief investment officer of infrastructure fund manager Equitix discusses the attractions of the UK's mid-market, the importance of investing responsibly and why investor confidence is returning to Britain.

Tell me about Equitix and how you're positioned in the UK?

Equitix has been investing in UK infrastructure since 2007. Today, we are one of the largest mid-market investors in the asset class with six UK offices, over 180 UK-based infrastructure professionals and more than 280 UK assets across all major sub-sectors, including transport, renewable power, environmental services, social infrastructure, data infrastructure and network utilities.

Equitix began investing in social infrastructure when there was a focus on public-private partnerships (PPPs) and private finance initiatives (PFIs). At the time, these established assets provided long-term inflation-linked cashflows which matched the attributes pension fund investors desired.

We capitalised on this, building what is today one of the largest social infrastructure portfolios amongst UK-based fund managers. For example, we provide more than 80,000 school pupil places, 15,000 social housing dwellings and 1.2 million streetlights.

Over time, infrastructure as an asset class and the market opportunity has shifted and with that, so has our investment strategy. We have evolved and now hold investments in a diverse range of sectors. In the renewable energy sector alone, we have invested £2.5bn to date and provide the equivalent of 13% of the UK's total installed energy capacity.

We own or are shareholders in a number of high-profile assets which are part of the critical infrastructure of London – Barts and the Royal London hospital, the M25, HS1, the leasing of Elizabeth Line trains and numerous schools as well as healthcare and public sector properties. These assets significantly help the UK to operate efficiently. Across the length and breadth of the country you'll find our assets – from offshore wind farms in Wick and hydro dams in Perthshire, to a swimming pool in Penzance, electricity networks in Manchester, fibre broadband and energy from waste plants throughout England, onshore wind, offshore wind, solar power, rail, road and aviation....and we're incredibly proud of that. I believe that the enormous diversity these assets showcase, is a critical factor to our growth and successful track record.

We have the largest team of infrastructure professionals in the market and this is one of the key attributes of Equitix: our people. Not only does the depth of our team and breadth of their knowledge support us instrumentally, but the ever-expanding network this promotes is invaluable. This also gives us our competitive advantage in sourcing and executing investment opportunities. The majority of our fund deployment is originated on a bilateral, non-competitive basis.

Additionally, because of this large team we can ensure we maintain a local presence for all our assets. Our local

teams know the area, its people, and they understand the projects inside out. They have passion and dedication and we are fortunate to have such a fantastic array of talented individuals at Equitix.

However, importantly, we have retained our core investment strategy – our centre of focus remains on critical infrastructure and assets which serve the communities in which they are located. We are particularly attracted to capital-intensive sectors in developed markets, with low-demand risk, inflation linkage and downside protection.

Our agile and focused approach to investing entails a fully integrated approach to considering material sustainability factors throughout the investment lifecycle. As long-term, responsible investors we focus on driving sustainability in our investment strategy, for example, targeting investment in climate-related opportunities, whilst actively managing sustainability-related risk across the portfolio and providing transparent reporting to investors.

We prioritise the integration of environmental, social & governance factors throughout the investment lifecycle. Climate considerations in particular are an integral part of our approach to investment, as we pursue opportunities that will help the nation reach net zero and ensure we are building resilient infrastructure in an ever-changing landscape.

Do your overseas investors still see the UK as an attractive investment environment?

We believe the UK is a highly appealing investment destination with a stable political and regulatory environment, as well as a mature and deep infrastructure market. Whilst there was a blip in investor confidence during the liability-driven investment [LDI] crisis in September 2022, and the political turmoil that preceded it, the UK has demonstrated the stability of its markets with the pound since having recovered and inflation coming under control.

In addition, we believe that foreign investors see sterling as a niche currency, and therefore returns today, on a risk-adjusted basis, are arguably better than in a number of other countries in the developed world.

How large would you say the infrastructure funding gap is in the UK?

Research shows that the UK needs more than £1.3trn by 2030 to fund its infrastructure and energy transition needs. Of this requirement, current investment sources are expected to provide just over half, leaving a sizeable gap of more than £600bn.

The UK has under-invested for the last 10 years, so there is a major need to upgrade existing ailing infrastructure. In addition, new innovations and growth segments will likely enhance the opportunity set.

Given budgetary constraints, the majority of this financing will need to come from the private sector and a large proportion of that needs to flow into mid-market assets. The opportunities are huge, and the UK needs to offer the right environment to attract sufficient investment into UK mid-market infrastructure. We managed this successfully in December.

The energy transition is hugely positive. It benefits everyone, bringing a shared universal perspective on a cause we can all support.

Equitix raised more than £1bn from overseas investors last year. What does that capital want from UK infrastructure?

Fundamentally, overseas investors want the same as domestic investors – strong returns on a risk-adjusted basis whilst maintaining portfolio diversification.

However, the UK has an added advantage in that it is a leader in a number of energy transition sectors, such as offshore wind, and therefore has the ability to export this experience and intelligence overseas to those investors who are seeking know-how and technical collaboration here in the UK that they can take back to their home markets.

Why do you think this a good time to invest in UK infrastructure?

There is an opportune moment to invest in UK infrastructure today, particularly the private mid-market. In the past two years or so, the funding backdrop has been challenging due to macro-economic drivers such as high inflation, elevated interest rates and specific shock events such as the LDI crisis.

As a result, many listed infrastructure vehicles are trading below net asset value (NAV), limiting their ability and appetite to invest in UK infrastructure opportunities.

That being said, the next government, irrespective of party lines, needs to focus on improving the investment backdrop given the scale of the funding gap.

The country needs not only to incentivise investment from UK investors, such as pension funds, but also make the UK even more attractive for foreign investors and compete with the US and Europe which have excited overseas capital with the Inflation Reduction Act and Green Deal.

But hedging costs for sterling have risen, so isn't that eating into those returns?

Correct. The cost of hedging sterling has gone up, but this isn't a purely negative factor as it is dampening some interest from foreign investors. This is a positive as it means we are not facing a supply/demand imbalance which may otherwise lead to valuation pressures.

Also, as previously mentioned, we see this as short-term. Sterling has proven to be a resilient currency and we are looking for investors who are seeking to invest in this asset class long-term. While hedging costs will move up or down, on a long-term basis the UK continues to be an attractive destination.

Have you seen confidence in Britain return following the LDI crisis?

The LDI shock and the energy crisis resulting from the Ukraine-Russia war led to rapid inflation and impacted equities, leading to the denominator effect which then restricted investors' ability to allocate to alternatives, such as infrastructure.

In the first half of 2023, the UK saw the worst of everything: a sterling crisis, rapid inflation and high interest rates. But our experience, resilience, and foresight meant that our investors were able to benefit from some opportunistic transactions during that time.

As the market improved in the second half of 2023, we attracted £1bn of foreign capital into UK infrastructure assets – so we know firsthand that yes, confidence in Britain has definitely returned.

We are now in a new era of higher inflation and higher interest rates. Whilst we cannot predict the future, despite facing 'high for longer' rates, we do believe that inflation is moving under control and we are at the peak of the interest-rate cycle. That is providing even more confidence in the market today.

What impact has the cancellation of HS2 had on Britain as an investment proposition?

I have been asked that question by a number of foreign investors. The point is that HS2 is publicly funded infrastructure, so it has not directly impacted private investors. But it has, however, led to questions from some investors about the government's commitment to infrastructure projects.

The government made the decision, which it had to for various reasons, but it creates challenges for future mega infrastructure projects in the UK.

Most UK pension schemes invest overseas. What needs to change for them to increase their domestic exposures?

UK investors need to see evidence that domestic infrastructure is attractive on a risk-adjusted basis and provides strong liability matching to their objectives. This is something that we at Equitix have demonstrated to our UK pension fund investors since inception.

We also need to widen the flexibility of investment structures in UK infrastructure and make it easier for pension funds to fit the sector into their wider alternatives strategies.

What trends do you see emerging in UK mid-market infrastructure?

We're seeing the core global mega trends of the energy transition, de-globalisation and digitalisation presenting various opportunities in UK mid-market infrastructure.

The energy transition needs huge volumes of capital. In this space, for example, Equitix is helping asset developers recycle capital into new projects by making long-term investments into renewables, transmission, and distribution assets. We are also seeing exciting developments in home decarbonisation and smart energy, which on its own could present a £100bn-plus opportunity in the UK.

De-globalisation is fuelling an interest in initiatives such as local supply chains and preparing the nation for an ageing population – something which our social infrastructure portfolio is focused on.

We believe digitisation will start to present opportunity in growth areas such as the AI economy but is also strongly linked to the energy transition as we explore more climate mitigation technology.

Importantly, as there is less capital available seeking these investments, there is a material opportunity to earn returns on a risk-adjusted basis that are more attractive than I have seen in the last five years.

Are investors focusing more on debt or equity to gain exposure to UK infrastructure?

It's a mixed bag. A number of investors have been lured over to private credit during the past 12 months because higher interest rates and structured debt investments presented more attractive risk-adjusted returns versus equity.

However, private credit doesn't offer the same duration as private equity, which is needed for liability matching. This is therefore a more near-term focus, and we believe that in relation to inflation-matched returns and duration, equity provides a better opportunity set.

How is the energy transition impacting valuations?

The energy transition is hugely positive for our country, in many ways. It benefits everyone, bringing a shared universal perspective on a cause we can all support.

For our investors, our assets and the people who use them every day, it's no longer enough to simply say we will build them to be adequately sustainable. We are looking at this at a much deeper level, to ensure we understand how to actively steward our assets, taking into account consideration of climate, biodiversity, communities and supply chain factors as part of our approach to futureproofing and protecting value in the portfolio. This helps ensure we meet LP demands and the evolving expectations of infrastructure users. From an investment perspective, it has led to material opportunities for capital deployment – but that in itself has created a need for liquidity. Given where interest rates are today, we cannot simply borrow to solve that liquidity requirement.

This means valuations have been adversely impacted and, whilst there has been a slight correction in UK infrastructure valuations towards the end of 2023, there remains a disconnect which creates a good environment to buy assets on an opportunistic basis. The liquidity requirement means that on a risk-adjusted basis, the sector continues to be more attractive than a few years ago.

However, considering the resilience of this sector, infrastructure is a lot more attractive compared to asset classes like real estate, which have suffered more heavily due to rising interest rates and the global mega trends.

What trends do you expect to see in UK infrastructure in the coming years?

As I see it, the opportunity in UK infrastructure continues to be extremely strong. For the most part, I see more of the same driven by the mega trends discussed earlier.

Equitix is well placed to take advantage of these trends, providing a stable long-term home for critical infrastructure assets in the UK as well as offering a stable source of dividends and long-term liability matching for pension investors.

Additionally, the ability to source robust risk-adjusted returns across mature sectors in the UK helps attract much needed foreign capital into the UK. This further overseas investment has the ability to transform UK mid-market infrastructure investing in the next 10 years.

The UK has gone through almost a decade of relative economic restraint and its infrastructure has suffered from underinvestment. This means that any potential new government will have to think about providing the right environment and the right framework for attracting that much-needed capital – this is critical if we are to bridge the £600bn funding gap to 2030.

Nonetheless, at Equitix we are incredibly excited about a wide range of opportunities available in the UK, particularly in the mid-market infrastructure space. In the near-term, the scale of capital required provides us with ample opportunity for growth, and in the long-term, global mega trends will have the potential to transform the sector and offer highly attractive investment opportunities to our investors.

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Bonds are back and it's institutional investors who are shaping the asset class, finds *Andrew Holt*.

The bond markets are undergoing a transformation with several fundamental changes happening in the asset class.

One of these shifts is that pension funds have become the main driving force behind a resurgence in the UK corporate bond market.

Moreover, companies in mainland Europe's largest economies, in the form of Paris-based luxury goods company Kering and German real estate group Vonovia, are issuing sterling bonds for the first time.

This boost is evident in numbers revealed by the *Financial Times*, which show that the share of European corporate bond sales denominated in sterling has risen to 8.4% from 6.8% a year ago.

In addition, the latest version of the Pension Protection Fund's (PPF) Purple Book reveals that there has been a decent shift into corporate bonds by pension schemes in the past year, where allocations rose to 36.5% from 30.2%, while index-linked bonds fell to 44.1% from 47.8%.

BONDS: CHANGING THE GAME

But Damien Hill, senior credit portfolio manager at Insight Investment, makes an important observation about the state of the market. "Actually, the UK corporate bond market is reasonably diversified by issuer: only about 54% of the index is UK-based corporates," he says. "That is compared to Europe, where it is more like 69%, and the US, where it is above 70%. In a way, the sterling investment-grade market is more diversified."

So much of this on-going development within the UK bond market is, in part, baked into the asset class itself, but it is also a trend that has been in place for a while. "A lot of the issuance we have seen post-Brexit has been for those who need sterling funding with long maturities – UK banks, housing associations and utilities," Hill says. "They need funding for the long term, and that gives a skew to the market."

That said, he adds that there has been a new shift into bonds, with some different issuers at play. "Some of the issuance we have seen over the last six months to a year has been out of auto [car companies] and more cyclical industries, that tend to be sub-10 year," he says.

Long-term gains

In addition, the bond boost comes after the sterling debt market has probably been somewhat under supplied, particularly for longer maturity bonds, Hill says.

In addition, for overseas-based investors there are unique reasons to invest in British corporate debt. "When the market gets funding from Germany or France, they are likely to diversify funding in the UK particularly because you can pick the maturity more forensically in the UK," Hill says. "In Europe, you tend to have a lot of issuance that is sub-10 years in maturity. That tends to be the focus: a shorter duration market."

So what the UK markets give pension schemes, which have longer-term liabilities, are much longer maturities through 15, 20 and 30-year bonds. Indeed, higher credit worthy companies from the US and Europe have issued in the UK for the past decade partly for this reason.

The move into bonds also comes from the obvious attraction of higher yields, thanks in part to the shifting macro-economic environment. According to Vanguard's forecasts, the expectation for UK bonds is to return around 4.9% on an annualised basis over the next decade, compared with its previous 10-year annualised forecast of 1.3%, which was before the much discussed rate-hiking cycle began.

"The long-term outlook for bonds is better than it has been for many years," says Lukas Brandl-Cheng, an investment strategy analyst at Vanguard Europe.

Put another way, Hill says: "Yields now on UK investment grade are in excess of the yield you get on the FTSE100, which is traditionally a high dividend paying index."

The attractions do not stop there. "A bond gives you contractual income and sits higher up in the capital structure if an issuer gets into difficulty," Hill says. "That is attractive for institutional investors.

"Also you are getting pickups in bonds that we haven't seen since the global financial crisis more than 15 years ago."

Although on the issue of defaults, it is worth pausing to consider the latest report from Moody's, which showed that the corporate default rate last year hit its highest level since the start of the pandemic at 4.8%.

> **Yields now on UK investment grade are in excess of the yield you get on the FTSE100, which is traditionally a high dividend paying index.**
>
> Damien Hill, Insight Investment

Structural tailwinds

Then there are other economic factors that support the investment case for bonds.

"We subscribe to the view that in the medium term, inflation is going to have structural tailwinds," Hill says. "You think about de-globalisation trends, extreme geopolitics and ultimately climate change. These are all medium-term tailwinds. So we expect yields on corporate bonds to be somewhat higher than they have been, particularly during the quantitative easing era."

Moreover, this means corporate bonds are going to settle into a nice income-generating asset class. "It can be a larger and more attractive part of investor portfolios in the medium to longer term," Hill says.

Bonds are more of an income story for Blackrock but leading to a different version of the asset class. "Our inflation view keeps us maximum overweight inflation-linked bonds. And within developed market government bonds, we still prefer short and medium-term maturities," says Wei Li, global chief investment strategist at the Blackrock Investment Institute.

Looking at the outlook, Hal Cook, senior investment analyst at Hargreaves Lansdown, draws out some interesting perspectives. "Now we are out of the interest-rate rising cycle, interest rates could potentially go up or down from here. If there is a market shock, it is quite possible that interest rates could be cut or that there could be a flight to the safety of gilts. In that scenario, shares would likely lose value and bonds would increase in value."

Textbook theory

This could lead back to more conventional investing. "The standard textbook theory that investing in shares and bonds gives you a smoother investment return over time might be back," Cook says.

That said, if interest rates fall because inflation is considered under control, then that will likely be good for shares and bonds. "We saw this in the final two months of 2023 where markets thought that further interest rate rises were completely off the table and that cuts would be coming soon," Cook adds.

While looking at the macro outlook, Nick Burns, a portfolio manager at Payden & Rygel, says investors should keep the micro picture in mind when thinking about bonds. "One of the themes everybody talks about is the macro-economic environment, and that is obviously important, but the micro-economic perspective is important too. We have seen persistently positive results in terms of issuers continuing to maintain balanced balance sheets and balanced credit metrics, with overall fundamentals that suggest that they are prepared to manage through a recession."

But, he says, this is unlikely to be tested, as a recession is doubtful. "I don't think a recession is anybody's base case at this point but you still have a lot of comfort with the margin of safety that you are getting from the issuers in our universe."

The essence of this is that bonds are a much more attractive asset class than they have been. But is there a specific focus investors should keep in mind? "Investment-grade credit is probably the sweet spot relative to other areas, relative to high yield or government bonds at this point in time," Hill says.

The announcements made in March's spring Budget could also boost the bond market – a statement that is probably not made often. "The British ISA [designed to encourage investment into UK companies] could help the UK corporate bond market as well, giving it a little more of a kick," Hill says.

Negative correlation

In an interesting twist on the whole bonds debate, research from Managing Partners Group has shown that institutional investors expect the correlation between bonds and equities to turn increasingly negative during the next 12 months.

This puts bonds back in play in a major way. A point not lost on Hill. "From an investment perspective you definitely want a higher allocation to bonds," he says.

In addition, as defined benefit pension schemes get more mature, there has been much activity in sponsoring companies transferring them off their balance sheet to an insurer.

Insurers prefer portfolios to be exposed to investment-grade assets, so a great deal of final salary schemes have found their way into the corporate bond market, as evidenced by the Purple Book's data.

This trend is likely to be here to stay for another decade. But then defined contribution schemes will take over. And as they get more mature, and with an aging UK population, there is going to be a strong demand for bonds from these schemes.

A point highlighted by PPF chief actuary Shalin Bhagwan. "Just as the PPF has entered a maturing phase, the wider defined benefit universe looks to be similarly moving into a new phase with many schemes accelerating towards buyout funding levels," he says. "This will likely further sharpen the focus on endgames and the options available to schemes."

Shifting market

The Managing Partners' survey also reveals the extent to which the plates within the bond market continue to shift. US investment-grade corporate bonds and gilts are the fixed income asset classes most appealing in this sector. Bonds issued by the Swiss government and the European Union as well as UK investment-grade corporate debt are also highly rated.

On this level, Scott DiMaggio, head of fixed income at Alliance Bernstein, says it is not just UK debt that looks attractive, but those issued in other global domiciles are also appealing. In the euro area, he points to AAA-rated 10-year German bunds as an example given that after years of negative yields they now offer 2.44%.

In the US, where inflation – while declining to 3.1% – is still well above the Federal Reserve's 2% target, he expects rates to remain elevated into the second half of 2024.

"Given current trends in economic data, we think the Fed has completed its rate-hiking cycle and will remain on pause until inflation is closer to 2%, when it can begin to ease in the face of cooling US growth," he says.

Despite the rally in treasuries, yields remain "compelling", he adds, with US 10-year treasuries now yielding 3.9%.

"For bond investors, these conditions are nearly ideal," DiMaggio says. "After all, most of a bond's return over time comes from its yield. And falling yields – which we expect in the latter half of 2024 – boost bond prices.

"Investors should consider extending duration in this environment to gain exposure to rates," he adds.

It does mean that not only are bonds back, but investors should be giving their portfolios a bond boost.

Investors should consider extending duration in this environment to gain exposure to rates.

Scott DiMaggio, Alliance Bernstein

you can buy shares.
you can buy funds.
you can buy infrastructure.
you can buy corporate bonds.
but you can't buy an institutional award.


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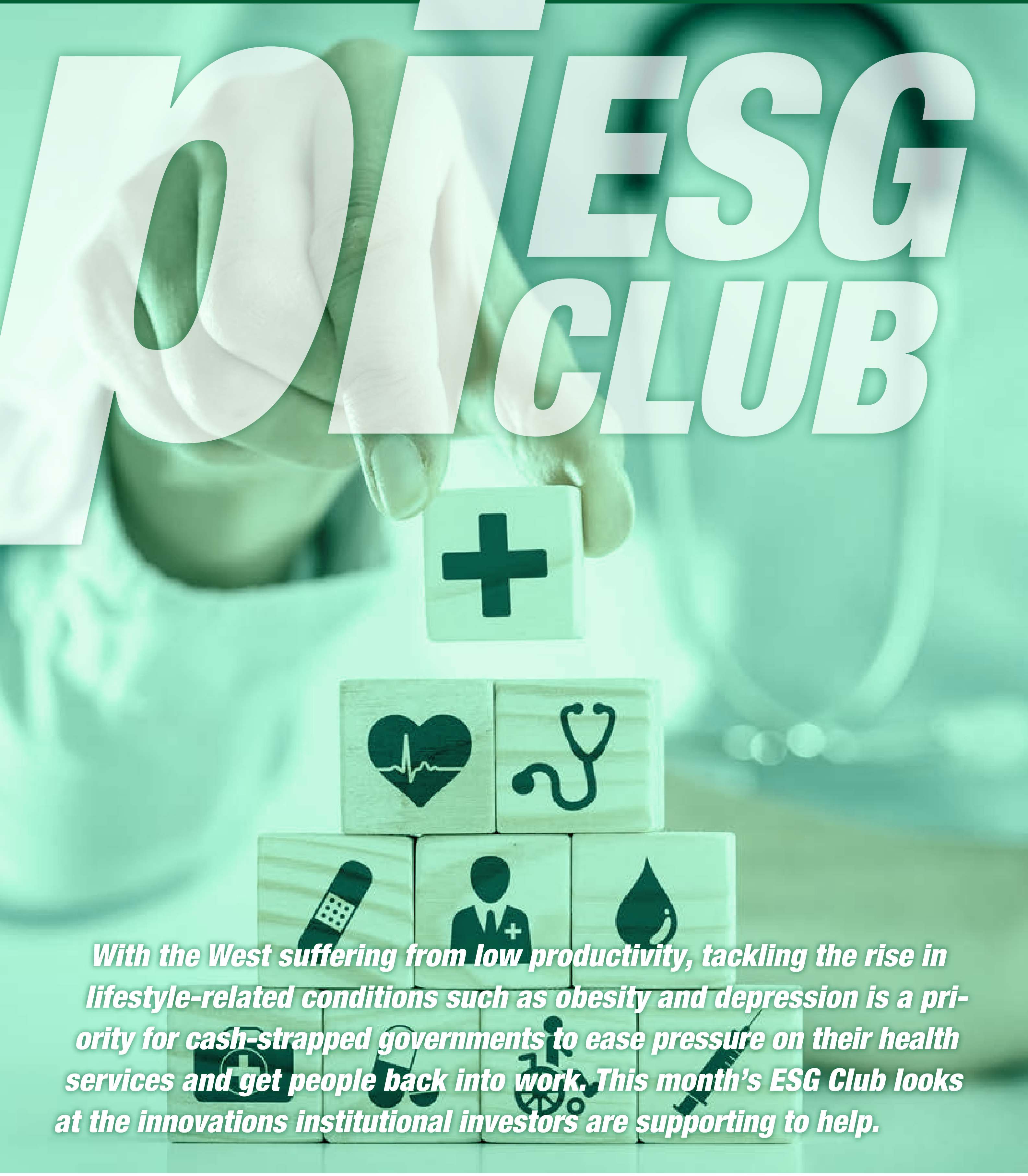

With the West suffering from low productivity, tackling the rise in lifestyle-related conditions such as obesity and depression is a priority for cash-strapped governments to ease pressure on their health services and get people back into work. This month's ESG Club looks at the innovations institutional investors are supporting to help.

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PENSIONS AND LIFETIME SAVINGS ASSOCIATION

BIODIVERSITY: THE CHALLENGES AND OPPORTUNITIES

The challenge of biodiversity is greater for investors than that of climate change, finds *Andrew Holt*.

The numerous challenges facing investors when it comes to addressing biodiversity risk were explored at the PLSA's investment conference in February, with asset owners and investors discussing their experiences.

Faith Ward, chief responsible investment officer at Brunel Pension Partnership, warned that the investment industry does not yet fully understand the issue of biodiversity. "I don't think anybody has got a total grip of all the complexities that need to go on when dealing with biodiversity and nature. The impact matters, on the where, the when and the what. So there is a lot of complexity," she said.

Ward also highlighted how biodiversity was made a responsible investment priority by Brunel back in 2022. "That is not to say we weren't doing anything on it before, we had been looking at deforestation and supply-chain risks, but we felt looking at the evidence and the enormous impact it has and the potential risks on our portfolio brought it through as a risk in its own right," she said.

It was then that Brunel applied it in the same way as other risks, which led to several questions being asked, Ward said. Such as: how does Brunel integrate this into its decision making? How does Brunel collaborate with others? Which is the best way of bringing about change? And how can Brunel be transparent in tackling that change? As well as: what are the expectations of Brunel's asset managers? And what are the expectations on companies and the assets Brunel invests in?

Picking one topic out of those, Ward addressed the issue of expectations on asset managers. "It is about the risk. So identifying where those risks might be, as well the opportunity in terms of capital deployment in those opportunities."

But, she added, not just in terms of managing the risks and opportunities in more overt assets that tackle nature loss. "But actually the everyday, the natural assets we have, and this is particularly pertinent in the real asset space and where we are directly investing and how we can maximise the opportunities within those. So it is not necessarily an asset allocation thing, it could be just how you go about your day-to-day investment risk opportunity analysis."

Bigger than climate change

Offering another warning, David Russell, chair of the Transition Pathway Initiative, said the biodiversity challenge facing asset owners and investors is bigger than the challenges addressing climate change.

"Nature and biodiversity are much more complex to deal with than climate change. And climate change itself isn't easy," he said.

"We have been looking at climate change for 20 years and thinking in more detail about it in the last five, six and seven years post the Paris agreement."

Russell then revealed another challenge. "We have a track record of looking at the [climate] issue. We can collect climate data, we can do carbon footprints, we can do scenarios because there is something you can anchor that on.

"You can measure emissions and the reductions in emissions for climate change. With biodiversity there are so many different measures, that it is going to be highly complex for the pension fund community, and active managers, to deal with."

When addressing the issue of what nature is and why investors should care, Josephine Quint, finance sector advocacy manager at WWF UK, gave a compelling account of the situation.

"Nature is all the systems on earth, including land, water and biodiversity, which provide us with food, clean air and fresh water and so much more. Unfortunately nature is in freefall," she said.

Two sides

Globally we have lost 59% of our nature since 1970, Quint added. That matters to the finance and investment sector for a few reasons. "One is that climate and nature are two sides of the same coin. So for financial institutions that have targets it won't be able to meet those without looking at nature," she said.

"The other reason why it is important to the financial sector is that nature underpins our economy and by extension the finance sector."

Quint added that 55% of global GDP is dependent on nature. "So translating that into financial risk, the loss of those services nature provides us with will translate into losses for the economy and the finance sector," she said.

Another type of risk comes from the transition of the economy, regulation and consumer behavior in the face of nature loss, Quint said. "Which means those businesses and financial institutions that do not integrate nature alongside in their financial and business decisions will be left behind," she said.

Maria Nazarova-Doyle, who leads the global sustainable investment team at IFM Investors, also said there is a necessity in addressing biodiversity from an investor perspective. "Biodiversity is not just a new shiny thing.

"It is something we have to do. Especially when you think of larger infrastructure projects: they have always had to have a biodiversity assessment, it is part of how we do risk management," she added.

ESG INTERVIEW – JAMES ALEXANDER

"We have to make sure that any incoming government sees the magnitude of what they need to do."

UKSIF's chief executive talks to *Andrew Holt* about playing the political game, breaking down barriers, why sustainability has been something of a game of two halves, the importance of macro stewardship and the sustainability challenges that lie ahead after a general election.

What ESG and sustainable investment initiatives are you undertaking?

There is a huge amount going on at the moment. Not least, we will be having an election in the UK this year. So for us it is vitally important to make sure all parties – as we engage with all of them – understand the importance of sustainable finance, what they need to do, and what we would like them to do.

But also, make sure a core priority is getting private capital into the sustainable transition. What we hear from our members all the time is this huge amount of capital they have and a willingness to invest in sustainability issues. So whether that is through companies creating sustainable products or how infrastructure relates to the UK's transition, there is a huge amount of capital out there looking for a home.

So what then is your biggest challenge here?

The challenge is that the UK has to be a good place to invest. So, over the coming months, we will be working with all the parties to build investor confidence.

We will offer specific policy proposals that need to be put in place to make sure the UK becomes a top priority investment destination. We have to be the home of the latest innovative companies.

On the energy side, it will wean us off Russian oil and gas, and create home grown renewable energy.

It is also about tackling the barriers to investing in the UK, such as the planning system, which is slow, and the energy grid, which sometimes takes 15 years for a project to get connected to.

If we can start to address some of those, which are more regulatory issues, then we can start unlocking some of that private capital into the UK.

How many marks out of 10 would you give the government in terms of their pursuit of pushing sustainable investment and finance?

It has been a game of two halves. The first half was quite positive. We saw the UK become the first major economy in the world to commit to net zero, which was an incredible achievement under Teresa May.

We saw Boris Johnson host COP26 in Glasgow [in 2021] with a host of important commitments made by the UK. That was the high-water mark of the UK's commitment to sustainability.

Unfortunately, in the last year or so we have seen the UK backtracking on its sustainability commitments. That has been a real disappointment to investors. It has had a corresponding impact on the number of people buying electric vehicles, which has fallen, and will see less private capital going into creating the infrastructure for those vehicles.

So it is a mixed scorecard. What we want to see is the next government, whoever it is, to be considerably better than we are right now. We have a huge distance to travel just to keep up with where we need to be. And if we want to be a world leader, we have a long way to travel.

We could, and should, be a world leader. Although, we cannot be a leader in everything: we have to think about the top four or five industry areas that we will lead the world in as it transitions to a sustainable future.

Where we have the opportunity to be that leader is in financial services. We should be aspiring to lead the world in financing the transition.

You mentioned Rishi Sunak reneging on the government's climate change policy and its targets, which must be particularly disappointing.

It was a huge disappointment. It left many investors and corporates feeling let down. It felt like we had been marched on a journey and then let down at the last minute.

In order for government policy to have the effect of driving capital and attracting businesses to the UK there has to be a deep sense of trust that when it says it will do something it will happen. Where we have got to is disappointing. Government and investors should be partners in the transition.

ESG and sustainability have become something of a hot political potato and there seems to be a backlash against it – where is this coming from and is it a problem going forward?

It is worse than that. The government is trying to engineer a backlash against sustainability as a wedge and dividing line among the parties leading up to the next election.

There are problems with that: it is an extremely short-term tactic and very disappointing.

And in the long term, we know we will have to decarbonise our economy – that is not just the best for the future of the economy, it is what we need to do for the world.

Do you get a sense from the government that they are listening?

Our frustration is that it feels like policymaking is geared only towards a general election. That is not the way to handle a long-term economic transition that will have profound consequences for the country and take decades.

We want to work with whoever wins the next election over the duration of the next Parliament to make a serious dent in achieving our sustainability ambitions and targets.

What do you make of how asset owners have tackled the ESG and sustainable investment challenges?

We are seeing a lot more focus on sustainability as part of investment decision making. That is important. Focusing on ESG risks is a key part of building a portfolio.

One interesting example is the IPO of Deliveroo. Our investor members were quite nervous about that. This is predominantly because its profitability depends on a core ESG risk: the ability to pay drivers low

sums of money for delivering pizzas and other takeaways to people's houses.
That is the S within ESG. And you then look at the long-term trajectory for this and other such companies. So it is here that we need to start looking more closely and effectively.

So do you think the social element of ESG has been overlooked?
The focus for a long time has been on the E, and more importantly the climate change part within the E. The whole cycle of approaching net zero and climate change from an investment angle is now well established.
What we need to start thinking about is how do we extend a lot of that thinking to other areas, which includes the E: nature, biodiversity and other things, and the S: working conditions, human rights, slavery and other key topics.

What advice would you give to asset owners to improve their approach to these issues?
What asset owners need to start thinking through is where they get their advice from and how their advisers are giving them good insights on sustainability issues. In particular, the scenario modeling they are doing. And then take a critical look at these scenarios and what they actually mean.
Also take a long-term perspective. Think through the time horizons on which your investments need to work, not just thinking about quarter to quarter.
There needs to be a lot more consideration given to stewardship. We need to raise it to another level. This could be called macro stewardship: engaging on a more economic level. So engaging with governments and national policymakers that have an influence over things at that level.

Do you think institutional investors' net-zero objectives are stringent enough?
We saw a huge number of net-zero commitments being made at COP26 in Glasgow. It is not just asset managers and investors that need to have the commitments, it is the corporates themselves who investors are investing in.
What we need to think about is how transitioning is a risk compared to not transitioning being a bigger risk. We need government, policymakers and corporates to work together.
The challenge is also creating investment opportunities for net-zero committed capital to move into. How we are going to structure transactions to invest in is a core challenge.

> **"The challenge is that the UK has to be a good place to invest.**

What do you make of the Cop meetings? Do you believe they will achieve anything?
The Paris agreement is a phenomenal achievement of global diplomacy. It shifted the focus and had a huge impact. All of this means individual countries themselves need to take the agreements seriously, and that is the challenge we are seeing now.

What have you observed as the biggest issue investors have suffered from when it comes to ESG and sustainable investment?
One of the issues we have had is how we talk about it with clients and policymakers and how it relates to what we are doing. We are on a transition journey. Investors have a role as stewards of assets to help shape the economy.

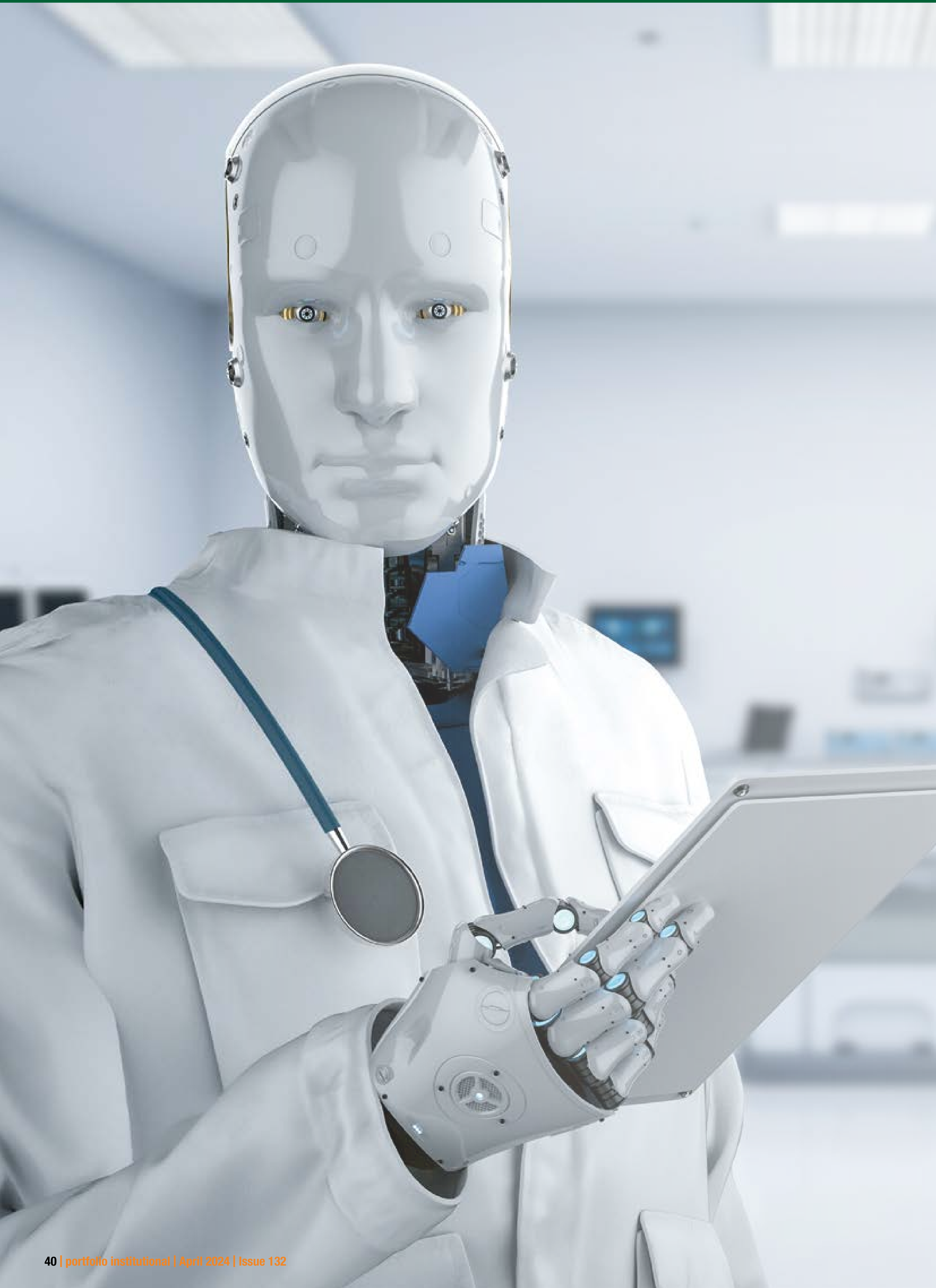
Is greenwashing being dealt with?
The new Financial Conduct Authority (FCA) anti-greenwashing rule will go a long way in addressing that. We are on the edge of our seats for the FCA to publish the final guidance so we can help embed that.

You are highly committed to this area: what attracted you to the role and what spurs you on?
What is exciting for me is that financial services have such an enormous ability to make change happen. What excites me is seeing how much we can do and make happen. Also, what motivates me is working with the amazing team at UKSIF and its members, who have £90trn of assets under management and who are committed to moving the agenda forward.

What has been the biggest change within ESG and sustainable investment you have witnessed?
It has been the speed of change, the acceleration, we are now talking about how do we do this. That is one of the most fundamental pieces.
The next stage is where are those misaligned policies. And how can we go about addressing them.

What are the biggest challenges ahead?
The big challenge is post-election: where does the UK's political environment go. We have to make sure that any incoming government sees the magnitude of what they need to do.
We are in a critical decade. We need to make sure that the government and the financial services industry work together as collaborators and partners to drive things forward and help to shape the economy, while growing the economy.

What has been the biggest lesson you have learnt during your career?
Work with amazing people and then you can make things happen.



ESG: THE ROBOT WILL SEE YOU NOW

With rising diagnosis of chronic conditions putting pressure on developed world economies, how can investors get people off the sick list? *Mark Dunne* reports.

Predicting the future is easy. In the year 1900 a group of experts across a range of fields described what they believed life would be like in the year 2000. The rise of women in the workplace, space travel and machines playing a greater role in our lives have proved to be accurate predictions.

However, even experts cannot always be right. One of their more ambitious forecasts was that by now we would all be living in perfect health.

Indeed, diseases that were around at the time of the survey, such as scarlet fever, tuberculosis, typhus and typhoid, are now rarities in the developed world, but they have been replaced by an array of new health conditions as our lifestyles changed dramatically during the last century.

Healthcare systems are struggling under the rising volume of people suffering from cancer and heart disease as well as chronic conditions for which there is an on-going need for treatment and support, such as stroke, diabetes, obesity, arthritis and dementia. All of the above are believed to be linked to bad diets, smoking, alcohol abuse, pollution, a lack of exercise and aging.

They also have a big impact on the economy. Indeed, in January 2023, 28% of the unemployed were not working because they suffered from a long-term illness – up from 23% four years earlier. Illness was the most popular reason for economic inactivity.

At the end of October, 3.2 million people were claiming Personal Independence Payments, which are for those who suffer from illness, disability and mental health conditions, such as depression and anxiety. This was 3% higher than at the end of July.

But the problem stretches beyond this. The government is forecast to spend £90.9bn on illness and disability benefits in 2028-29 up from £65.7bn this year, say the Office for Budget Responsibility.

These payments eclipse the £17bn that is expected to be paid in pensions in 2028-29, according to Paul Johnson, director of the Institute of Fiscal Studies.

These health issues are so complex that developing a new bottle of pills will not fix them. There are wider issues to consider in how they are treated and cared for, so it is clear that the healthcare industry will have to innovate to combat the growing lifestyle-causing healthcare issues.

Technology is at the heart of this search for treatments, and cures to not just reduce taxpayer spending on healthcare and benefits, but to make more people contribute to the economy rather than be dependent on it.

Feeling good

It is clear that with economies in the developed world suffering from low productivity, healthcare budgets are not going to be expanded to develop the next generation of cures and treatments. So private capital needs to step in and it could be a rewarding move.

"It is important to note that when you are investing in healthcare companies, you are investing in impactful companies, companies that are developing medicines to improve people's overall health," says AJ Ziegler, a sector and thematic product strategist at BlackRock.

But it is not only about little bottles of pills. Such companies are also developing new therapies and healthcare technologies. Then there are those supporting healthcare's infrastructure through building and equipping hospitals and GP surgeries. "There is a lot of inherent good that comes from investing in healthcare companies," he adds.

But the sector also offers a sound long-term investment case. Ziegler says that in the past 10 years healthcare as a whole has outperformed the broader equity market, and with less volatility.

What we see in the future of AI is there is going to be different models that can be tailored for different industries, and healthcare is one of them.

AJ Ziegler, BlackRock

Indeed, the MSCI World Health Care index made an absolute return of 131.11% in the 10 years to the end of February, while the MSCI All Country World index gained 123.49% during the same period.

"I don't like using the phrase: 'doing good makes you feel good', but there is a double benefit for investors of strong risk-adjusted returns and making a positive impact on society," Ziegler says.

Straight to video

One area where technology is changing healthcare is how it is being accessed. One such innovation is telemedicine where patients connect to a doctor through a screen on their phone rather than visit their office. This is an innovation born of necessity during the Covid pandemic.

"Setting up a video call with your doctor is not super groundbreaking, but it makes everything a lot more efficient," Ziegler says.

From my own experience, using Teams makes it easier to speak to a doctor, but Ziegler sees much greater potential for using such systems. "In emerging markets people might not have access to a doctor on site, so why can't they connect to a medical professional anywhere in the world," he says. "There is no reason why that should not be the direction of travel."

There will, of course, be times when you need to physically visit a doctor's office. "But for prescriptions or more basic issues, telemedicine can take on a lot of that," Ziegler says.

So Covid has been a big influence on driving innovation in healthcare. "It sure put the spotlight on healthcare," Ziegler says. "It emphasised the importance of innovation. It emphasised that this sector is critical to our society."



Starving obesity

One of the biggest innovations in healthcare has been the discovery of GLP-1s, which are anti-obesity drugs that are also used to treat diabetes. "On a global scale, this is a massive, massive market," Ziegler says.

Indeed, in 2021, 537 million adults were living with diabetes, a number which is predicted to reach 643 million by 2030 and 783 million 15 years later, according to the IDF Diabetes Atlas.

"Recent enhancements to GLP-1 technologies by Eli Lilly and Novo Nordisk have made these treatments significantly more impactful, leading to weight loss of 15% to 20%.

"That reduces the risks of cardiovascular disease or kidney disease and just makes people a lot healthier," Ziegler adds.

One of the more niche markets within healthcare is gene therapy, where living cells are altered to treat, prevent or cure disease or medical disorder. "The cost of genome sequencing 16 years ago was $1m per genome; it is about $1,000 today," Ziegler says, quoting figures from the National Human Genome Institute.

The benefits of the cost of genome sequencing drastically falling include incentivising healthcare companies to fund more research into genetic diseases. It also opens the door for new entrants into the market who perhaps would not of had the budget needed more than a decade ago.

Aging problems

It is clear that within healthcare the opportunities are quite diverse.

"When people think of healthcare, they typically think of giant pharmaceuticals and the more innovative and groundbreaking biotechs," Ziegler says. "But there are two big gaps in there."

> **Setting up a video call with your doctor is not super groundbreaking, but it makes everything a lot more efficient.**
>
> AJ Ziegler, BlackRock

The first is the insurance companies, which provide critical services to healthcare's infrastructure. Then there is medical technology. "One of the coolest areas in this segment is robotic-assisted surgery," Ziegler says.

This is not robots operating on people, it is devices that are operated by doctors. "[Robotic-assisted surgery] is proven to reduce the human risk of the procedure and often leads to faster recovery times for patients," Ziegler adds.

Another innovation that will drive average recovery times higher are known as smart bandages. Developed by Stanford University, they have sensors that can increase blood flow to the wound helping it to heal faster.

And it appears that rising longevity will fuel the growth of such procedures to tackle the symptoms of aging that are not fatal, such as knee replacements. "If we are going to live into our 90s or hit the century mark, the chances of us needing elective procedures goes way up," Ziegler adds.

In 2019, around a fifth (19%) of Britain's population, or 12.3 million people, had celebrated their 65th birthday. This was a 23% increase in 10 years, despite the broader population climbing by only 7%.

The older generation in the UK is projected to continue rising, with people aged 65 and over making up almost a quarter (24%) of the population by 2043 (17.4 million people). The proportion of Britain's citizens aged 75 and over is projected to rise from 8% in 2018 to 13% in 2043, while those aged 85 and over are expected to double to 4%.

AI is OK

One of the more fascinating areas of our lives at the moment, which is the subject of much debate on the influence it is having on the world, is artificial intelligence (AI). The question here is: what role, if any, is it playing in making the medical breakthroughs we need?

Well, algorithms are being used to detect, diagnose and treat diseases, such as cancer. For example, AI can spot breast cancer 30 times faster than through using a biopsy, and speed is crucial in boosting survival rates.

BlackRock is looking at companies that are seeking to use AI for drug discovery. Although, if this is to be achieved, it could be many years until companies can reliably use AI to make medical breakthroughs.

"That is the next level, but it will take some time. Right now, when you think of using AI, it is basic. You cannot type into Chat GPT: 'give me the cure for cancer'. You need a much more sophisticated data set, and a lot more training," Ziegler says.

"What we see in the future of AI is there is going to be different models that can be tailored for different industries, and healthcare is one of them."

Julian Mund is the chief executive at the Pensions and Lifetime Savings Association (PLSA).

PLSA INVESTMENT CONFERENCE ROUND UP: BIG NUMBERS, BIG IDEAS

Pensions is a world of big numbers. Our members and their partners work in the millions, billions and even trillions every day. At this year's investment conference, in our traditional home of the Edinburgh International Conference Centre, we were dealing with big numbers too.

Some 824 delegates – almost 10% more than last year – from 118 funds enjoyed 19 hours of networking time and had access to more than 20 hours of live content, much of which is still available to watch on the conference app and will soon be available in our new online member area.

But, at the Pensions and Lifetime Savings Association, as impressive as the numbers we work with are, we are acutely aware of what they represent and the responsibility they bring to our members.

Liabilities, while seen as an accounting measure to some, are the promises our member schemes owe to individuals who join and pay into them; in many cases, they are also a multi-faceted risk our members have to manage, with trustees taking on the responsibility of getting key decisions right.

We also know that the assets held in schemes are coming under greater scrutiny than ever before. Beyond just meeting the obligations set out for financial returns, investment strategies now must consider where, how and with whom assets are being allocated, with data and justification demands an increasingly heavy burden.

It is with this understanding that we designed the 2024 Investment Conference, aiming to cover as many of the key issues our members are facing and grappling with. We know our events offer our members the opportunity to dig into a range of issues, surrounded by peers that may have a different way of tackling it – or may even have found a solution.

From the UK's economic position and short-term political future, outlined by Paul Johnson, director at the Institute for Fiscal Studies, in the opening plenary session, to the countless other forces shaping our world, expertly condensed into the closing session by the London Business School's Lynda Gratton, we covered much in three days of conference.

Three chief investment officers, drawn from the worlds of open defined benefit (DB), defined contribution (DC) master trusts and the Local Government Pension Scheme, discussed their different approaches to asset allocation, based on their own specific models and expectations. They all agreed that strong governance and having a clear objective for achieving their members' outcomes needed to sit at the heart of all decision-making.

The theme of consolidation also loomed large. From a keynote debate featuring the Pension Protection Fund, Universities Superannuation Scheme and a commercial master trust, to breakout sessions that looked at the practicalities of bringing schemes together, there was no mistaking the direction of travel for many in our industry. News from the chancellor around the future for poorly run DC schemes, which arrived on Friday as we travelled home from Edinburgh, made clear that we need to keep working and debating with members on this.

Another key theme was DB endgame and how, due to a general improvement in solvency levels, the options for schemes, sponsors and trustees looks more varied and achievable than has been the case in recent years.

Megatrends and factors that might at first appear to be non-financial also engaged delegates across breakout sessions and fireside chats. The impact on portfolios of biodiversity loss, climate change and a poor understanding of diversity, equity and inclusion may be greater than you might first think, our members learned at conference.

We were pleased to welcome Paul Maynard MP, minister for pensions, to the conference, despite his warning that 2024 is likely to be "even busier" for our sector than it was in 2023. The "endless consultations" will continue, he said, as government addresses key concerns such as adequacy, dashboards and collective defined contribution (CDC), which are key concerns for the PLSA and our members too.

A fascinating deep data dive by Kelly Beaver MBE, chief executive of IPSOS UK and Ireland, gave delegates an insight into how their members might feel about the state of the nation, politics and their position within it all – and how this might affect their choices going into the upcoming general election.

A thought-provoking conference dinner speech by award-winning filmmaker and triathlete Lesley Paterson made us all reflect on how we can all build resilience within our teams and portfolios.

We thank all our members, partners and delegates for joining us and helping to make our 2024 investment conference such a powerful experience. With the date for next year's conference already in our diaries (11-13 March 2025), we look forward to shaping the agenda with you to deliver another engaging and effective event.

PENSIONS AND LIFETIME SAVINGS ASSOCIATION


1.9
40.1
86.2
13.4
39.9
1.9

CHINA: TIME FOR A RE-THINK?

Is the world's second largest economy still a sound institutional investment? *Andrew Holt* investigates.

China appears to be in crisis. Its markets are experiencing nightmarish scenarios and the property sector has hit catastrophic proportions.

But what does it mean for investors, especially those investing for the long-term? Is it time to retreat from the market? And if so, as a long-term punt, has it had its day?

The economist Mohamed El-Erian has said that foreign investors are now right to see China as a trade, more than a long-term option, which is damning in itself.

But investors appear to be taking a more measured view. David Perrett, co-head of Asian investment at M&G Investments, says there are solid reasons for investors to remain constructive on China. "We believe that pessimism about China's fortunes and the wider economic outlook, resulting in the sell-off, is presenting opportunities for active investors to find national and global leading companies at attractive valuations."

Indeed, he adds a further warning on the short termism of some investors towards China. "By focusing on near-term uncertainties and recessionary fears of weaker profits, we believe many investors are overlooking the longer-term prospects for companies that either have powerful structural tailwinds behind them or enjoy strong competitive positions," Perrett says.

Consumer market

In a similar way, Nicholas Chui, an emerging markets equity portfolio manager at Franklin Templeton, says that market valuations in China do not reflect the potential of the longer-term outlook of the economy and the stock market.

"We are most excited about the longer-term prospects of the domestic economy in China – anything that is made in China, for use in China," Chui says. "This is underpinned by the sheer level of innovation that has been happening over the last few decades, and more importantly, that China has been upgrading how it consumes."

However, Chui says no one seems to be paying attention. "If we look at the market returns for 2023, the MSCI China fell by around 13%. However, approximately 15% of this was a sheer de-rating of the market. Whilst the remaining implied 2% earnings growth is nothing to shout about, the latter has received very little attention, if at all," he adds.

Within the 2% earnings growth, the trends have been divergent, but this does reveal investors need to be alert to developments and opportunities. Sectors such as property dragged down the overall picture, but this also meant that the growing areas did not receive any attention. "As bottom-up long-term investors, that gives us time to build positions in the stocks we like," Chui says.

But, adds Susannah Streeter, head of money and markets at Hargreaves Lansdown, the property market situation is a concern. "China's property woes extend deep into the economy. Construction fired up growth in China over the last few decades as urbanisation accelerated, fuelled by debt, and efforts to rein that in and tighten regulation have caused a big wobble.

"This matters," Streeter says, "because the property sector accounts for some 30% of GDP. Already chunks of the property house of cards have begun to collapse, such as the giant Evergrande, now in liquidation in Hong Kong."

Longer themes

But for Chui, despite such woes, there is a simple and easy conclusion to make: long-term investors should be investing in China, not retreating. "Within the domestic China play, there are attractive longer-term themes," he says.

Reinforcing this view, Kelly Chung, chief investment officer of multi-asset at Value Partners, says company earnings in China are bottoming and macro data is gradually improving. "Separately, the country's Two Sessions [the Chinese government's annual plenary sessions of the National People's Congress and of the Chinese People's Political Consultative Conference] revealed economic targets that are largely in line with market expectations. Market sentiment has bottomed with a gradual U-shape recovery," she says.

In another way, a report by Nikko Asset Management's Asian equity team noted: "There are a large number of Chinese companies with attractive growth profiles that are being penalised by the country risk."

And despite severe difficulties, Chung says China's A-share market – those listed on the Shanghai or Shenzhen stock exchanges – is now in a decent place. "The A-share market has stabilised, thanks to the national team's buying support – albeit at a slower pace – and to stricter controls on quant funds and the banning of short-selling in some areas," she says.

"Foreign inflows have also started to come back. Company earnings are bottoming. Momentum and macro data are improving," Chung adds. All together an argument that presents investment in China as a positive move over the long term.

Five themes

Expanding on his case for China, Chui lists five themes that investors would be wise to keep in mind when looking at the country.

The first, he defines as a supply chain theme. "Increasingly, China is becoming more vertically integrated. Moreover, China's supply chain solutions are becoming more sophisticated," he says.

Second is the much discussed topic of sustainability, an area even advocates of China have been reluctant to talk about. But Chui offers a different narrative. "China is at the centre of providing a myriad of sustainability solutions, not just for itself, but also for the world," he says.

The third he defines as services. "China has a population of 1.4 billion, which creates a huge opportunity for the services and consumption sectors," he says.

Fourth is the issue of savings. "China has always been a savings economy which allows this untapped potential to have a multiplier effect on the economy when unleashed," he says.

And the fifth theme is what Chui categorises as systems. "China has historically relied on imported systems to power its corporates and industries," he says. "That is changing rapidly as numerous domestic suppliers have shown that they have equally compelling support systems."

> **The perennial debate over whether India or China will emerge as the ultimate winner oversimplifies the intricate dynamics of global economic growth.**
>
> Jian Shi Cortesi, GAM Investments

Muddling through

But Shamik Dhar, chief economist at BNY Mellon Investment Management, believes that a muddle through scenario is the most likely one in China. "This is characterised by weakening growth bottoming out, no further major sanctions, but targeted actions aimed at de-risking, and growth that eventually eases to a yearly average of about 4% in the second half of the decade."

Which, at least in terms of growth, is quite an upbeat muddle-through scenario.

Also looking at things a little differently and evaluating opportunities in China is Liliana Castillo Dearth, head of emerging markets and Asia equities at Newton Investment Management, who says it is important to understand a new playbook when approaching China.

"While the last decade was about the wealth creation of the top 20% tier, the policy focus has now shifted to the remaining 80%," she says. "Consumers in the lower tier are more focused on value for money and, in a way, less brand-oriented versus higher-tier consumers."

In terms of sector preferences, her view is to be selective on consumer exposure, with a preference for companies that are addressing demands of lower-tier consumers. "We are also focused on services taking incremental wallet share, especially in older cohorts," she says.

"We are selective on industrials and focus on opportunities driven by self-sufficiency needs or global competitiveness, with the right balance of quality and price," she adds. "We also see opportunities given the re-allocation of savings, for example, from real estate to insurance."

The real world

And what of the argument that China as a long-term investment has had its day? "If one believes China still has a role to play in the real world – for example, in the clothes we wear, in the cars we drive – then China remains relevant," Chui says. "It is difficult to envisage a world where China is cut off from the supply chain. Not only will it be expensive to do so, it will also be impossible to do so without sacrificing quality and larger goals such as climate change."

Moreover, the Chinese economy in itself is large and unlike any other given that it is able to supply a lot of what it needs by itself. "The investment case for China is probably stronger than before but at the same time, is different from what China used to be – a factory for the world," Chui says.

Although it is worth noting that it has been replaced by other emerging markets in this respect. "Given that China's domestic economy story is unique, it serves as a good diversifier from a portfolio construction standpoint. As a result, China can be viewed in conjunction with other geographies," Chui says.

But away from China, the strong demand for artificial intelligence (AI) and the recovery of non-AI tech continues to be a theme in Asia. "Especially for the tech-heavy markets of Korea and Taiwan," Chung says.

She adds that high-quality debt is tempting. "Asia investment grade bonds continued to attract inflows due to their attractive yield levels and negative net issuance.

"Credit spreads remain stable at already tight levels," she says. "US treasury yields are likely to stabilise around the current levels, given the market has adjusted its rate cut expectation to be more realistic. Asian investment grade bonds will remain stable, mainly for carry."

> **It is difficult to envisage a world where China is cut off from the supply chain.**
>
> Nicholas Chui, Franklin Templeton

Dhar also points to other areas in the region. "For allocations ex-China, we favour the Taiwan-Korea equity complex which reflects a bottoming out of the tech cycle, led by semis and driven by a pick-up in AI-related demand," he says.

"Taiwan and Korea have also been decoupling from China for a while now, even preceding the imposition of tariffs and exported investment-controls by the US and EU. We also like Japan and India and suggest 'neutral' in both places for now as we are wary of policy-driven headwinds – Bank of Japan normalisation – in the former and frothy valuations, relatively high price-earnings, in the latter."

Perennial debate

Although Jian Shi Cortesi, investment director of Chinese and Asian equities at GAM Investments, says that the region is not necessarily a fight-off between China and its neighbours. "The perennial debate over whether India or China will emerge as the ultimate winner oversimplifies the intricate dynamics of global economic growth," she says. "Why must it be a zero-sum game? History reveals that when one nation rises economically, it need not come at the expense of another."

Adding to the point, Cortesi says: "The US ascended without diminishing the UK's prosperity. Both co-existed, contributing to global progress. Japan's economic growth did not harm the US. Instead, it catalysed global expansion.

"China's rapid GDP growth did not come at the expense of other countries. It fuelled economic expansion worldwide. Rather than framing this as a zero-sum game, we should recognise that India and China can co-exist harmoniously. Their unique strengths contribute to global prosperity."

Chung ultimately says there are reasons to be positive about China. "We are cautiously optimistic about the prospects of Chinese equities and anticipate a more pronounced market recovery in the second half of the year," she says.

The current 12-month forward price-earnings ratio for the MSCI China index is 10.2x, Chung says, with trading almost one standard deviation below its 10-year average. This is leading to under-valuations. Hong Kong equities are experiencing even more significant undervaluation, with the Hang Seng index sporting a 12-month price-earnings ratio of 8.8x, equivalent to two standard deviations below its 10-year average.

"Assuming no substantial revisions to earnings and a return to long-term valuations through mean reversion, this scenario could result in an approximate 20% upside for the MSCI China index and a 30% upside for the Hang Seng index," Chung says. "This creates an attractive entry point for long-term investors and acts as a safeguard against further significant downside risks."

It therefore signifies that China, despite all the recent noise, has still much to offer institutional investors

THE FINAL COUNTDOWN

68%

The level of defined benefit pension fund managers across Europe who believe that private credit has the potential for higher returns in the year ahead without a corresponding rise in volatility.

Source: Goldman Sachs Asset Management

£16.9bn

The boost to the aggregate funding position of more than 5,000 British pension schemes during February to £442.3bn, pushing the funding ratio to 146.1% from 143.9%.

Source: Pension Protection Fund

$15trn

The amount added to the global debt pile in 2023, bringing the total to $313trn.

Source: The Institute of International Finance

$1.72trn

The expected global dividends in 2024, a 3.9% headline rise on the cash returned to shareholders in 2023.

Source: Janus Henderson

94%

The UK institutional investors who predict that debt allocations to real estate developments will increase in the next three years.

Source: Downing

€154.9bn

The inflows into European ETFs during 2023, just missing the €161.4bn record set in 2021.

Source: LSEG Lipper

$22.2bn

The inflows into emerging market securities during February, which includes ending six months of outflows from China equities (+$9.6bn).

Source: The Institute of International Finance

15

The number of buy-ins expected to hit the market in the coming months. They are valued at between £1bn to £2bn, making them collectively worth up to £30bn.

Source: Hymans Robertson

$350bn

The annual funding gap in the sustainable infrastructure investment needed globally by 2030.

Source: The McKinsey Global Institute

Quote of the Month

"What is exciting for me is that financial services have such an enormous ability to make change happen."

James Alexander, UK Sustainable Investment and Finance Association (UKSIF)

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