PORTFOLIO INSTITUTIONAL JUNE 2025

BRICS: IN FROM THE COLD?

WATER
A liquid asset

EUROPE
Ready to rally

IPOs
Back in business

Issue No. 143 | www.portfolio-institutional.co.uk | Independent analysis for institutional investors

MARKETING COMMUNICATION

NATIXIS
INVESTMENT MANAGERS

For professional investors only. This material has been provided for information purposes only and must not be relied nor acted upon by any other persons e.g. retail investors. All investing involves risk, including the risk of capital loss. Provided by Natixis Investment Managers UK Limited (the 'firm') which is authorised and regulated by the UK Financial Conduct Authority (FCA firm reference no. 190258). Registered office: Natixis Investment Managers UK Limited, Level 4, Cannon Bridge House, 25 Dowgate Hill, London, EC4R 2YA.

Brics: In from the cold?

The world is changing. The traditional powerhouses of Western Europe are suffering from low birth rates, aging populations and muted growth, while Donald Trump's policies are destroying confidence in the US along with many of the long-term relationships it has enjoyed with trusted allies.

All of this has created a power vacuum and the question is: who will fill it?

The obvious candidates are the shining lights of the emerging world, the Brics nations, which are expected to generate most of the world's future growth given their abundance of natural resources and younger workforce.

However, the bloc is diverse and is far from harmonious. It has welcomed many new members who are at various stages of their developments and do not see eye-to-eye on some issues. Indeed, Saudi Arabia and Argentina declined the offer to join.

So are we at the dawn of a new world order, or will the US remain the world's most influential economy? To find out, read our cover story from page 10.

Donald Trump being at the heart of this is something of a coincidence for me. I started writing for *portfolio institutional* on the day he was sworn in as president the first time. Now that Trump has returned and is forcing investors to protect their portfolios, this is my last edition as editor.

Much has happened during the past eight years. I've seen five prime ministers, a global pandemic, the rise of ESG and further attempts by the government to use private pension money to keep their election promises.

It's been a blast and I have enjoyed working on PI, its roundtables and conferences. But all things come to an end. So I leave you in the capable hands of Andrew Holt, who will have little problem taking this brand forward.

Thank you and goodbye!

Mark Dunne
Editor

m.dunne@portfolio-institutional.co.uk

In this issue

People moves

Our look at the latest recruitment news among institutional investors starts with **The West Yorkshire Pension Fund** welcoming **John Dewey** as its new chief investment officer. He replaces Leandros Kalisperas, who quit in January to join the British Business Bank.

Dewey brings public and private markets experience to the £20bn scheme, having held senior investment roles at HSBC Alternatives, Aviva Investors and Blackrock.

Elsewhere, the London office of Australia's largest superannuation fund has named **Alex Stanić** as its head of core equity.

He joins **Australian Super** from Artemis Investment Management where he was head of global equities. Stanić has also worked in senior portfolio management roles at JP Morgan, River & Mercantile and Newton.

The provider of **The People's Pension** has strengthened its drive into private markets through two new appointments.

Welcoming **Marija Simpraga** and **Raymond Wright** as co-heads of real assets gives the master trusts the in-house capability to invest 10% of its growth assets in private markets by 2030, with a focus on the UK.

Simpraga once led private infrastructure research at Legal & General Investment Management, while Wright has managed private market assets for more than 20 years, including while working at British Airways Pensions.

In other news from the master trust, **Mark Condron** will remain trustee chair for another five years.

Local Pensions Partnership Investments has appointed **Sonia Gogna** as a non-executive director replacing Sarah Laessig.

The former global head of solutions at Aberdeen brings more than 20 years of investment experience to the pool. She has held senior roles at Aon, State Street and Willis Towers Watson.

Gogna is an independent board member at the Pension Protection Fund and chairs the GP board of the $6bn (£4.5bn) Children's Investment Fund Foundation.

Finally, **John Flynn** is the new co-chair of the **Association of Member Nominated Trustees** (AMNT). He replaces Janice Turner and will work alongside Maggie Rodger.

Flynn, who has been an AMNT committee member for several years, is a trustee of the National Gas Transmission Pension Scheme and the Church of Scotland Pension Scheme.

Noticeboard

One of the highlights of the latest dealmaking news in the institutional space was life insurer **Scottish Friendly** awarding a multi asset and insurance mandate worth more than £2bn to **Schroders**.

Appointing a new investment manager is part of the insurer's strategy to simplify its product mix through offering a clearer selection of competitively priced funds to its more than 850,000 members.

The deal comes a week after Scottish Friendly bought pension assets worth £2.1bn from **Fidelity International**.

Elsewhere, **Northern LGPS** has backed a £50m fundraising for **Northern Gritstone**, a life sciences and tech investor.

The pool for the local government pension schemes in Greater Manchester, Merseyside and West Yorkshire invested £35m in the firm, which focuses on northern England. The other £15m was committed by Aviva and Fulcrum Asset Management.

Following the deal, Paddy Dowdall, assistant director of the Greater Manchester Pension Fund, has joined Northern Gritstone's board as a non-executive director.

Border to Coast Pensions Partnership is to invest a further £80m in UK-focused healthcare infrastructure and energy transition funds.

The capital, which has been allocated by two of the pool's partner funds, will help build real estate for the life sciences industry in the 'golden triangle' between Cambridge, Oxford and London. It will also fund the development of renewable energy, decarbonise infrastructure and boost grid stability.

The South East Water Pension Scheme kicks off our de-risking round up with the trustees guaranteeing the benefits of all their members following a second buy-in with **Just**. The £120m deal covered the longevity risk of 1,000 people and follows a similar agreement between the two parties almost a decade ago.

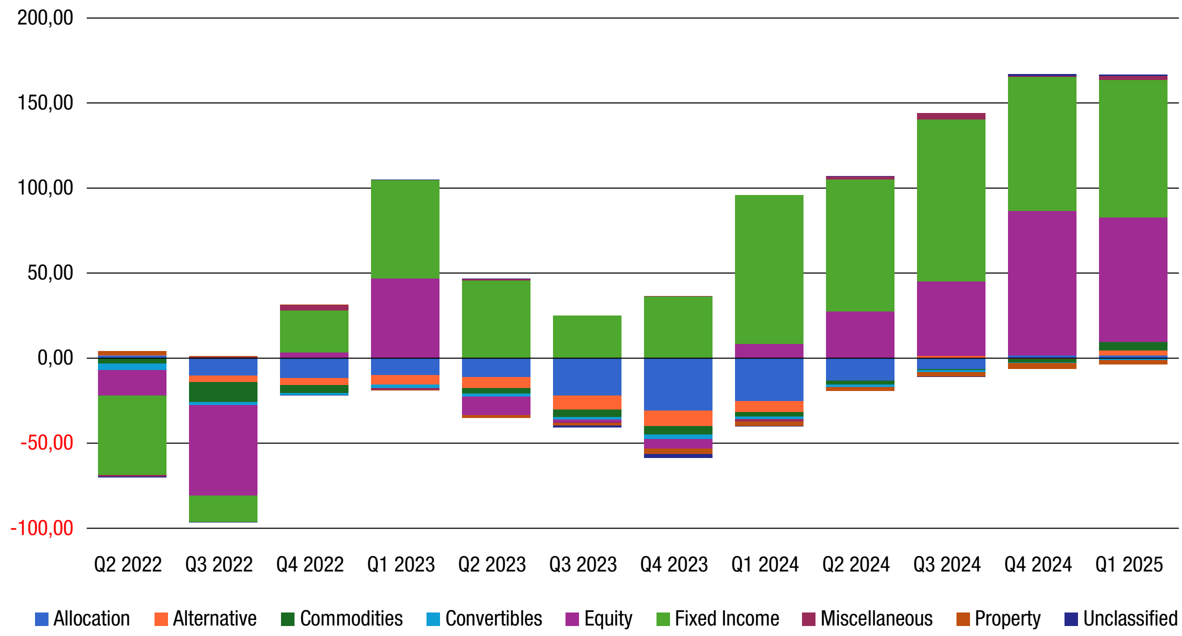
Just has also completed a £28m buy-in with the trustees of the pension scheme sponsored by **ELG Metals UK**, a processor, recycler and trader of stainless steel and alloy metals.

The deal secures the retirement benefits of 180 deferred members and pensioners.

The buy-in was completed within a month, which Just said was due to its platform streamlining the process and offering real-time pricing.

The Big Picture: European ETFs win investor support amid upheaval

Flows for the European open-end and ETF markets (€ billions)



Source: Morningstar

Growth and geopolitical concerns drive investors towards Europe, finds *Andrew Holt*.

Thanks in part to the tumultuous market environment, European open-end and exchange-traded (ETF) funds saw strong inflows in the first quarter, totalling €161bn (£135bn), continuing last year's trend, Morningstar has revealed.

Bond funds emerged as the primary beneficiary, attracting €83bn (£69bn) in the first three months of the year, as concerns over economic growth and geopolitical tensions, as well as policy uncertainty, weighed on investor sentiment.

Within fixed income, investors favoured defensive and flexible approaches: euro ultra short-term bond funds led with the highest inflows, while Swiss bond funds drew attention as safe-haven assets amid market uncertainty.

Global flexible-bond strategies kept their momentum, appealing to investors valuing active strategies in volatile markets and global emerging-markets bond funds returned to positive flows in aggregate after two years of heavy redemptions.

Equities saw their fifth consecutive quarter of inflows, but at a slower pace compared to the final quarter of 2024, with large-cap blend equity funds taking the lead.

Flows into US large-cap equity funds slowed, amid US economic policy uncertainty, while Europe large-cap equity strategies saw renewed interest after three years of outflows.

Commodity funds also made a strong comeback, drawing more than €5bn (£4.2bn) in the first quarter. This followed a period of outflows, which were driven by inflation fears and an appetite for hedges against market volatility.

European ETFs and exchange-traded commodities set a record in the first quarter by receiving €91bn (£76.4bn).

Sustainable funds faced setbacks, with investors withdrawing an estimated €1.1bn (£924m) amid regulatory changes and shifting political sentiment toward the space.

Meanwhile, defence ETFs saw a surge in interest following increased spending pledges by European governments.

But broader thematic funds struggled overall, as investor enthusiasm has gradually slowed. Thematic funds have lost €72bn (£60.5bn) since June 2023. Physical world-focused funds have been hit the hardest, including sub-themes like energy and resources.

The continued popularity of passive strategies drove inflows for major players like Blackrock, which gathered €31bn (£26bn) during the quarter.

Mariana García Requejo is senior policy researcher at the Pensions Policy Institute.

Working together to improve retirement outcomes for savers

Over the past decade, the UK pensions landscape has been reshaped by shifting employment patterns, evolving market structures and major policy developments.

As DC savings continue to become an increasingly important part of savers' retirement income, new demands are being placed on savers and providers alike, raising questions about whether the retirement-income market is consistently delivering. With the stakes higher than ever, this moment offers a powerful opportunity for industry-wide collaboration to build the robust support structures needed to improve outcomes for savers at retirement and beyond.

A report by the Pensions Policy Institute launched in May, *Assessing the UK Retirement Income Market*, examines how the market operates and how it is evolving. Grounded in expert insights and a wide-ranging evidence base, this report is a first step in shifting focus toward what happens at retirement: how people use their savings, whether current products and support meet their needs, and what value for money might look like in the decumulation phase.

While auto-enrolment (AE) has facilitated passive participation and built momentum for saving, savers face a more complex landscape at retirement. They are required to make high-stakes decisions, often without structured support or guidance. Recent data shows a clear trend: when savers first access their pensions, more than half of all pots are withdrawn in full. This raises concerns that, in the absence of scheme-facilitated retirement-income default solutions, savers may be making choices that potentially compromise the adequacy and sustainability of their future income.

Despite the range of support mechanisms in place (from Pension Wise to regulated advice) the retirement income market remains difficult to navigate for most savers despite regulated advice and guidance services existing, they remain underused. Nearly one in three savers (29%) say they received no information, guidance or advice from their provider, Pension Wise, or a financial adviser before accessing their pension. Stakeholders consistently highlighted the need for well-designed, simple and accessible decumulation defaults that can support those less likely to engage. Blended pathways, which balance flexibility and security as savers' needs evolve, are a proposed solution. Although such models are being conceptualised by providers, they are not yet widely available. Implementing such models will require careful design to account for the diversity of saver circumstances, and to provide appropriate off-ramps for those who wish to make more active decisions.

Proposals such as the FCA's targeted support and DWP's guided retirement pathways could help bridge the gap in support, allowing schemes to offer more structured suggestions without crossing regulatory lines. However, stakeholders note that ongoing uncertainty at the advice-guidance boundary still discourages providers from giving personalised help. They are especially unclear on how the FCA's Advice-Guidance Boundary Review will translate to trust-based schemes, possibly leaving savers in different scheme types with uneven access to support.

Throughout the report, the PPI also highlights the lack of comprehensive data on how savers use multiple pots or manage their income throughout retirement. Most data is reported at the pot level, obscuring the broader picture. These gaps make it difficult to assess value for money or to design targeted policies that improve savers' outcomes.

Viewed positively, ongoing reforms offer an opportunity to build a stronger evidence base. Pensions dashboards, the proposed consolidation of small pots, and regulatory work on retirement income solutions could address data gaps.

As DC pot sizes grow, and more savers enter retirement through AE, there is an opportunity to build on this momentum and ensure good outcomes are delivered at scale. Greater alignment across policy, regulation, and market delivery will be integral to creating a decumulation market that is coherent, navigable and capable of delivering good outcomes for all savers.

In conclusion, a big challenge is ensuring a smoother and more supported transition from accumulation into decumulation. Empowering individuals with tools, guidance and the confidence to make informed decisions must remain a central objective. However, robust, well-designed default structures are needed to ensure that those who do not engage are not at risk of poor outcomes.

George Dollner is policy lead at the Pensions and Lifetime Savings Association (PLSA).

Pensions investment review: where are we with the proliferation of investable opportunities?

The government has launched the final report of the *Pensions Investment Review* – a detailed roadmap for overhauling the UK pensions system. Aimed at driving higher returns for savers, ensuring greater security in retirement and increasing investment in Britian to grow the UK economy, the proposals mark a pivotal moment for the industry navigating a changing landscape.

Underpinning the government's policy agenda on UK investment is the industry-led *Mansion House Accord*. The Accord is focused on defined contribution (DC) pension schemes and signatories have expressed an intent, on a voluntary basis, to achieve a minimum 10% allocation to private markets across all main default funds in their DC schemes by 2030, with at least 5% of the total going to UK private markets. The Accord is clear that this ambition is subject to fiduciary duties and the consumer duty. Crucially, the Accord is also clear that its successful delivery is dependent on swift, supporting actions by government.

Over the past two years, a key focus area of the PLSA's pensions and growth work has been developing our thinking on how to create a pipeline of investable opportunities. Our report, *'Creating a pipeline of investable UK opportunities'* from last year sets out the key investment areas of focus for UK pension schemes, articulates the challenges faced by different types of schemes and outlines proposed actions for government and other key actors within the pensions industry.

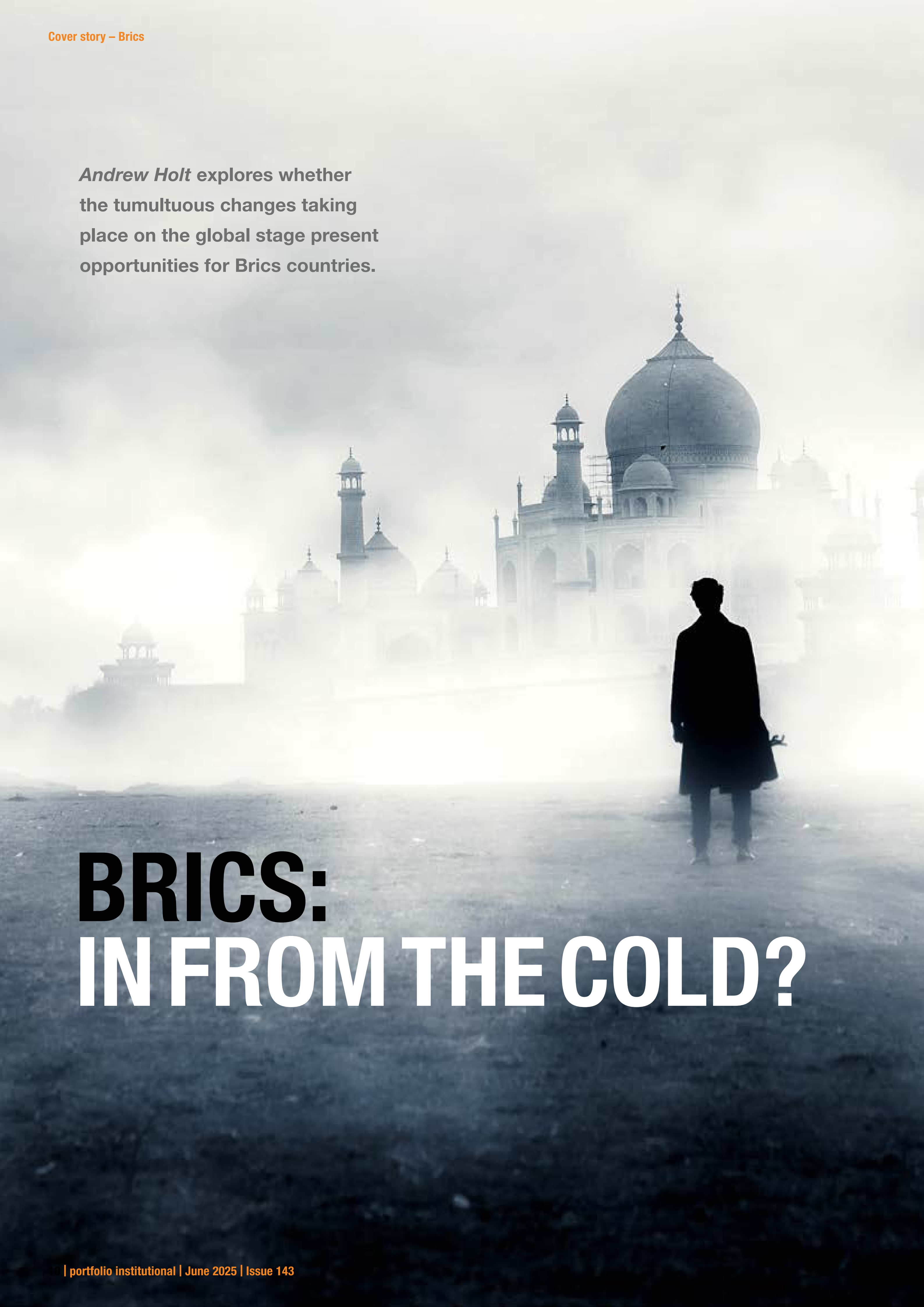
Almost a year on from that report, we remain focused on the importance of delivering an effective pipeline of opportunities for pensions schemes. Within the Mansion House Accord, this was one of the key supporting actions identified and we were pleased that within the Pensions Investment Review final report, there was a chapter dedicated to *"Boosting the UK's Pipeline of Investment Opportunities"*. It is a welcome signal of the government's intent to support UK pension schemes to deliver on the Mansion House Accord and hopefully go further to invest in opportunities that can improve member outcomes and deliver for the UK economy. While we welcome this as a starting point, we are clear there is still much left to do.

Many of the opportunities identified within the final report are projects that have already been committed to, and which require more thinking to clarify how they will be made accessible to UK pension funds. Here we set out some enabling actions that could be taken:

- The National Wealth Fund (NWF) was announced in October 2024 and was a welcome step. But at present, pension schemes would need to be prepared to take a significant level of additional investment risk to make the opportunities viable. More clarity on the types of opportunities that will come through, particularly in relation to the proposed role of the NWF in partnering with the LGPS, would be welcome.
- The British Business Bank's (BBB) growth partnership does indeed have the potential to drive pension fund capital into growth opportunities. However, it can appear fragmented and hard to access to investors and SMEs, in part due to a delivery model that is reliant on partner institutions. We would welcome more clarity from the BBB on how it will facilitate pension fund investment.
- The progress being made to set out a long-term approach to infrastructure investment, through developments like the Planning and Infrastructure Bill and the imminent 10-year infrastructure strategy, is encouraging. But again, more policy clarity and certainty will be needed. Pension schemes require more information on the role they can play in key growth sectors like AI and life sciences.
- While several significant transport projects are outlined, they are still some distance from representing a viable investment proposition. Additionally, and as highlighted in our report last year, pension schemes are particularly concerned about the lack of detail on the investment needs of the supporting infrastructure that sits alongside some of these major proposals.

Major reform is now well underway to reshape the pensions industry, and facilitate investment in UK growth opportunities, at scale. We welcome the government's focus on expanding the pipeline of opportunities but emphasise that there is much more to be done. The PLSA and its members stand ready to help.

Andrew Holt explores whether the tumultuous changes taking place on the global stage present opportunities for Brics countries.



BRICS: IN FROM THE COLD?

The re-organisation of the global stage, thanks to the many policies of President Trump, could prove to be a big opportunity for the Brics nations.

Trump's presidency has potentially given more weight and validation to Brics given the president's withdrawal from many parts of the global economy.

Is this the time that the Brics countries can start pushing their own alternative narrative within the global economy and investment arena? As a grouping it has long sought to project more global influence unilaterally and outside of institutions like the International Monetary Fund and World Bank. Brics accounts for 32% of global GDP, so carries enough global trade clout that it cannot be ignored.

Marcus Weyerer, senior ETF investment strategist at Franklin Templeton in EMEA, says there could be something in the view that it's time for Brics to truly build an alternative structure attractive to investors. "China's foreign policy can be viewed through a lens of coalition-building – particularly with countries of the Global South – to help it better align the United Nations with its own interests."

Such an interpretation is not exactly new. In 2015, for example, the establishment of the New Development Bank was initiated in order to become more independent from Western-dominated institutions and control mechanisms.

What is new is the way the US, via Trump, is looking at, and dealing with, the world differently, creating potential power vacuums that will need to be filled. "Trump's nonchalant and indifferent attitude toward long-standing partnerships and US allies may create new openings," Weyerer says.

Although the shifting global scene could go even deeper. In an interesting paper on what it calls Brics+, given they are no longer just the 'Brics' countries, Pictet Research Institute authors Maria Vassalou, head of the institute, and Chris Alden, from the London School of Economics, warn that today's global market is already fractured, marked by growing barriers to trade and an increased segmentation of markets.

Thematically driven

This, therefore, they argue, calls for a re-think of how investment opportunities are sourced in a world that is becoming increasingly thematically driven, and where the themes are no longer the exclusive privilege of either 'developed' or 'emerging' markets.

They argue that in this new reality, investment opportunities are bound to revolve around the key determinants of future growth: technology, energy supply, commodities/resources and productivity advantages.

Of course, these drivers have always been important, but their nature is dramatically changing, and at quite a pace. The point being productivity advantages are now primarily driven by artificial intelligence and robotics. So the drivers and their importance in growth dynamics are changing.

"As the drivers of growth change, the economic pecking order of countries and their industries is being reshuffled," the authors noted. "This requires that we think thematically about a country's exposures to the drivers of future growth."

Some Brics+ members have compelling advantages, including natural resources that set them apart from other countries. "China, with its strong grip on the production of the critical minerals and rare earths needed for the green transition, possesses many advantages," they wrote.

"Brics+ levers of potential global influence also extend to maritime trade routes, energy resources and military capabilities," they add. "At the same time, not all developed markets will be able to hold on to the sources of growth that got them where they are today."

The upshot of the shifting economic dynamics is a need to fundamentally rethink how investors approach investing. "The increasing polarisation and fragmentation of the world economic order implies higher volatility and lower liquidity going forward," note the authors.

"This may also result in higher inflation as the competing poles try to build capabilities independently of each other, likely replicating the same processes and expertise within both alliances."

No monolith

This raises big questions about Brics versus the EU and the US and the opportunities on offer. The other, more obvious question about any Brics narrative is that Brics are not a monolith, but instead uneven in their development and have, in fact, competing interests in many cases.

The difference in development between the original Brics: Brazil, Russia, India, China and South Africa is self-evidently stark. Then when you add the new countries – Egypt, Ethiopia, Indonesia, Iran and the United Arab Emirates – the differences become gaping and the competing nature of the nations is obvious. When you add Colombia as being a possible new entry into the club, then the countries look a real random stew.

The standout here though is the 2024 extension of Brics to include countries like Saudi Arabia and Iran, which inject new economic and geopolitical rivalries into an already complex mix.

"The most obvious hostility exists between China and India, but other tensions are brewing beneath the surface," Weyerer says.

"While India's trade with Russia has surged since 2022 – increasing five-fold – and negotiation for a free trade agreement underway, India is also keen on keeping strong ties with the West.

"It concluded trade agreements with the European Free Trade Agreement and in May with the UK. The country is also uncomfortable with the close 'friendship' between Russia and China," Weyerer adds.

South Africa is also cautious about the significant Chinese presence in the country through investments and business interests. However, "under Trump, US-South Africa relations have entered an ice age, which may push South Africa closer to China – not necessarily by choice," Weyerer says.

> **Under Trump, US-South Africa relations have entered an ice age, which may push South Africa closer to China – not necessarily by choice.**
>
> Marcus Weyerer, Franklin Templeton

In addition, Brazil's stance is often ambivalent at best, although generally, under President Luiz Inácio Lula da Silva, the country's relationships with Russia and China have improved.

Although the shifting sands of global politics could well be playing into the hands of Brazil, says Ian Bremmer, president of the Eurasia Group.

"As the Chinese de-risk away from the United States that is a significant benefit to Brazil. Much more trade, especially commodities and food, are happening from Brazil into China.

"And the Brazilians are looking to see a lot more investment," Bremmer adds. "They want to work with Chinese tech and they are engaging in the Brics – an important summit for them – much more strategically long term than with the Americans."

So by default Trump is helping rivalries inside Brics to diminish and the grouping to work together to create investor opportunities. For example, Brazil may emerge as a beneficiary of the trade conflicts if China – and others – retaliate against the US tariffs by targeting some of Trump's core constituents, for example soybean and beef farmers. "By imposing tariffs on US exports of these products, Brazil might step in to close the gap and help the country shore up investor confidence," Weyerer says.

There could be knock-on effects for Brics due to Trump's policies in other, unlikely areas. "US aid reduction around the globe may present an opportunity for China to pull countries closer to its sphere of influence – most recently seen in Cambodia," Weyerer says.

US power

There are other ways to view the whole development of Brics as a group. Brics' main significance is to aggregate a large group of significant countries against the ongoing dominance of the US in global finance, says Barry Buzan, emeritus professor of international relations at the London School of Economics.

"The US has vastly over-exploited its structural power in finance, and these countries are fed up with that," he says. "More broadly, Brics resent US and European domination of too many global intergovernmental organisations (IGOs). It will be a key player in the decades long struggle to update the system of IGOs that was built by and for the West so that it fits with a deep pluralist world order," he says. This presents Brics as a form of power revenge.

"But Brics members are too varied in their politics and interests either to form a tight coalition, or to be led by China," Buzan said. "That said, China might get some good practice at leadership on specific issues within Brics."

Another much asked question regarding Brics, is whether there could be an establishment of a Brics currency. This would make it a true global challenger. It should be noted that while around 58% of global reserves are still in US dollars, according to the IMF, Russia and China now settle more than 70% of bilateral trade in local currencies.

"The idea [of a Brics currency] is economically intriguing – but politically complex and institutionally premature," says Vaibhav Churoria from the Bangalore-based Global Institute of Business Studies. "A common Brics currency may remain a long-term vision, not an immediate reality."

The journey towards such an idea would mean in the short-term an increase in local currency trade settlements, and over the long-term, some form of potential digital Brics currency or shared settlement unit, Churoria says.

US here to stay

In the bigger picture, at least for the forseeable future, the US will be hard to replace in the short-to-medium term. The onslaught of tariffs may not last, even though it appears more than likely that we are entering a period of accelerated de-globalisation. Non-dollar trade has been growing, but still only represents a fraction of overall trade.

"Western scepticism of China – and within Brics – means that an alternative to the US dollar is unlikely to emerge anytime soon," Weyerer says. The dollar has taken a hit on confidence – evident in broken down correlations of the volatility index VIX and treasuries and the VIX/US Dollar index.

"But for now, we don't think its [US dollar] safe-haven status has been damaged beyond repair. It matters what happens from here on out," Weyerer says. "The US/UK deal – albeit light on substance – is a first positive sign. Trump also quickly climbed down after hinting at his desire to remove Powell as Fed chair."

Therefore, investor opportunities could be said to exist in select Brics countries, but not necessarily the bloc itself. "US withdrawal creates tactical, interest-led opportunities for more co-operation, but there is little alignment of core values or strategic interests," Weyerer says.

Although perhaps the strongest glue among Brics is the distrust of US and Western hegemony – a 'the enemy of my enemy is my friend' type situation.

> **A common Brics currency may remain a long-term vision, not an immediate reality.**
>
> Vaibhav Churoria, Global Institute of Business Studies

India inevitably has much investor appeal. "In India, we see strong secular growth opportunities driven by levelling up of manufacturing capabilities, demographics, and an expanding middle class," Weyerer says. "The consumption environment in the country is a government priority."

In addition, India's efforts toward financial inclusion and fintech innovation appear to Franklin Templeton to be aiding its financial, consumer discretionary and technology industries, the three heaviest-weighted sectors in the BSE 200 index – a free-float weighted index of 200 companies selected from lists of the BSE India Exchange.

Investors should most definitely be looking at India, according to Ajit Dayal, founder of Indian asset manager Quantum Advisors. "India is under-allocated in global portfolios," he says. "The structural changes in the Indian economy over the last three decades coupled with the strong performance of public equity markets reflecting the growth in the economy present a strong investment case for standalone India investments."

China valuations

China also cannot be ignored, especially given that many investors think that the China A-share market is close to the bottom. "Valuations are low, and so are market expectations, which means that the downside risk is limited," says Kelly Chung, investment director and head of multi-assets at Hong Kong-based asset manager Value Partners.

"We expect the overall market trend to be upwards this year, but it's likely to be accompanied by volatility, given the uncertainties over Trump's tariffs, geopolitics and China's domestic policy – in particular, the question of whether we will see greater focus on the demand side rather than the supply side," Chung adds.

In another context, for the first time in more than a decade, Chinese equities offer a higher yield than government bonds. And with interest rates set to be 'lower for longer', China's quality dividend stocks remain attractive.

"China outperformed all major equity markets in US dollar terms last quarter, supported by stronger fiscal spending and signs of a policy pivot," says Kunal Desai, portfolio manager of London-based boutique GIB Asset Management's Emerging Markets Active Engagement fund.

Desai could also see an acceleration in China's longer-term shift away from export-led growth and toward a more consumption-driven model, echoing transitions seen in 2002, 2009, and 2021. "The ability to pivot under pressure remains a hallmark of Chinese policymaking and its economy," he says.

But investors in China need reasonably strong stomachs, Weyerer says. "China is a more tactical play, with a large upside, but investors have to be able to stomach the volatility of transitioning business model – from export and investment-led to consumption driven."

This amounts to Brics not exactly entering a new age, despite the initial appeal of such a narrative in the current context. But instead, some Brics nations offer investors some real choice opportunities.

Europe: The big shift

Stocks have rallied, a trend that looks set to continue as a shift to European assets takes place, finds *Andrew Holt*.

Something is happening in Europe that seems to be almost a seismic shift in favour of European assets. Much is propelled by President Trump's tariffs, but there is also the need for the continent to defend itself. So defence, as an asset class, has not only come to the defence of Europe, but is also giving the region a much-needed boost.

This is a big shift in itself, given that defence was until recently an investment black sheep with it going against all environmental, social and governmental considerations many investors apply to their portfolios. Whether there will be a big shift by institutional investors towards defence is a moot point. There have been calls for UK pension funds to step up their allocation to such companies.

What is clear is that a rapidly dramatic shift in Europe's defence policy has led to rising optimism for growth and the strong outperformance of European assets across the board. Does this optimism hold?

Mobeen Tahir, director of macro-economic research and tactical solutions at WisdomTree, says Europe's defence policy is undergoing a profound structural shift, not a fleeting cyclical upswing. "In response to rising geopolitical tensions and long-term security concerns, European governments are expanding defence budgets – a commitment that will unfold over years, resulting in systematically higher defence spending," he says.

"Crucially, this transformation is not just about spending more but about spending smarter and closer to home."

The European Defence Industrial Strategy mandates that 50% of defence procurement be sourced within Europe by 2030, rising to 60% by 2035. "This marks a clear political will to enhance strategic autonomy and reduce dependency on external suppliers," Tahir says. "However, to meet these targets, Europe must correct its historical underinvestment in innovation."

Currently, just 4.5% of Europe's defence budget goes toward research and development, compared to 16% in the US, according to the Draghi report published in September.

Therefore, it is no surprise to see European defence firms stepping up. Programmes like the drone initiatives led by aerospace companies Leonardo and Dassault illustrate how Europe is beginning to build the technologies needed for future self-sufficiency.

"Even if peace is restored in Ukraine – something all of Europe hopes for – the momentum to strengthen Europe's defence capabilities is unlikely to reverse. It is about future-proofing against known and unknown threats," Tahir says.

Economic catalyst

Moreover, this shift could act as a broader economic catalyst. "Germany's €1trn (£842bn) fiscal package is an early sign that defence spending may trigger wider stimulus, creating potential long-term opportunities for investors across European markets," Tahir adds.

That catalyst is already being felt and playing positively for a range of European assets.

Laura Cooper, global investment strategist at Nuveen says rising optimism on the outlook for the European economy is warranted after the "game-changing" fiscal stimulus announcement by Germany. "Even if implementation is delayed, a robust pipeline of public investment projects and prospects of private investment are crucial tailwinds," she says.

Importantly, Europe is positioned to outpace US growth in 2025 even amid tariff-uncertainty, as US exceptionalism seems to fade. "We pencil in 0.7% real GDP growth for the US against a 1% pace for Europe," Cooper says.

"Medium-term prospects remain bright with our forecasts incorporating as much as a full percentage point of annual real economic activity lift to the European outlook over the coming decade."

For the year to date, the Morningstar Europe index is up 7.10%, in sterling terms, and just above 4% in euros, and that's factoring in the early April meltdown. This European equity outperformance relative to the US can be further supported by economic tailwinds going forward.

"With peak tariff fear behind us and US-China developments driving sentiment, April's torrent of tariff volatility has likely subsided enough to justify European equities ongoing advance," Cooper says.

European rally

While bouts of volatility are likely to persist, as the disruptive impacts of tariff uncertainty feed through to activity, the valuation discount for the pan-European Stoxx 600 and improving earnings growth set the stage for outperformance. "Robust and warranted fiscal-led sentiment, an ECB able to enact relatively favourable monetary policy, and a recalibration of investor positioning away from overly concentrated US exposures can further drive European stocks higher," Cooper says.

Kees Verbaas, global head of fundamental equity at Robeco, says Europe stands out as a beneficiary of the current environment, "with high-quality companies trading at attractive valuations", as well as "governments deploying sizable spending plans to stimulate growth, and the growing likelihood of a ceasefire in Ukraine in 2025 likely to fuel the European rally for months to come."

He has also potentially identified the winners in this environment. "Fundamentals are at the heart of creating value in an uncertain environment, so investors need to sharpen their pencils and do the necessary homework to identify these high-quality companies in Europe," Verbaas says.

"We like those with high return on invested capital, strong free cashflows, and a desired level of sustainability," he adds. "We have found a diverse range of companies that meet these criteria, including in European healthcare, consumer staples, industrials and communications services."

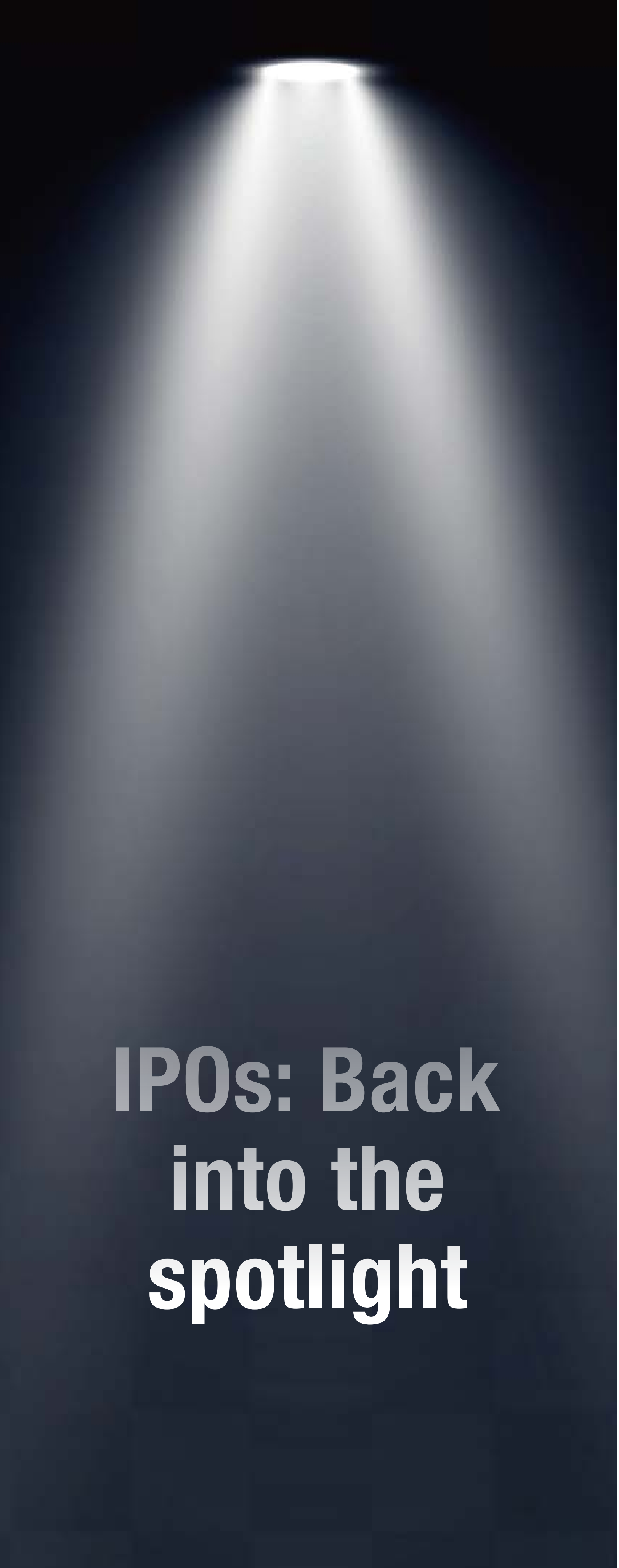
Deeper capital markets

Whether Europe can maintain investors' favour and prompt a structural shift away from US assets will, Cooper says, be determined by enacting productivity-enhancing structural measures and initiatives to deepen their capital markets.

On a tactical basis, Europe "remains in favour", though "greater sector dispersion as tariff impacts feed-through warrants an active approach to capture idiosyncratic opportunities," Cooper adds.

Nuveen's preference leans into defensive exposures over cyclicals, with some exceptions. Its key European equity conviction lies in banks geared to long-term growth "as evidenced in positive earnings revisions in the recent quarter", Cooper says. "While the European consumer is levered, households' incredible pricing power provides ample support to the luxury sector, particularly well-established brands. Finally, while not as abundant as in the US, technology leaders across the continent are the best in class."

Fixed-income is also favourable. Cooper says government bonds are positioned to garner further foreign flows. "Fiscal sustainability concerns are likely to remain overshadowed by improving growth prospects, keeping periphery exposures attractive," she adds. This suggests Europe is becoming a big winner and a European shift is happening.



IPOs: Back into the spotlight

Are stock markets in Europe set for a revival this year? *Mark Dunne* reports.

Shein is everywhere. Adverts for the fast-fashion giant, which was established in China to sell cheap clothing online, are all over social media, on billboards across the country and on TV. Yet the one place you may not find the now Singapore-based company is on the London Stock Exchange.

In May, Shein dropped the PR firms which were preparing it for an initial public offering (IPO), which may have valued the business at £50bn. This would have made it the largest market debut in London's history and be seen as a sign that the IPO market is open again after a few difficult years.

Indeed, last year, IPOs in the capital collectively raised less than $1bn (£749m) for only the second time since 2008's financial crisis, according to Bloomberg.

It gets worse. During the year, 88 companies, including bookmaker Paddy Power, delisted or moved their primary listing elsewhere. Only 18 businesses replaced them.

Michael Stiasny, head of UK equities at M&G, puts this down to low valuations on the UK market.

"On top of that there has been the hangover from the class of 21," Stiasny says. "There was a raft of IPOs in 2021 which were priced at the wrong level and have performed poorly since. That led to some scaring in the market.

"But that is passing," he adds. "There are a lot of companies that would like to IPO. With the pipeline being blocked for a few years, the build-up of pressure is quite high."

The volatility emanating from the US is also helpful. "It is a reminder that the game is not only in the US. There are venues in Europe and the UK, which they may want to explore," Stiasny says.

And it appears that they are. Stiasny has seen companies in the past few weeks potentially looking to an IPO, although he stresses that these are early days. "I wouldn't say there is a bonanza of IPOs coming, but there is slightly more activity than we have seen in the past few years," he adds.

And in May there was good news when two companies announced their intention to list in London. Cobalt, a metals investor, is looking to raise £172m, while trading platform Iforex could pick up £50m from its planned debut in June.

Back into Europe

The outlook is also looking brighter on the continent. Richard Halle, who leads M&G's European value equity strategies, see the potential for some real excitement in Europe's IPO market. "I would be surprised not to see a decent amount of activity this year," he says.

After a quiet period, the market started picking up last year, which many have been waiting for. "There has been a lot of backed up activity wanting to come to the public equity markets, particularly out of private equity," Halle says.

A factor here is that the interest rate and energy price shocks in Europe have come off strongly.

"We have seen significant differential performance in the past few months between the US and Europe," Halle says. "Generally, there is a sense that Europe is a more attractive investment designation."

The German stimulus programme announced this year could play a role in this. "Europe has been quite moribund for a while and needs a shock to the system to kick start activity. This could be it," Halle says.

> **"I wouldn't say there is a bonanza of IPOs coming but there is slightly more activity than we have seen in the past few years.**
>
> Michael Stiasny, M&G

"If you combine that shock into an environment of falling energy costs and interest rates, you could start to get a good story going," he adds.

The drive towards de-globalisation is also spurring innovation. "Regulation and high labour costs have held Europe back for a long time," Halle says. "European authorities are making credible noises about de-regulating.

"We are also seeing a lot of innovation in terms of labour and productivity in robotics and AI," he adds. "European companies have been working hard behind the scenes on this and will want to come to market as a result."

The defence industry could be one of several sectors that investors need to watch.

"IPO markets need stories to tell investors," Halle says. "You can start to put together a story in areas like defence, healthcare, AI, fintech and robotics where companies can come to market with exciting stories to attract public equity investors.

"There are lots of areas where Europe has good expertise and we can start to create some excitement, which has been lacking for a while.

"There is no shortage of funds or a shortage of companies that can come to market," Halle says. "In the absence of any external shocks, there could be some good activity [this year]."

Goldman Sachs agrees. A note published in February pointed to there being more IPOs in Europe this year, which could bring the market in-line with the historical average. Volume increased by 80% last year, but it was a third lower than the long-term average.

Richard Cormack, Goldman Sachs' head of equity capital markets in EMEA, puts his optimism down to a busier pipeline for potential IPOs than he saw last year.

Tariff terror?

Volatility caused by the introduction of US trade tariffs is being blamed for Shein's IPO not going to plan. But this is not causing too much concern.

Tariffs will not deter investors from Europe, according to Halle. "A number of investors I have spoken to are re-assessing their view of America as the primary destination for their capital. "They view Europe as a much more interesting place to put their money," he adds. "The IPO market needs capital and I think it is now there."

But Stiasny believes there are specific sectors where companies are less likely to rush to market. The industrial sector, for example, might take a bit of time for the dust to clear in terms of what impact tariffs are having. "It will only be a pause," he says.

"Tariffs in and of themselves will not stop the market functioning," he adds. "It might be that some companies take a little longer to come to market because they need to have a good answer for investors as to where tariffs may impact their supply chain or customer base."

Yet other funding activities are also picking up, which could be a good sign for raising capital via the stock market.

"We are continuing to see M&A in the UK with four companies bid for last week," Stiasny says. "It does not feel that the gears and workings of everyday finance have gummed up by what is happening with tariffs. It is an information gathering exercise."

Water:
A liquidity issue

Whether there's too much of it or not enough, investors need to be aware of the risks and the opportunities water offers. *Mark Dunne* reports.

Smart phones could soon be luxury items. While the devices have become something of an extra limb for many, it will be the few that will be able to afford them in the coming years if one particular trend continues.

The issue is the dwindling supply of a crucial ingredient used in making these devices: water.

Water not only keeps us alive, provides us with food and keeps us clean and healthy. It is also used to make the everyday products we need, including electronics.

But back in 2012, the then US director of national intelligence fired a disturbing warning that global demand for water will exceed supply by as much as 40% in 2030. With five years to go, the situation looks as bleak as prophesied.

Indeed, India, South Africa, Bahrain, China and the US are some of the many countries where demand exceeds supply or pollution restricts availability.

Growing populations, industrialisation, digitalisation, insufficient infrastructure and climate change are some of the drivers. Although the biggest issue could be that water is a small and finite resource and science is yet to discover how to make it in a lab.

This appears surprising given that water covers more than 70% of the Earth's surface. Yet the issue is that most of this is in our seas and oceans, which is too salty to drink.

Freshwater, which we can drink, covers less than 3% of our planet, but almost two-thirds is frozen in the polar regions.

Pollution and climate change are other issues contributing to why only 0.75% of the Earth's freshwater is accessible, with almost 90% of it found in lakes. So only around 1% of the water on our planet is consumable.

This means that more than 1 billion people around the world do not have access to drinking water, according to environmental charity WWF. If those who struggle to find freshwater for at least a month every year are included, the figure rises to 2.7 billion people.

This number is expected to grow. The world's population is forecast to increase by almost 2 billion people in the next 25 years. And most of the globe's citizens by this point will be living in cities, further increasing the pressure on local sources of water.

Justin Winter, who co-manages an equity strategy focused on water for Impax Asset Management, says that when people think about water it is usually to drink it, to grow plants or to take a shower. "But a significant portion of water globally is used for industrial purposes," he adds. "Everything you see around you in the physical world, water is used to make that."

This includes items such as consumer staples and the semiconductors needed for the tech we use to get us through the day, including smart phones.

"Water touches everything in the economy," Winter says. "This is one of its strengths as an investment opportunity.

"You have exposure to the economy, but more generally water has particular drivers that gives it a tailwind. There is a finite amount of it and there's increasing demand," he adds.

Indeed, more than half of freshwater in Europe is consumed by industry. And with demand rapidly outstripping supply, the World Bank estimates that water stress' impact on incomes, health and agriculture could knock 6% off economic growth in some regions by 2050.

This is an issue investors need to be aware of when managing their long-term portfolios. "On the industrial side of things, if you don't have water, you can't operate the business," Winter says.

Almost 70% of listed equities are exposed to water risks that could substantially change their business, according to a blog on Mercer's website.

And Winter is seeing the impact of climate change on water in the firm's portfolios, but sees this as an opportunity to provide solutions to having too much water or not enough of it.

Thirsty work

One area accelerating demand is the increasing digitalisation of economies. For example, a 100mw data centre needs 2.5 billion gallons of water annually to stop its servers overheating.

This is a trend with momentum behind it. Indeed, the energy intensity of data centres could see their consumption of global energy reach 3% by the end of next year, the International Energy Agency predicts, three times the level in 2022.

According to an article in *The Washington Post* last September, scientists claim that data centres need half a litre of water when artificial intelligence is used to write a 100-word email. It has much to think about when taking on such a task. (Note to publisher: journalists need much less water to write 100 words).

The alternative to using water is air. But Robeco's Dieter Küffer does not see this as an adequate substitute.

"Liquid cooling is more efficient,", says the manager of the firm's sustainable water strategy. "It cools down the core of the data centre better than air-cooling solutions."

Conflicts of interest

Water is a local issue; it is not transported through pipes the way oil is. You have to use it where you find it, thus increasing the likelihood of conflicts over supply.

Indeed, former secretary general of the United Nations Boutros Boutros-Ghali once warned that future wars in the Middle East could be fought over water not politics. A theme picked up by his successor, Kofi Annan.

Yet we have already seen conflict over access to freshwater, such as in Sudan earlier in the century, with tensions rising over control of and access to freshwater sources between Turkey and Iraq; China and India; and Ethiopia and Egypt.

This is why water is different to greenhouse gas emissions. Where a ton of carbon dioxide is emitted does not matter to the atmosphere. It is a ton of carbon dioxide wherever it is emitted. Water is more complex. It is a local issue.

"A litre of water in the northwest of England is less valuable than if you are looking to cool a data centre in Arizona, for instance," Winter says. "It not being particularly transportable over long distances is another issue."

With demand for a finite resource growing and potential wars brewing, could water be rationed one day?

Technological advancements could help avoid this by reducing industry's thirst, as could greater transparency from corporates on how much of the resource they use.

There have already been advancements in these areas. New innovations such as closed-loop cooling systems could cut water use in data centres, while an innovation from Microsoft predicts a company's water need based on their operational data and the weather.

Another trend on the supply side is for manufacturers to re-use water. Taiwan is a water-stressed area, but it is also home to a vibrant semiconductor manufacturing industry. One particular company, TSMC, re-uses up to 90% of the water in its fabrication plants.

"This is not just about building new dams and reservoirs. It is making better use of the resources available," Winter says.

The idea behind better transparency is that corporates will be able to identify where they could reduce the amount of water they use. But this is not straightforward. "Reporting is more complex for water," Winter says. "It is something that is quite hard to standardise.

"CO_2 is relatively easy. If you are a listed company, you know what your energy use is and you probably have a pretty good handle on what your energy mix is. So you can provide an estimate of what your emissions are," he adds.

Water has always been an issue for BNP Paribas Asset Management, says Robert-Alexandre Poujade, the biodiversity lead. Since 2021, the asset manager has examined the water footprint of their portfolios, looking at how much freshwater the investee companies withdraw or if they are exposed to water stress. Targets are then set where needed to make their portfolios more water efficient.

Water is part of discussions about managing climate change, given that it is a physical risk. "You talk about storms, you talk about floods, so water is there when we talk about climate," Poujade says.

But engaging with corporate management teams is not enough, he adds. Investors need to be vocal with policymakers and regulators to help tackle water risk.

> **"There is natural water stress, but global warming definitely makes it more severe.**
>
> Dieter Küffer, Robeco

This issue is material for all sectors, yet some industries have deeper footprints than others. For example, utilities, agriculture and data centres offer big opportunities for those investing in water conservation, but also big risks. "The materiality varies, but water risk is material for all sectors," Poujade says.

When it comes to disclosure, progress has been made by corporates on reporting their water withdrawals and exposure to stress, Poujade adds. "But we are still blind about water quality. It is difficult to understand how companies perform on that aspect." This is due to various pollutants.

When it comes to water, it can be difficult to compare apples with apples.

"It is sometimes hard to even compare actual disclosure on water withdrawals, because unlike carbon, there is no protocol," Poujade says.

With greenhouse gases, investors know what information they need to report on. "But there is no water protocol that is widely accepted," he adds. "Even if you take two companies in the same sector, it is hard to understand. Sometimes even on water withdrawal, you see very big discrepancies."

A natural disaster

The developing world is particularly vulnerable to water stress.

Rising emerging market economic activity will see demand for water rise, given that emerging economies have large and growing, and increasingly urban, populations.

But the developed world is just as vulnerable. The lack of investment in aging infrastructure is why. Look at Thames Water. The utility's network is full of leaking pipes and struggles to manage the amount of sewage it has to process, leading to spillages into the lakes that supply our drinking water. Some believe that management have put their bonuses and dividends above upgrading their largely Victorian-era infrastructure.

Another issue impacting water stress is carbon dioxide. An abundance of the gas in our atmosphere causes droughts as well as the floods and bushfires which destroy water infrastructure.

Around three-quarters of all natural disasters between 2001 and 2019 were water related, according to Robeco. "There is natural water stress, but global warming definitely makes it more severe," Küffer says.

Whilst climate change increases water scarcity, it also creates warmer air which creates heavier rainfall, which leads to another problem: flooding.

"We are seeing that in places where historically that has been unusual," Winter says. "Whether that is in West Virginia or in Belgium, we have seen a whole range of flood events recently.

"The flipside of climate change is you have a long period without water, but then a lot of it all at once. Like three buses arriving when you have been waiting for 30 minutes," Winter says.

Spread the word

Cutting carbon emissions is all the rage among investors, so how can we make preserving water just as sexy?

"Water is a long-term trend," Küffer says. "Our parents, grandparents and the generations before had to deal with water stress. The same will be true in the future, where the next generations will have to deal with it."

He adds that solutions are needed to improve water efficiency in new industries like artificial intelligence, but also in agriculture, a sector that has a huge thirst.

"Linking [water conversation] to semiconductor production and AI would make it more attractive for investors," Küffer says. "That is a topic everyone is looking into, so making that link would help to make the water topic better known in the investor community."

The 180 club

Water is not just about conservation within a portfolio of companies, it is an investible asset class in its own right. Küffer has found 500 companies which are active in the water space. But after applying Robeco's filters, which include how exposed its revenues are to water, the investable universe falls to around 180 companies.

"If only 1% or 2% of a company's revenues are dependent on water, then it should not be in [the water universe]," Küffer says.

Exposure to this asset class could be backing companies that fix leaky pipes, improve the treatment of wastewater, assesses and analyses consumption and develop technologies that improve supply, such as sucking vapour out of the atmosphere, and provide alternatives to using the mineral in cooling systems.

"In terms of opportunities, stormwater management doesn't sound exciting, but in terms of business, it is a multi-decade opportunity," Winter says.

"Water is not disruptable," he adds. "There are different options for how you construct an energy system, but water is not like that. People have always used water, and it is hard to imagine a future where that is not still the case."

> **"This is not just about building new dams and reservoirs. It is making better use of the resources available.**
>
> Justin Winter, Impax Asset Management

"Water is resilient," Winter says. "I'm not worried about water being replaced by something new. If you are a tech company, is your particular technology going to be around in the next 50 years. Water is always going to be around if you are a solution provider in that area, that is a good business. You have a long, multi-decade opportunity set."

If more investors heed the message of how important water is to the economy and investment portfolios then smart phones could remain affordable for the masses.

The Final Countdown

72%

More than $4.1bn flowed into defence ETFs during the opening three months of the year, representing 72% of all net inflows into European ETFs.
Source: Ark Invest Europe

$17.1bn

Emerging market debt and equity flows turned negative in March as investors withdrew $17.1bn from the developing world ahead of the introduction of US trade tariffs.
Source: The Institute of International Finance

$324trn

Borrowers raised $7.5trn in the first quarter, taking the global debt pile to a record $324trn.
Source: The Institute of International Finance

44%

The quality and accessibility of private markets data is the leading concern among limited partners, with almost half not receiving the level of reporting needed to make informed decisions.
Source: CSC

$4bn

Venture capital funding in the UK reached $4bn in the first quarter, 38% higher than 12 months earlier, despite volume dropping 13% as investors favoured larger deals.
Source: Global Data

$1.2bn

Sustainable funds in Europe suffered their first quarter of net outflows since records began seven years ago after $20.4bn was invested across the previous three months.
Source: Morningstar

Quote of the Month

"It is an art not a science."

Fabiana Fedeli, M&G's chief investment officer for equities, multi-asset and sustainability, on how investors should react to President Trump's tweets

Calendar

Topics for upcoming *portfolio institutional* events*

Conferences

01 October – ESG Club Conference

Roundtables

10 June – Charities: The ideal investment portfolio, London
11 September – Global markets: Navigating Trump 2.0, London
23 September DB endgames, London
05 November ETFs, London
TBC DC & Mansion House: Opportunities and challenges, London

Regional discussions

17 July – LGPS Roadshow, Leeds
23 October Made in Wales: The Welsh experience to pension pooling, Cardiff
20 November LGPS Roadshow, Birmingham
03 December LGPS Roadshow, Bristol
TBC LGPS Roadshow, Manchester

Contacts

For information on sponsorship, contact:
Clarissa Huber
c.huber@portfolio-institutional.co.uk

To attend an event, contact:
Sabrina Corriga
s.corriga@portfolio-institutional.co.uk

*Subject to change

Publisher
portfolio Verlag
Smithfield Offices
5 St. Johns Lane
London
EC1M 4BH
+44 (0)20 7250 4700
london@portfolio-verlag.com

Editor
Mark Dunne
m.dunne@portfolio-institutional.co.uk

Deputy editor
Andrew Holt
a.holt@portfolio-institutional.co.uk

Commercial Director
Clarissa Huber
c.huber@portfolio-institutional.co.uk

Marketing executive
Sabrina Corriga
s.corriga@portfolio-institutional.co.uk

Speaker acquisition & stakeholder engagement Manager
Mary Brocklebank
m.brocklebank@portfolio-institutional.co.uk

Subscriptions
Claudia Ajagbe
c.ajagbe@portfolio-verlag.com

Design and production
portfolio Verlag

ISSN: 2045-3833