PORTFOLIO INSTITUTIONAL DECEMBER–JANUARY 2025

pi

2025: YEAR OF THE DONALD

PRIVATE MARKETS
An alternative year

EMERGING MARKETS
They might be giants

ESG
New trends

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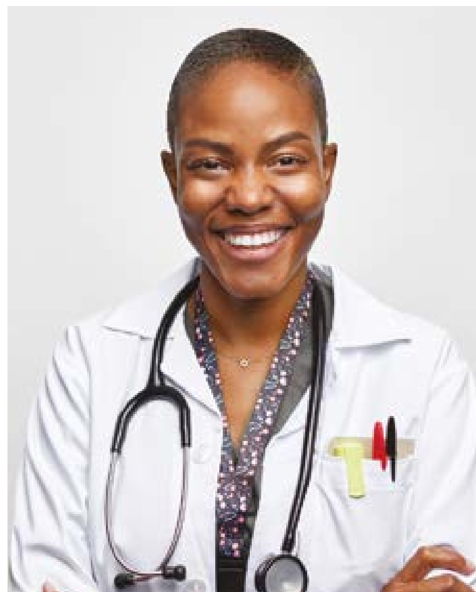

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2025: YEAR OF THE DONALD

It's that time of year again.

And if my plan has worked, you are reading this as we approach Christmas. Where after stuffing yourself full of turkey, mince pies, gallons of wine and endless repeats on the TV, you will return to work to face the start of a new year.

And what a year it could be. In January, Donald Trump will be sworn in for his second stint as US president, an event that will be hugely influential for the investment community.

Indeed, it will be interesting to see what decisions the new commander-in-chief makes and how they will impact economies, markets and therefore institutional portfolios. This month's cover story takes a look at what could happen in 2025 (page 20).

We also take our annual look at what the year ahead may hold in store for many other strategies. The events that could impact property, infrastructure, direct lending and private equity are examined in our private markets outlook starting on page 26.

The trends that pension schemes and insurers could be discussing with their investment managers in 2025 can be found from page 40, while the role that emerging markets could play in global portfolios is looked at from page 46.

We also speak to the chief executive of the British Business Bank, who explains the bank's mission, while Rebecca Whelan of Avon Pension Fund discusses the importance of sustainability in her role as senior investments officer.

And that is the end of another year. All of us at *portfolio institutional* would like to wish you a Merry Christmas and a Happy New Year.

We will be back in 2025 bringing you the latest market intelligence and a series of conferences and roundtables as well as the return of the *portfolio institutional* Awards in May.

See you next year!

Mark Dunne
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INVESTORS CAUTIOUSLY OPTIMISTIC ON 2025

Donald Trump and geopolitical forces are just two factors that will shape next year for investors, finds *Andrew Holt*.

Against the background of a resilient economic environment and major central banks embarking on an easing cycle in 2024, equity markets delivered strong results, while fixed income markets saw modest returns.

Lori Heinel, global chief investment officer at asset manager State Street Global Advisors, noted that 2024 was "no ordinary year", with elections around the world, persistent inflation and market volatility all playing their part in building an uncertain macro-economic environment. "Despite these challenges, markets continued to be resilient," she said.

As we enter 2025, Heinel noted that she remains "cautiously optimistic", with expectations of a soft-landing in the US looking set to translate into reality. "While there are a range of uncertainties to contend with, investors may want to consider above target allocations to equities and should remain thoughtful about portfolio construction," Heinel said.

State Street Global Advisors believes that the rate-cut cycle that started in 2024 will continue for a while longer, although the Trump-led Republican US election victory could result in a change to the narrative in the latter part of 2025.

Global geopolitical forces could also play their part in rupturing long-standing economic and financial ties.

Tactical opportunities

State Street also retains its favorable outlook for fixed income in 2025. It anticipates that slowing economic output and tame inflation will allow central banks to cut policy rates further, even though the pace and scale may be more uncertain with a Trump administration. This uncertainty may offer investors tactical opportunities to build or expand their duration positioning through the easing cycle.

"While spreads across investment-grade credit and high-yield debt are near historic lows, we are optimistic about prospects for fixed income assets next year, and see a generally favourable environment for advanced economy sovereign debt," said Jennifer Bender, global chief investment strategist at State Street.

"Market sentiment swings and volatility could potentially create opportunities for investors to manage or extend duration."

Within global equity markets, the resilient economic backdrop seems to provide support for earnings, particularly in the US.

Outside the US, the picture is more nuanced but there are pockets of opportunities across markets.

Investors, Bender said, will need to navigate short-term uncertainties as well as demographic changes, geo-economic fragmentation and the rise of transformative technologies.

"We expect Japanese equities to move sideways due to potential volatility, while Chinese equities may struggle in sustaining higher growth and strong performance despite the short-term relief from the country's stimulus program," Bender said.

"At the same time, we believe US large-cap equity will maintain its structural advantage to the rest of developed markets and see the outlook for emerging markets as more nuanced as investors balance economic and earnings growth and easing inflationary pressures versus geopolitical risk and a strong US dollar," she added.

Constructive conditions

Moderating inflation, lower interest rates and robust underlying growth in major developed markets have contributed to a favourable outlook for asset prices, said Ben Way, group head of Macquarie Asset Management.

"While conditions are constructive, we maintain our longer-term view that we have transitioned to a 'new normal' where neutral rates are likely to remain elevated relative to the past decade," he said. "The key risk to our 2025 outlook is more stubborn inflation, particularly if we see an escalation in trade conflicts between countries."

Way also noted that against this more positive macro-economic backdrop, external shocks including geopolitical developments and extreme weather events, are driving short-term volatility in the markets, which will continue to present opportunities for public market investors.

"Private markets will be beneficiaries of lower rates in 2025 as the bid-ask spread narrows, potentially signalling an active year for transactions, following two years of historically weak activity," he said. "Private equity and infrastructure funds are sitting on more than $5trn (£3.9trn)of un-realised assets globally, of which a significant portion was invested through pre-Covid-19 vintages."

Way also said he had conviction in the energy transition, digitalisation and the ongoing need for investment in essential infrastructure. "We also believe that full electrification and modernisation of commercial real estate and housing has a key role to play in the de-carbonisation of economies," he said.

There can be no doubt that the past 12 months witnessed a step change in interest in generative artificial intelligence.

"Generative AI represents a material increase in demand for server capacity globally, which we see first-hand through demand for data center capacity across our portfolios," Way said. "This rapid rise in demand for data has significant implications for power grids and renewable power, driving convergence between three of our key investment themes."

In addition, heightened geopolitical risk supports the case for geographic diversity beyond traditional core markets.

For more on the 2025 outlook go to page 20.

PRIVATE MARKETS

BUILDING RESILIENT PORTFOLIOS

London, 5 March 2025

pi
PRIVATE MARKETS CLUB CONFERENCE

GOLD TO REACH NEW HEIGHTS – ANALYST

Interest rates, wars, tariffs and the global debt pile – the precious metal could prove to be a popular asset in the coming 12 months. *Mark Dunne* reports.

Gold could reach a record $3,000 per ounce in 2025, driven by economic and geopolitical risks, an analyst believes.

The ongoing conflict in Ukraine could strengthen gold's safe-haven status as could concerns over the amount of debt developed economies are carrying, says Antonio Di Giacomo, a senior market analyst at XS, a broker.

Aside from short-term issues, structural trends also appear to support gold's investment case. The energy transition could be one area driving demand given that the metal's conductivity makes it crucial to generating power from renewable sources.

Also fueling the medium to long-term investment case is the trend to diversify portfolios towards more tangible assets. Then there are central banks, which could use the asset to stabilise their currency amid rising global uncertainty.

And the performance of the US economy, interest rates and what happens to the dollar will have more influence on the price of gold in 2025 than they have had for years, added John Reade, a senior market strategist for Europe and Asia at The World Gold Council.

Gold's value achieved several historic highs in 2024, growing by around a third to ultimately hit $2,777 per ounce at the end of October. Yet investors ditched the precious metal on the day Donald Trump was elected back to the White House, sending it to $2,660 per ounce before staging a modest recovery.

As the election result became clear, the dollar strengthened by 1.7% – a sign that the market expects a stronger economy.

Investors in the developing world have "probably been the biggest contributor to the strong gold price in the last couple of years", Reade said. Indeed, Asia, excluding the Middle East, accounted for 67% of global gold sales, the council's third-quarter figures show.

That could change in the next 12 months. Reade said some investors have expressed near-term expectations of a stronger dollar, a wider US deficit and potentially stronger growth following the US presidential election and the Republicans taking control of the House of Representatives. "That's been the trigger for the first correction we have seen in gold since it broke out in March," he said.

Beyond the near term, the strength in gold since the first quarter tells Reade that an increasing number of long-term investors are concerned about the US debt situation. "I'm old enough to have heard these stories on and off for the last 40 years, but I've never heard them expressed so convincingly by such serious commentators," he added.

"The US is running way too big a fiscal deficit for its position in the economic cycle," Reade added. "Neither presidential candidate seemed to have any reasonable prospect of reducing that deficit.

"[Longer-term investors] are showing genuine concerns about the prospects of the US economy going forward," he said.

Join the party

In the past few years, the performance of the US economy hasn't had the impact on gold that Reade expected. Interest rates have been high and the dollar strong in the past 18 months, which usually puts gold under pressure, yet it traded at all-time highs in 2024.

He points to emerging market demand "probably" being the biggest contributor to the strong gold price in the last couple of years, be it central banks, retail investors in China or Turkey, or family offices and high-net-worth individuals in Asia.

"What I've been arguing, though, is that gold needs to see the Western investor, who has been mostly absent, or at least much diminished, from gold over the last couple of years, come to the party for gold to make further gains from here," Reade said.

But he added that geopolitical risks are not enough on their own to entice these investors in. Wars in Europe and the Middle East have "lifted the gold price over the last year or two", but they have not been a principal driver of demand, he said, not while the oil price is subdued.

"In my experience, geopolitical factors have a sustainment impact on the gold price when oil prices trade materially higher, because then people start to worry about inflation and stagflation and things like that," he added.

Speaking to *portfolio institutional* before Trump announced his intention to slap tariffs on imports from Mexico, China and Canada, Reade said that a blanket charge on imports from "unfavoured countries" could be bad for the US economy and therefore good for gold. "[Tariffs] would effectively act as a tax upon consumers," he said. "It will push prices up, weaken economic activity and potentially push the US into recession."

Not everyone agrees. Rania Gule, a senior market analyst at XS, issued a research note prior to Trump's announcement. It read that a tariff on imports could push inflation higher as import costs rise. "In my view, this represents limited support for gold, as optimism for US economic growth dominates the overall picture."

Nevertheless, we are still in an interest rate cutting environment, which is a good tailwind for the gold price, despite any economic changes enforced by the new president.

To conclude, Di Giacomo said gold looks set to be a strategic asset in 2025. Low interest rates, geopolitical tensions and structural trends should ensure its relevance as a safe and potentially profitable investment.

You choose the endgame, we'll build the bridge

Buyout, run-on or both? Whatever your scheme's preferred destination, we'll help you construct the way forward.

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PEOPLE MOVES

The **Fidelity Master Trust** leads our round-up of the latest investment recruitment news after it announced that **Mark Cliff** will replace Kim Nash as the chair of trustees.
The client director at Vidett joins in January from the Legal & General Mastertrust, when he will take over following a three month handover period.
Cliff has been an independent trustee for more than a decade and has head of pensions at Manchester Airport on his CV.
Elsewhere, **Alan Pickering** (*pictured*) is to stand down as the chair of trustees at **Mercer Master Trust** when his term ends

in April. He will be replaced by **Deborah Frost**, a former chief executive of employee benefits specialist Personal Group.
The new pensions minister has made five appointments to **Nest**'s board. The new faces include investment and sustainable finance specialists.
Michael Gordon brings more than 30 years of investment experience to the workplace pension provider having held positions at Perpetual Investments, Fidelity and BNP Paribas as well as at a trustee of an Australian superannuation fund.
He is joined by **Stuart White**, a director at HSBC Global Asset Management who has spent the past 10 years as a trustee of the £30bn HSBC Bank Pension Trust.
Also taking a seat on the board is **Catherine Howarth**, the chief executive of responsible investment campaigner Share Action, who also sits on the Financial Conduct Authority's sustainable finance committee.
Elsewhere, **Leandros Kalisperas** has been named as the **British Business Bank**'s first chief investment officer.
He quit the £20bn West Yorkshire Pension Fund, where he was chief investment officer, to lead the state-owned development bank's investment strategy.

Kalisperas (*pictured*), who starts his new role in January, has more than two decades of investment experience having held senior positions at asset manager Abrdn and the Universities Superannuation Scheme, the pension fund for academics.
Finally, **Standard Life** has strengthened its bulk purchase annuity business through the appointment of **Alexa Mitterhuber** as director of defined benefit solutions.
She has an 11-year track record as a pensions, insurance and investment consultant. Mitterhuber joins from M&G and has also worked at Legal & General and Mercer.

CALENDAR

Topics for upcoming *portfolio institutional* events*

05 March 2025
Private markets conference

15 May 2025
portfolio institutional Awards

02 October 2025
ESG Club conference

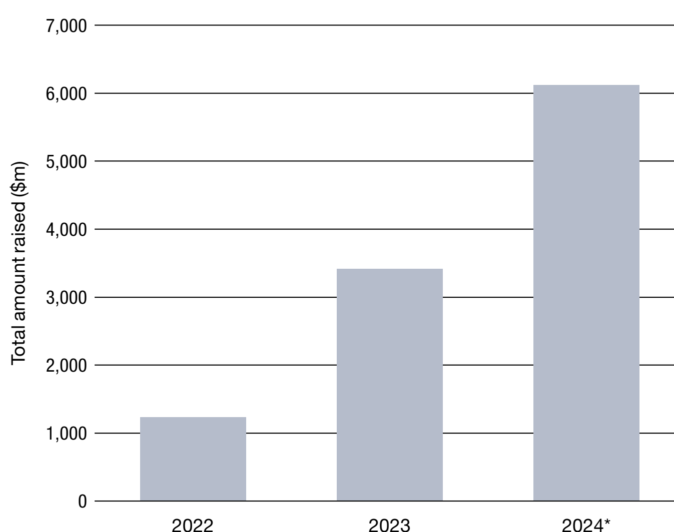
*Subject to change

NOTICEBOARD

Our investment round up starts with **Pension Insurance Corporation** (PIC), which has formed a £54m joint venture to build 3,000 low carbon affordable homes across England. The properties will be added to the country's rental stock at 20% below market rates.
The joint venture, called Habiko, includes Muse, which designs and manages public spaces, and Homes England, the government's housing and regeneration agency.
PIC has now invested £4bn in social and affordable housing.
Aon is now responsible for an additional £3.5bn of assets after becoming the outsourced chief investment officer (OCIO) for an additional three institutional investors.
The clients are a £1.25bn pension scheme, a £1bn charitable foundation and Aon's £2.5bn legacy defined benefit scheme.
Schroders has won an insurance mandate from **Cirencester Friendly**. The asset manager will now run a £75m investment portfolio for the income protection specialist.
Elsewhere, the benefits of around 22,500 members of a pension scheme sponsored by a global security company have been guaranteed following a nine-figure deal.
The £1.8bn full buy-in of the **G4S Pension Scheme** was completed by **Just** in what is the largest announced bulk annuity deal of the year.
Staying with de-risking, **M&G** has completed the UK defined benefit market's first risk-sharing value share bulk purchase annuity with the sponsor of an un-named pension scheme. The deal, which is an alternative to the traditional buy-in, was worth £500m.
Standard Life has secured the retirement benefits of 2,200 members after completing two bulk annuity buy-ins collectively worth £250m.
It reached the agreements with safety specialist **Halma** for its group pension plan and the retirement scheme for its Apollo Fire Detectors subsidiary.
The trustees of the UK pension scheme sponsored by a Spanish credit insurer and debt collector have guaranteed the benefits of all its members. **PIC** has completed a £190m buy-in of the **Atradius UK Pension Scheme**. The deal covers 361 members.
Finally, the trustees of an un-named scheme have de-risked £20m of their liabilities with **Utmost Life and Pensions**.

THE BIG PICTURE: JAPAN'S IMPROVING EQUITY OUTLOOK

Sentiment for Japan's buyout market is rising



*To 3 October 2024

Source: MCAM Group

A brighter economic picture and corporate reform are forcing analysts to rethink their forecasts. *Mark Dunne* reports.

The earnings outlook for Japanese equities is improving faster than those in Europe and the US, an asset manager has revealed.

There have been almost four upgrades for every downward revision on the Topix since the start of 2023, according to Asset Management One. This compares to around one-for-one in the S&P500 and 3.6 for each downgrade in Europe's Stoxx 600.

And Japan-focused buyout funds are ready to pounce. Indeed, private equity funds targeting the land of the rising sun are on course to raise twice as much as they did last year.

They secured commitments of $7.9bn (£6.2bn) in the first nine months of 2024, eclipsing the $4.4bn (£3.4bn) pledged during the whole of 2023, according to private equity placement agent MCAM Group.

They could be targeting companies that rely on domestic demand. Japan's economy has exited a long period of deflation, with real wage increases and growing consumer spending expected to fuel further upgrades, believes Hitoshi Asaoka, a senior strategist at Asset Management One.

The long-awaited economic recovery is driving the surge in fundraising for Japan-focused buyout funds, said Lars Bjoergerd, MCAM Group's managing director.

"Confidence is building that Japan has finally shaken off deflation and decades of stagnation," Bjoergerd said. "There is a healthy pool of high-quality companies that are trading at sensible valuations."

Then there are the government's corporate governance reforms, which are designed to make companies more shareholder friendly.

"A shift in the corporate governance culture in Japan towards delivering shareholder value also makes for a much more welcome market environment for PE funds," Bjoergerd said.

But it could be a different story for export-focused corporates, such as car makers. There are concerns that the stronger yen resulting from the economic recovery may impact their earnings.

Jonathan Lipkin is the director of policy, strategy and innovation at The Investment Association.

SOPHISTICATED SCALE IS CRITICAL TO A FIT-FOR-PURPOSE UK PENSIONS SYSTEM

The UK pensions system is about to undergo significant change driven by the government's pensions investment review and tied to an ambitious growth agenda. In this context, it is essential we seize this opportunity to ensure our pensions system is fit for purpose to secure the financial futures of UK households, while unlocking greater investment in the economy.

Looking ahead to 2025, there are four key priorities which require close attention from stakeholders across the pensions industry to deliver on these ambitions:

A focus on 'sophisticated scale'

While our industry supports further consolidation of the local government and defined contribution (DC) pension systems, size alone will not move the dial in terms of better investor outcomes. We must drive 'sophisticated scale' through an emphasis on strong governance, accountability and appropriate investment expertise to deliver the most productive outcomes and create value for money for savers. A better scaled system will facilitate access to private alongside public market investments and help drive greater economic growth.

A cultural change that places long-term outcomes over price when defining value

Pensions are the ultimate long-term investment, and generating capital growth with appropriate risk taken over a person's working life is at the core of what the investment management industry does.

However, too often DC schemes are encouraged to focus disproportionately on costs and do not adequately consider the full range of investment opportunities when making decisions. This has a profound impact on how capital is channelled and may not deliver the best long-term returns for individuals.

We are encouraged that the pensions investment review, and other initiatives from policymakers and regulators, are starting to address the cultural issues relating to the primacy of cost in the DC market. Getting this right, alongside greater scale, is fundamental and lies at the heart of good investment governance.

A better retirement income experience

Millions of people across the UK will rely on their pension to enjoy a comfortable retirement, and the success of auto-enrolment means that 84% of people now have a workplace pension. Despite this, contribution levels of 8% will be inadequate for many, leaving people potentially disappointed with their retirement income.

According to our research, less than half (42%) of UK adults believe that they are saving enough into their pensions to live adequately in retirement. This figure decreases further to 10% for the over 55s, the age group closest to retirement.

As well as boosting contributions, new measures should be put in place that will support pension savers in making good retirement income decisions and enable a new generation of retirement products centred on the provision of retirement income. This will benefit pension savers and the overall availability of investment capital.

More competitive and innovative UK capital markets, companies and projects

Greater investment in UK public and private markets will help drive growth and boost UK innovation, but this will need domestic and international capital. Success requires a variety of tools, including market enhancements, fiscal changes and supply-side reforms to increase the quantum of investible infrastructure, which will benefit long-term UK growth. At the same time, reforms in areas such as planning will be essential to help ensure the supply of investible projects can match demand.

It is encouraging to see government initiatives in this area already underway, such as the creation of the National Wealth Fund. Industry is also closely engaged. A range of initiatives, including IA proposals for IPO automation, are underway to re-dynamise UK capital markets.

In conclusion, the next phase of pension reforms is critical. We look forward to working closely with policymakers and our members to help improve pensions adequacy, contribute to long-term financial resilience for UK citizens and drive greater investment in the UK economy.

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portfolio Verlag
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THE RIGHT SORT OF PENSION CONSOLIDATION WILL BRING BENEFITS FOR SAVERS

The pension reform proposals announced in the chancellor's Mansion House speech aim to accelerate consolidation, bringing about fewer, larger pension funds with the scale to invest in a wide range of asset classes.

As well as supporting growth, the reforms have the potential to achieve better outcomes through economies of scale and greater negotiating power. But care must be taken to ensure the evolution happens at all times in the interests of members and represents value for money.

The PLSA, along with 14 other signatories representing £400bn of assets, has written to the chancellor to express the view that the pension review and the Mansion House reforms set a positive direction for the future of the UK pensions sector.

UK pension funds are already significant domestic investors, with allocations across shares, corporate bonds, government debt and other assets. The reforms offer additional mechanisms to increase pension investment in UK growth while maintaining a strong focus on fiduciary responsibilities to scheme members.

Growing the UK economy is rightly a priority and as an industry we are working hard to support this goal. A strong UK is better for retirement outcomes.

The proposals to accelerate the pooling of assets managed by the local government pension scheme can increase the investing might of one of the largest funded defined benefit pension schemes in the world.

Since pooling was announced, most funds have transitioned most of their assets, which has resulted in cost savings and new UK investment opportunities. Yet much of the opportunity remains.

The industry supports the completion of the transfer of remaining assets and the articulation of the LGPS pool model, supported by setting clear and realistic timelines to achieve this goal. A lot of good work is already in place and administering authorities and pools should take care further work is done in a pragmatic way which maintains value and does not incur unnecessary investment losses or costs.

The PLSA has called for the implementation of the recommendations from the Scheme Advisory Board's good governance project to develop a common standard and foster effective relationships between pensions funds and asset pools. So we are pleased to see these proposals taken forward, as well as measures that support more investment into local areas.

We also know that LGPS members are committed to their regions and welcome the opportunity for local investment.

The majority of UK workers now save into a DC pension arrangement thanks to automatic enrolment (AE), which is a success story and enjoys support across all political parties, the pension industry and the public. Thanks to AE, 19.4 million people who had not previously saved into a pension scheme are now setting money aside for their retirement.

The PLSA supports the government's regulatory initiatives aimed at improving value for money and encouraging consolidation in the DC workplace market. The level of the government's 'minimum size' for default funds, how they are provided and the timeline for reaching it, will be central to the success of the proposals.

The PLSA's response to the pensions investment review call for evidence highlights some of the complex barriers to consolidation. Working with industry to overcome these, as well as supporting the wider programme of change, such as the introduction of pensions dashboards, will be key to driving success in this area.

Moreover, as the industry eagerly anticipates part two of the pensions review, we hope to see further measures brought forward that look at the long-standing issue of pensions adequacy, that set out a roadmap to address the level and scope of current AE contribution rates. We would also welcome further clarification on government ambitions for the future of DB schemes, especially around the treatment of open schemes, surplus sharing and consolidation measures in this area.

The UK pensions sector is a cornerstone of our economy. By working closely with the government on the Mansion House reforms, we can ensure the system delivers greater value for savers, supports economic growth and advances our climate ambitions.

Design and production
portfolio Verlag

Printed in the UK by
Stephens & George

Subscription rates
UK £300 (9 issues),
Single issue price: £35
Overseas €350 (9 issues),
Single issue price: €40

Subscriptions
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THE *PORTFOLIO INSTITUTIONAL* AWARDS: ENTER NOW

Andrew Holt notes the deadline for the *portfolio institutional* awards is fast approaching and gives a detailed insight into each category and what the judges will be looking for.

The *portfolio institutional* awards entry deadline of February 23 is fast approaching, because once Christmas is out of the way there will not be long to go. So investors should start to get their entries in.

As a reminder, the awards will be held in the Banking Hall in the City of London on May 15.

These awards are unique, in that they are given to only asset owners for excellence in seven specific categories, with the focus being on an effective investment strategy and successful investment outcomes in each.

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

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.

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 and 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, the winner of each category. A submission questionnaire has been created with the judges for each of the respective award categories.

It is the submission questionnaire that determines the winner for each category. So the effective completion of the questionnaire is vitally important.

Here is a useful outline for entrants to consider before putting together their respective entry.

Best pensions

The first two categories: Best pension scheme under £1bn and best pension scheme over £1bn, are at the heart of institutional investment during the last 18 months or so. Pensions funds have faced a number of challenges over this period of time, particularly the unpredictable nature of some aspects of the market.

The focus of these two awards are on these sized pension schemes and their effective approach to investment management. The judges will assess each scheme on its merits, considering their size, type and status.

Examples relevant in support of an entry include: the effective planning and execution of the investment strategy, appropriate cost control, strong governance, the effective use of advisers, managers and other third parties, as well as any potential innovation within the scheme's investment approach.

Entrants will have to ensure they supply judges with detailed and well-argued examples of all of these. It has been a challenging time for pension schemes and we look forward to hearing from schemes on how they have risen to these challenges.

DC pensions

The best DC pension scheme is an award at the forefront of where the industry is going. Not only is it a guide to the trajectory of the pensions industry, but also an insight into how schemes are addressing this challenge. Again, the award will be focused on investment management.

Many DC pension schemes use LDI, so how they survived the LDI turmoil could be a key point of focus as well dealing with the market and longevity issues. Examples of effective forward planning and cost control will therefore be needed to impress the judges.

The judges will assess each scheme on its merits, taking account of its size, type and status.

Examples relevant in support of an entry include: the effective planning and execution of the investment strategy, appropriate cost control, strong governance, the effective use of advisers,

managers and other third parties and potential innovation within the scheme's investment approach.

Best charity/foundation/endowment

This category includes registered charities, philanthropic funds, educational endowments, family foundations, and long-term investment assets held by not-for-profit organisations. The focus of this award, again, is on investment management.

Charities have faced a challenging time, highlighting the importance of an effective investment strategy so charities can fulfill their required mission statements.

Examples relevant in support of an entry include objects of the organisation and its mission, the investment philosophy and how this determines investment strategy, the effectiveness of portfolio management, planning, risk management, monitoring, cost control, governance, roles of investment committee members, advisers, managers and third parties, and indicators of success and of innovation.

Charities are seldom given the credit they deserve, especially when it comes to successful investment, so this is an exciting occasion for charities to shine.

Best responsible investment

The best responsible investment (RI) award is the zeitgeist award. No institutional investor is without some form of responsible investment. Therefore, this category could well be a fascinating insight into the numerous approaches investors are taking to the issue of responsible investment.

Furthermore, the focus of the award is on RI in investment management by an asset owner. RI can include ethical, social/impact and sustainable investment.

The jury recognises that RI is an ever-evolving approach and will therefore welcome submissions relating to the growing role of RI within an organisation and/or new and novel RI approaches. Examples relevant in support of an entry include the articulation of the motivations and investment beliefs behind the RI strategy, effective planning and execution of RI, strong governance, effective use of advisers, managers and other third parties, the use of innovation, as well as clear and concise reporting against the RI objectives.

Best risk management

The best risk management award can be seen in comparison to something of the meat and drink award, as no investor can get by without having effective risk management.

The focus of this award is on the philosophy, qualitative process and implementation of risk management within a pension scheme. The jury will assess the risk management processes of each participating scheme, as defined by the risk management philosophy, risk identification, measurement and reporting and the actual risk management carried out.

Schemes can offer examples of how their risk management practices have worked, as well as risk management innovations undertaken.

The choice of risk models and solutions will need to be highlighted, as well as the implementation of the process, and of course, the overall success of the risk management approach.

Best local authority pension scheme

The best local authority pension scheme is a new award, looking at the unique nature of local pensions schemes and how local authority pensions undertake their investments for their local stakeholders while working within the LGPS system. Judges will assess investment approaches and those that standout.

Like the main pensions awards this award focuses heavily on investment, and the successful implementation of the scheme's investment policy and philosophy, risk tolerances, use of innovation and strong governance.

The *portfolio institutional* awards promise to be a great celebration of all that is good within institutional investment. We encourage all institutional investors to look through the list of categories and identify where their strengths lie and enter the appropriate category.

Best of all, all nominees along with the judges, are invited to the portfolio institutional awards gala dinner on May 15, which promises to be a great evening.

All information on the awards can be found at: awards.portfolio-institutional.co.uk.
Please do not hesitate to contact us if you have any questions.

THE *PORTFOLIO INSTITUTIONAL* AWARDS CATEGORIES

- Best 2024 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

INTERVIEW – LOUIS TAYLOR

"In five years time we will be looking at a different pensions industry in terms of portfolio makeup."

Andrew Holt meets the chief executive of the British Business Bank to discuss how he is working to create successful UK businesses.

What does the British Business Bank do?

The British Business Bank was set up 10 years ago to drive growth across the UK by improving access to finance for small businesses, which, particularly in the wake of the financial crisis, were struggling to raise funding.

We have been able to deal with companies all the way through the scale up stage via a range of programmes that we have designed and operate largely though our delivery partners: banks, alternative finance providers and fund managers.

We have created 60 banking licenses since the financial crisis, 36 of which focus on small-business lending. We have also helped them by providing guarantees for their lending.

Where are the investment gaps?

Within the equity space there is still a gap in the UK. We are good at starting businesses and scaling them up, but we could be so much better.

For the past six or so years we have been setting up a commercial arm under British Patient Capital, which has been investing in venture capital funds and growth equity funds. There are more than 82 investments in those funds, and some 1,200 growth companies within their portfolios.

Some of them are bigger companies, so they need more money. We are starting to invest directly into those companies, many of which are science and tech led.

We are the biggest UK investor in venture and growth equity funds, but also the most active in later stage science and deep-tech companies. We hold more than 30 companies directly in our portfolio.

What in venture capital could appeal to investors?

There is fantastic research and development coming out of universities, but it is not necessarily being matched with UK capital. Their needs are being met by capital coming in from overseas.

That is fine, up to a point. Once you have that capital from overseas, the likelihood of commercialising your company in the UK instead of gravitating to where the capital came from is diminished.

So what we want to do is stimulate the amount of domestic money that is going into those companies in order to retain them in the UK rather than just being an incubator of great companies which then go abroad to commercialise. We want to capture them and we want them to become economically significant.

The chancellor made an announcement on this, which has had major implications for the bank.

The chancellor announced, amongst other things, that we [as a bank] are setting up the British Growth Partnership, which is going to be a new vehicle investing along similar lines as British Patient Capital.

But importantly using not only government money but also some pension money to form, effectively, a fund where we are investing in venture and growth equity going forward. This will build a better UK industrial base on the back of those companies and give pension members greater returns.

Why is there a lack of UK capital going into these companies?

There are quite a few structural issues

that have been around for about 20 to 30 years that have caused a gradual reduction in involvement in this part of the market by UK institutions. That is being recognised now.

The Mansion House Compact and The Edinburgh Reforms are examples of how the [pensions] industry understands that a variety of things have to change if they are going to generate the pensions people want, especially in a defined contribution world.

If people are to get the pensions they want, two things need to happen. The first, people need to contribute more into their pension. The second is that money needs to be invested more for growth than it currently is.

The constraints around this are fees, the cost of due diligence and the inability of venture capital, perhaps, to get instant diversification, which is the biggest risk mitigant.

Some of these are genuine hurdles. What we are going to offer in the British Growth Partnership is instant access to a range of funds, which we have been investing in. The pipeline coming out of those funds is going to be, hopefully, economically attractive, will generate good returns and enable pension funds to build up the expertise to do this themselves.

What conversations have you had with pension funds on this?

It was back in July 2023 that the then chancellor [Jeremy Hunt] consulted with the market. The pensions industry has been unfairly criticised for not being interested in this part of the market. Our experience of talking to pension schemes shows that they are interested, but are struggling to find the right way in.

Being interested is fair enough, but they need to be the right type of investments.

You are right. It is about a range of private market assets, which includes real estate, private and public equity as well as venture and growth equity. There is a need to access a range of opportunities.

Has there been any negative feedback from pension funds?

They all have concerns. Whether they have overcome them is another thing. But nobody has been negative, about either the concept of investing in this market, or the track record of the bank to manage a fund like this.

You have been under the radar for some time and quite a lot of things have come together.

Well the world is full of unsung heroes. We have seen big opportunities, which are strong, but under-appreciated by our domestic audience.

At the [government-organised] International Investment Summit [in October] the range of opportunities we saw, and are sat on, make for a fabulous goldmine. We just need to get on with mining it.

Do you have any objectives in terms of how big the British Growth Partnership becomes?

We are looking to raise hundreds of millions of pounds. It is important to raise enough so that it is significant but not so much that it is disproportionate to the capacity of the market. Also if we raise a big fund that has a long investment period, the fee drag can be quite high.

We are good at starting businesses and scaling them up, but we could be so much better.

What we are trying to do is raise a sensible fund, which we can raise relatively rapidly, because the pension funds we want to approach have a continuous flow of money coming in. We ideally would like to reach the point where we have a rolling fundraising programme, which could help with [investment] diversification.

Is that with pension funds in mind?

No, you can look at diversification on many levels, but I think it gives you an opportunity to operate.

How long have you set for this hundreds of millions of pounds to stream into the fund?

The first issue is we need to be regulated. We have submitted a regulatory application to the Financial Conduct Authority.

It is important we go through the regulatory process because the market needs to know that we are serious. So that will take a little time. The chancellor announced we will be putting money to work in 2025.

Will that be in the first quarter?

It will be later in 2025. It doesn't mean money isn't going into the market. Our normal investments are still working.

If there is private sector money available for these opportunities, we shouldn't be using government money. There will be an overlap with what our British Patient Capital subsidiary does and the Business Growth Partnership.

But there will be a preference for the British Growth Partnership because there is private sector money in there. And all those investment decisions for the British Growth Partnership will not be taken by government. There will be a focus on the same fiduciary duty as that of pension trustees, who are giving us their money. It is returns-driven, commercially focused.

You have a good track record in your investment career, but how have you found this role?

On one level you could see this is as a little different, but it is convincing people of an investment opportunity. Through various parts of my career I have been doing that, so it is a slightly different spin on that.

It is something I believe in and we can do in a way that is beneficial for economic growth but also the returns to pensioners. And frankly, the legacy they leave in companies.

Thinking about what I, and the bank, are doing, is to look at it this way: in the US, 70% of venture capital comes from pension money. In the UK, it is 10%. And when you strip out overseas pensions, the British Private Equity & Venture Capital Association believe that only 3% is from UK pension schemes. Investing in these companies is what we are suggesting they can do to change that.

These numbers have been used by government for some time, but the situation is that pensions funds are not going for these assets.

It is true that these assets form a small part of most pension fund allocations. [Pension funds] need to be proportionate and prudent. A lot of them don't have any venture capital in their portfolios, but we think a small allocation can achieve better returns.

What percentage recommendation would you say should be part of a pension portfolio?

It is not for me to recommend anything to pension trustees. Although I have been a trustee of defined benefit and defined contribution schemes, so I understand the constraints they are under and the fiduciary duty they have. But what we are proposing is not incompatible with fiduciary duty.

How can the barriers to investing in these areas be overcome?

There is an element of education, but in five years time we will be looking at a different pensions industry in terms of portfolio makeup. Whilst I understand there is a real resistance to pay fees, there is a recognition of looking at net-of-fees value generated.

There will be a curve, gradual at first. We will start to pay sensibly for access to the best assets in these classes because they are going to generate better net-of-fee returns.

Take life sciences, there is a real perception that they are incredibly risky. Of course, there is risk in any industry, but the risk-adjusted returns are better there than almost any other sector. We need to highlight the disparity between the perception of risk versus the real risk.

You have committed to a new LIFTS investment. What is the story behind that?

The Long-Term Investment for Technology and Science (LIFTS) is a potentially game-changing initiative. With the intention of catalysing more than £1bn of funding, including from UK pension funds, LIFTS will support the growth and ambitions of the UK's most innovative science and technology companies, which with the right finance and support can become the world-beating businesses of tomorrow.

The British Business Bank completed a £250m investment alongside Phoenix Group with Schroders Capital under the LIFTS initiative to create a new investment vehicle that is accessible to pension funds and other institutional investors.

The bank's £250m commitment will be matched by £250m of pension investment from Phoenix Group, the UK's largest long-term savings and retirement business, creating a £500m investment vehicle. Phoenix's investment will be made through Future Growth Capital, its new private markets joint venture with Schroders.

You have also recruited a new chief investment officer in Leandros Kalisperas. Why is he a good fit?

LOUIS TAYLOR'S CV

October 2022 – the present
Chief executive officer
British Business Bank

June 2024 – the present
Chair
British Patient Capital

April 2023 – the present
Chair
British Business Investments

October 2015 – October 2022
Chief executive officer
UK Export Finance

July 2016 – September 2022
Director general
Department for International Trade

September 2004 – October 2015
Various senior roles
Standard Chartered Bank

As we build the capabilities we need to respond to these new opportunities and we are fortunate to have recruited such a strong talent for the bank.

Leandros will take on responsibility for the entirety of the British Business Bank's investment business, which includes its commercial subsidiaries: British Business Investments and British Patient Capital.

His scope will also include the newly launched Nations and Regions Investment Funds, the Enterprise Capital Funds programme, as well as sourcing and delivering investments for the new British Growth Partnership.

What then is your key message to our readers?

The central message is investors can be sceptical about some investment opportunities, which they should be healthily scepitcal, but in terms of this asset class we are convinced that there is a way into these assets which could generate great returns and represents, on our doorstep in the UK, something quite special.

2025: YEAR OF THE DONALD

The next 12 months are likely to be influenced by the man sitting in the Oval Office, says *Andrew Holt*.

One man, and what he does next, dominates the thoughts of many investors in 2025. That man is the 47th President of the United States and 2025, for good or ill, is going to be the year of the Donald.

The most likely positive impact of Trump 2.0 is within America, as he would no doubt want. Central to Trump's objectives are his much-campaigned tax cuts and de-regulation – ideas that are usually music to the ears of business and markets. And both should, in theory, benefit the profitability and competitiveness of US producers.

"This should be positive for US equities, in absolute and in relative terms, as it should be supportive for the US dollar," says Brendan Mulhern, global strategist at Newton Investment Management. Additionally, Trump has promised to use tariffs to support US producers, which looks like another win for US equities.

On the back of this, Robeco anticipates that US equities will sustain their upward trajectory, with the S&P 500 reflecting extended valuations following a year of strong performance.

Vincenzo Vedda, global chief investment officer at DWS Asset Management, presents a potentially different perspective. "US equities might be constrained by high valuations and a low-risk premium, despite robust earnings. Large-cap technology stocks could still continue to lead the market, but their substantial index weight may introduce concentration risk," he says.

In addition, Peter van der Welle, a multi-asset strategist at Robeco, offers a few words of warning. "Market sentiment could shift abruptly as macro-economic narratives evolve, highlighting the importance of diversified and dynamic portfolio management," he says, offering a nod for investors to take a multi-asset approach.

Inflationary impulse

At the same time, in combination with higher tariffs and restrictions on immigration, higher deficits have the potential to generate an inflationary impulse. "The conditions necessary for a repeat of the inflation rates seen in 2021 and 2022 are not likely to stem from Trump's policy agenda," Mulhern says.

The assumption that the imposition of US tariffs will be inflationary is a keystone of many so-called Trump trades, from short treasuries to overweight dollar. But it should not be taken as a given, says Michael Metcalfe, head of macro strategy at State Street Global Markets.

"A recession rather than inflation may be more likely," Metcalfe says, offering a contrarian approach. The Fed's modelling is central to his case. "The main takeaway, to borrow a term from 2022, is that the inflation generated by a universal tariff in the Fed's macro model is transitory."

In addition, Metcalfe adds that not all tariffs necessarily feed through to the consumer and, therefore, drive inflation. He adds that despite the likelihood of higher costs on goods coming from China, only around 10% of imports into the US come from the country.

However, a re-acceleration of inflation would force a serious rethink of the now-consensus view that continued disinflation will track inflation back to the US' Federal Reserve's target and thus allow for an extended easing cycle, Mulhern adds.

"We are not yet at the point at which investors are countenancing interest-rate hikes from the Fed, but it appears very much on the central bank's agenda to price out the rate cuts that it had previously pencilled in for 2025 at its September summary of economic projections," Mulhern adds.

Additionally, he says investors would be likely to demand more of a yield pickup over short rates to take on interest-rate risk. "As such, the new administration's policy agenda, while likely to be positive for nominal growth over the short term, could increase the risk of further increases in interest rates and interest-rate volatility, both of which could have consequences for financial-market and economic volatility," he says.

In this context, it appears that the bond market is already beginning to reflect the Fed's inability to ease policy as much as it has indicated it would like to, with government-bond yields moving higher.

Robeco offers caution around high-yield bonds, where spreads are tight, while euro investment-grade credit appears more attractive relative to the US. Looking ahead, Robeco anticipates that shifting macro data, US trade policy and global liquidity conditions will all impact asset-class returns in 2025.

> **Heading into 2025, the investment landscape is characterised by promising conditions offset by significant unpredictability.**
>
> Vincenzo Vedda, DWS Asset Management

A recession rather than inflation may be more likely.

Michael Metcalfe, State Street Global Markets

All to grow

Trump's vision of America First – tariffs, de-regulation, restrictions on immigration and tax cuts – point to a full bag of tricks: higher inflation, higher corporate profits, higher interest rates and probably higher growth.

Philippe Noyard, global head of fixed income at Candriam, sees Trump's policy proposals as inflationary across the board. "Tariffs will raise prices on goods and strong immigration restrictions will raise prices on services. Taken together, this may lead to an un-anchoring of expectations and attendant re-pricing of terminal-rate expectations," he says.

Although the effect on growth could be more nuanced, but more likely positive on balance. "The inflationary nature of Trump's policy aims lead us to take a more prudent stance on US rates, while maintaining our bias for further curve steepening," Noyard says. "The lack of certainty around the detail of Trump's policies could put a ceiling on any excessive yield rises in the near term."

Even Vedda has to concede to the influence of Trump. "Heading into 2025, the investment landscape is characterised by promising conditions offset by significant unpredictability," he says.

The reconciling forces of normalised growth and easing inflation, combined with expected central-bank rate cuts, offer a favourable environment for various asset classes in his view. However, Vedda says: "The election of Donald Trump to a second, non-consecutive term as US president introduces an element of uncertainty that could affect market dynamics."

The Fed move

Pimco economist Tiffany Wilding says an interesting question is where the Fed's target range might be at the end of 2025, particularly considering president-elect Donald Trump's promise to introduce 25% tariffs on certain goods from Canada and Mexico and increase tariffs on China by 10%.

"We believe the Fed is likely to continue cutting rates next year, and the debate is how fast or slow it will proceed. Despite some risk of aggressive tariffs, we do not expect the Fed to reverse course and raise rates," she says.

Standard monetary policy rules suggest that it would take a large inflation shock – usually the type associated with a global supply shock – to prompt the central bank to raise rates again. "And even then, inflation expectations and the labour markets would matter," Wilding says.

She says many economies – including the US – are now starting to look more normal than they have at any point since the pandemic. "While price levels remain elevated, inflation is running at or very close to central bank targets, labour markets appear back in balance – for example, the ratio of vacancies to unemployed workers is below pre-pandemic levels in the US, and real wealth is essentially back to pre-pandemic trends – all while long-term inflation expectations have remained anchored," Wilding says.

She also notes that while stronger US economic data could have the Fed considering a pause in December and/or adjusting its projected policy rate path somewhat higher in 2025. "We think the broader trend, and distribution of potential outcomes, is toward lower policy rates."

Although Wilding also notes: "If the US economy performs worse than we expect and the labour market weakens, the Fed could cut more quickly in an effort to close the gap between current policy and the Taylor-based rules [of setting interest rates]."

Risky assets

Looking back at Donald Trump's win and the Republican Party taking the Senate and the House of Representatives, it seemed very much to set the cast for the investor outlook.

"Markets quickly reacted exactly as one might have anticipated: risky assets rallied, and among them those with a domestic US focus – small cap equities and high yield bonds – were the biggest outperformers," Noyard says. "Treasuries sold off and the yield curve bear-steepened, reflecting investor concerns about fiscal indiscipline."

Rates markets though in much of the developed world reacted in nearly the opposite fashion. If the new Trump administration implements its sweeping tariff agenda, there will be a clear negative impact on growth, Noyard says. "European rates fell and the curve bull-steepened – reflecting expectations about a possibly accelerated trajectory in the European Central Bank's cutting cycle," he adds.

A key point of discussion is that it has been widely opined that Trump 2.0 will benefit financial markets, based primarily on historical performance following Trump's first victory in 2016. Noyard makes some interesting observations about the US

investment environment. "In line with other risk assets, credit spreads have rallied further, especially in the domestically focused high-yield segment," he says. "While valuations remain at near-historically rich levels, given the clear appetite investors are signalling on US risk assets, we prefer, for the time being, to revert to a neutral view on investment grade and reduce our underweight on higher yield."

Trump 2.0

However, while this Trump equals a positive market narrative may appear logical, the backdrop is different today for two reasons, Mulhern says.

Firstly, prior to Trump's 2016 victory, global growth was slowing, evident in the commodity and emerging market bust of 2014-15. Eighteen months of cross-market volatility had ensured that many market participants had de-leveraged, leaving aggregate exposure to risk assets at historically depressed levels.

Secondly, the then Fed chair Janet Yellen had performed a dovish policy pivot in early 2016 which created the space for a broad, simultaneous easing of policy in the US, Europe and China. In turn, 2017 was the first period of synchronised global growth since the 2008 global financial crisis, and stocks soared.

The current environment is therefore somewhat different. "We are several years into an economic cycle and market participants are heavily exposed to risk assets," Mulhern says. "Additionally, the growth outlook is not what it was in late 2016 following globally co-ordinated easing of monetary and fiscal policy."

Today, the regional outlook is increasingly divergent, and the imposition of those higher tariffs by the US could mean lower growth elsewhere, particularly in China and Europe.

China will probably respond with further policy announcements, and Europe is likely to ease monetary policy given fiscal constraints. "We expect interest-rate differentials to diverge further as growth outside the US comes under further pressure," Mulhern says.

European Trump

A Trump presidency will therefore have ramifications throughout Europe. Michael Nizard, head of the Edmond de Rothschild Asset Management's multi-asset team, says there is potential negativity within the eurozone, which will be intensified by the Donald Trump factor.

"The pessimism surrounding the eurozone is nothing new, but the economic outlook differential between the USA and Europe has reached a new level following the election of Donald Trump, even before the possible application of tariffs. European morale is at half-mast, reflected in the weakness of the single currency since September 2024," Nizard says.

European morale is at half-mast, reflected in the weakness of the single currency since September 2024.

Michael Nizard, Edmond de Rothschild Asset Management

The solution is probably not in the hands of the European Central Bank, but in those of European politicians, Nizard says. Which is a worrying scenario for investors in itself.

"Impacted by the growth differential between the two zones, as well as by the interest rate differential which has exceeded 200 basis points over 10 years, the euro is now suffering from political problems in its two economic engines: France and Germany, at a time when Spain, Italy and Portugal are clearly standing out economically," Nizard says.

On other aspects of European investments, Noyard retains a neutral view on European investment-grade credit. "Spreads have indeed continued to tighten further, but unlike US credit, not quite to near historical lows," he says.

It is interesting to note, Noyard adds: "That the swap spread of European investment-grade credit remained flat, as indeed the swap spread of German government bond yields turned significantly less negative at short tenors and is now positive at the 10 year."

Fundamentals here, he adds, remain healthy and in the near term, although the growth outlook has certainly not improved, and he doesn't see foreseeable risks that would warrant a substantial correction. European high yield followed a similar trajectory, with spreads narrowing by some 25 basis points. "This is undoubtedly tight, but again, given okay fundamentals and the overall quality level of the asset class, we retain a neutral position," Noyard says.

Difficult task

In the UK, there is still the lingering spectre of the Autumn Budget hanging over it, with the market giving a thumbs down to what the Labour chancellor unveiled. The Bank of England

(BoE) has also published new growth forecasts, which see growth increasing by 0.75% and also see inflation returning to target around a year later than previously predicted.

"The Budget unveiled by Labour chancellor Rachel Reeves in October [2024] could also make the Bank of England's task more difficult," Noyard says. "We therefore now see a slowdown in the pace of BoE cuts compared to our previous expectation and temper the level of our conviction."

Noyard says he remains convinced that the UK economy will have difficulty supporting the terminal rates as currently priced by the market, like the eurozone, as both are faced with similar structural weakness and low growth.

"However, we acknowledge that so far, the market has not come around to this view, and indeed post-election, we observed gilt trading directionally similar to euro rates – that is, rallying even as treasury yields rose – but not to the same extent," he says.

Global expansion

Vedda paints a positive picture that DWS economic projections suggest continued global expansion, steering clear of recessionary threats in major economies with expectations that US growth of 2% in 2025, the eurozone growing at 0.9%.

For 2026, DWS expects US growth of 2.2% and 1% for the eurozone. "This reasonably positive backdrop seems supportive of equity markets, with high single-digit returns expected globally," Vedda says.

In bond markets, he expects the yield curve to steepen further as central banks continue to cut rates, with the Federal funds rate reaching 3.75% to 4% and the European Central Bank's deposit rate at 2% by the end of 2025. "We continue to favour investment grade corporate bonds on the back of stable economic conditions, although we don't expect spreads to tighten further," he says. Interestingly, DWS thinks alternative assets, particularly residential real estate, will benefit from strong fundamentals despite fairly stable long-term interest rates.

In addition, Vedda says gold, while it might not repeat its 2024 rally, could post respectable gains, adding some portfolio diversification and potentially acting as a hedge against a number of potential economic threats (see page 11).

Those threats include on-going geopolitical tensions, US debt concerns and an unpredictable political climate. "We expect many of Trump's tax and spending promises made on the campaign trail will probably need to be scaled back to reflect the political, fiscal and economic realities," Vedda says.

"In light of these factors, a globally diversified investment strategy across regions, asset classes and styles might mitigate individual risks and provide opportunities as they arise," Vedda says. "Strategic vigilance and a balanced approach seem essential to navigate the complexities of 2025, allowing investors to position themselves to take advantage of market swings while being prepared for volatility."

Bigger trends

Regardless of Trump, short-term political decisions and geopolitical uncertainties, it will be essential for investors in 2025 to remain attentive to the major structural trends impacting the global economy, says Candriam chief investment officer Nicolas Forest, offering a different take on the outlook.

"We are thinking, of course, of the aging population, which is accelerating and is largely the result of advances in longevity," he says. "This demographic challenge calls for increased investment in infrastructure, medical research and innovative technologies. It also calls for structural reforms to better control its impact on public finances."

In addition, he cites that the effects of climate change continue to be felt on every continent, something investors should not lose sight of. "While the revival of fossil fuel production could temporarily exert downward pressure on prices, reducing the competitiveness of renewable energies and slowing green investment, the decarbonisation process is set to continue, even if progress is likely to occur at different speeds in different regions," he says.

And Forest also cites technological innovation remaining a key driver. "The artificial intelligence revolution, still in its infancy, promises to profoundly transform our societies. It will play a key role in improving the quality of life of aging populations and in accelerating the energy transition," he says.

In a similar way, Jay Jacobs, US head of thematic and active equity ETFs at Blackrock, says investors should keep an eye on the big topics. "We believe artificial intelligence and geopolitics will remain key themes for 2025, yet there are significant shifts in the underlying policies, demographics and tech developments that will drive them forward," he says. "Investors should consider what exposure they have to these themes and how they may position their portfolios for these structural trends."

And offering a succinct investment outlook, without even including the Donald, Michael Lok, group chief investment officer at UBP, says: "Amid fragmented growth, prudent strategies focusing on resilient sectors, active risk management and opportunities in Asia and green transformation are key to navigating 2025 successfully."

In contrast, putting Trump at the centre of what happens next, Eric Vanraes, head of fixed income at Eric Sturdza Investments, says: "The end of 2024 looks like the calm before the storm. When the storm blows, we will already need to know what to do, because we won't have much time to think."

2025, therefore, is likely to be the year of the Donald. And investors need to be ready.

PRIVATE MARKETS OUTLOOK: ALL ROADS LEAD TO HOME

Allocations to private assets are growing among pension schemes and insurers, and British assets could dominate their shopping lists in 2025. *Mark Dunne* reports.

New government, same old story. Number 10 welcomed a new resident in July, the first from his political party for 14 years. But despite talk of a new era and a fresh start for Britain, in one particular area, he picked up where the previous government left off.

The UK is an old civilization and to remain competitive its crumbling infrastructure needs upgrading, cleaner forms of energy created and greater digitialisation developed. Providing fledgling companies with growth funding could provide another much-needed boost to the struggling British economy.

To fund all of this, the new government, just like the previous one, has turned to the pots of capital managed by pension schemes and insurers. And they may not need much persuading to back such strategies.

Traditionally, pension schemes invested in listed equities and bonds, but to diversify their portfolios and potentially earn higher returns, they have been increasingly investing in private market assets. This is a trend that appears unlikely to reverse in 2025.

Indeed, institutional investors intend to increase their exposure to private market assets in the next two years, a survey conducted by PGIM has discovered.

It is not hard to see why as alternatives appear to be on a superior growth trajectory. Global assets under management are projected to hit $171trn (£135trn) by 2028, reflecting a 5.9% compound annual growth rate, PwC predicts.

However, alternatives are expected to grow by 6.7% to $27.6trn (£21.8trn), during the same period.

A new dynamic

Since 2022, the story of private markets has been defined by the rise in interest rates, says Rob Martin, global head of investment strategy and research for private markets at Legal & General Investment Management (LGIM).

The higher bank rate has put pressure on valuations and pricing, which has resulted in fewer private equity, property and infrastructure transactions. Mergers and acquisition finance has also been harder to raise.

"Those two things slowing down hint at what is going to start changing in 2025," Martin says.

"We expect to see more transactional activity next year, particularly in real estate and infrastructure, because valuations have re-priced quite substantially and there is a different entry price now.

"We are going to see increasing transactional activity, but we are also going to see more focus on growth potential across private equity, real estate and infrastructure," Martin adds.

One asset owner expecting to be active in the alternative markets in the year ahead is Nest. The master trust holds around 17% of its wealth in private markets and next year will continue with its plan to almost double that to 30%.

The national wealth vehicle needs to be focused on additionality and the difficult areas to fund.

Lewis Vanstone, Railpen

There are a number of asset classes the master trust will be looking at during 2025, says Rachel Farrell, Nest's director of public and private markets.

One is build-to-rent, where the master trust will address the shortage of housing and the demand for quality rental homes through funding new developments.

The other area that Nest will "ramp up in 2025" is timberland. This is part of a natural capital strategy which was launched in 2024 to diversify its sources of return and to provide net-carbon benefits.

"Over time, as investors look to reduce the carbon footprint of their portfolios, they will be looking for these net carbon reduction strategies, which are quite limited," Farrell says. "That will provide tailwinds for timberland investing."

It's not just carbon strategies. Momentum is growing behind a wider range of private market investments, says Nick Spencer, a senior consultant at Milliman. And assets with a connection to the UK economy or to provide a sustainable benefit are of particular interest. However, the dynamics of these asset classes could be on the verge of change.

"A big theme next year will be Trump and the implications for the investment backdrop," Spencer says.

Yet what could all of this mean in practice for alternative investment strategies and which other factors could affect the 2025 outlook for the main private market asset classes?

Private equity

Private equity is on the agenda for pension schemes, with 38% of the respondents to PGIM's survey earmarking the asset class for fresh allocations over the next two years.

There could be more to come. PGIM expects evolving regulations, which would allow for more flexibility in private equity investments for pension funds and insurers, to boost appetite for the asset class.

The growing trend towards large deal sizes is also attracting institutional investors. Indeed, the average transaction size in 2024 was £1bn, more than double the £334m recorded a year earlier.

Another survey, this time carried out by Deutsche Numis in October, spoke to 200 senior private equity professionals and found that 81% see the UK as an attractive place to invest. Half named regulation as a factor.

Oliver Ives, co-head of UK M&A at Deutsche Numis, said in the report that he is seeing "increased ambition from private equity going into 2025".

Indeed, the volume of private equity deals is forecast to rise in the year ahead. Most sponsors (84%) expect their deal count to almost reach double figures in 2025.

Yet the poll found that sourcing attractive assets is one of the largest barriers to deploying capital, increasing the likelihood of competitive tension.

This could not only come from other private equity firms, but also corporates looking to take public assets private as stability returns to the market and shares are being used to finance deals.

Improving debt markets are a factor behind the rising ambition for 2025. Last year, raising enough debt to complete a deal was cited as the largest barrier to the industry, but at 69% of respondents, it was 14% lower than in 2023. However, 84% of those surveyed believe that the debt markets will improve in the next 12 months.

The removal of uncertainty over the outcome of the US election and Rachel Reeves' Budget finally being delivered, could be reasons for such optimism.

Stuart Ord, co-head of UK M&A at Deutsche Numis, said in the report that lower valuations in the UK's public markets were a factor in driving interest in "take-privates".

And after a few tough years, 2025 could be a more favourable period for private equity to exit their investments.

In terms of the exit options, 62% of respondents see IPO activity picking up, compared to 16% a year earlier. So sponsors could focus on exits in 2025.

A tough exit environment in recent years has meant that many investors have had to wait longer to collect a cash return. "This may create a bias towards higher quality and less cyclical assets in the exit pipeline next year," Alec Pratt, co-head of EMEA financial sponsor M&A at Deutsche Numis, said in the report.

Companies in the financial sector saw the most private equity activity in 2024, accounting for 19% of such transactions in the UK. Pollen Street Capital's acquisition of Mattioli Woods and Nationwide's takeover of Virgin Money were highlights. This is a trend professionals expect to see continue into 2025. Attractive valuations and a trend for consolidation are drivers.

The consumer sector is ranked second with real estate third, where assets on the market at a discount to book value are expected to tempt private equity to the negotiation table.

Private equity's fundraising environment did not improve during 2024 with total capital raised broadly flat year-on-year.

While 63% of respondents believe that it will be 'more challenging' or 'significantly more challenging' to raise capital, this is an improvement in sentiment compared to 2024 when the equivalent proportion of respondents was 83%.

Moreover, the report claims that sponsors have significant dry powder to deploy and are screening the UK for opportunities across all asset classes.

All in all, private equity should do quite well next year, Spencer says. But he can see interest skewed towards one particular country. "Private equity will get quite focused on the US reflecting Trump's de-regulation themes," Spencer says.

Private credit

Interest rate rises may have forced deal-flow lower in infrastructure, property and private equity, but it has had the opposite effect on private credit.

"The equity story has differed from what we have seen on the credit side," Martin says. "Private credit has continued to be a busy space with lots of refinancing activity.

"Next year we will see more M&A activity, which has often led to new issuance of sub-investment grade private credit," he adds. "So we might see more deal-flow there."

Indeed, almost half of the institutional investors PGIM spoke to (44%) are looking to increase their exposure to private credit, thanks to a favourable risk profile and healthy yields, which historically have been low double-digits.

And the growth in private credit next year could change the dynamics of the market. The International Monetary Fund estimated that the global private credit market was worth $2.1trn (£1.6trn) in assets and committed capital in 2023, with around three-quarters of that based in the US.

While the European private credit market is less developed than in the US, the gap could close if the region's growth expectations for next year prove to be accurate.

Infrastructure

Globally, the outcome of the US election will prove to be influential over investor attitudes towards infrastructure. Especially as Trump has made statements that point to the potential repeal of the Inflation Reduction Act.

"It has created uncertainty around the clean energy transition and the exact path of policy in the US over the next four years," Martin says.

"The immediate market reaction to clean energy stocks was quite challenging after the election outcome, which tells you that the market is interpreting this as being at least a greater source of uncertainty around clean energy in the US," he adds.

However, it is a different story in Europe. Martin describes lifting the ban on onshore windfarms in the UK as "constructive".

"The pricing of UK clean energy assets looks interesting at the moment, but that is true for Europe as a whole.

"The last one to two years has seen a real recalibration in terms of the expected returns from clean energy assets," Martin says. "We are seeing assets available now at a price which we think offers the right risk-adjusted return in this interest-rate environment. It is a much more constructive place than it was 18 months to two years ago."

Spencer describes the lifting of the onshore wind farm ban as "positive" in that the ruling was a "significant constraint" on infrastructure projects in the UK. However, he does not expect it to impact the market in the year ahead. "It will be an emerging theme, but it is more 2026 to 2028 until we will see the benefits."

Clean energy will not be the only driver of infrastructure demand next year. "We definitely subscribe to the view that there will be tailwinds behind the digital infrastructure build out," Martin says.

This means networks, towers and data centres. "There is a lot of discussion about artificial intelligence (AI) and the growth in data centre demand that it can generate. AI is part of the story, but so is data sovereignty."

Martin believes that regulation around holding data closer to where the owner sits could spur demand for new data centre capacity in Europe.

"There is also an ESG and a sustainability angle here, which is positive for purpose-built data centres," Martin says. "There is an awful lot of data storage and servers that still sit in company offices, which is inefficient from an energy perspective.

"Bringing those assets into purpose-built modern data centres is the more energy efficient answer here," Martin says. "So data centres are a big source of growth alongside wider digital infrastructure."

Another trend could emerge in infrastructure in 2025 and it may involve how the assets are managed.

Now that interest rates are putting margins under pressure, will there be a focus on the operational efficiency of these assets in 2025?

Martin says that this will be more relevant to the mature areas of infrastructure, such as utilities and networks. "Those businesses are going to be challenged where they are working on relatively narrow margins," he adds. "There are cost pressures and a certain amount of regulatory inflation pass through, but investors are going to be looking hard at the ability for margins to either be maintained, expanded or equally contracted."

Following the global monetary policy tightening cycle, investment returns from infrastructure debt investing offer similar returns to equity investments, with the added benefit of downside protection due to strong covenants.

Infrastructure equity valuations have been squeezed due to higher interest rates, rising energy prices and supply chain disruptions, resulting in less dealmaking.

Infrastructure equity investors benefitted from a favourable environment in the pre-pandemic world due to low interest rates, but that world has changed dramatically, requiring a greater focus on operational improvements.

Indeed, 37% of survey respondents expect to increase their allocations to private infrastructure debt over the next two years. Low volatility in cashflow is a key factor for institutional investors.

Investor enthusiasm for infrastructure equity is more restrained, with 28% of institutional investors expecting to increase allocations over the next two years.

Pre-pandemic, return on equity for core infrastructure fell to single digits. While the returns have climbed as interest rates have increased, the deals market remains challenged. However, large fundraisings indicate that infrastructure equity financing is improving.

Transport, logistics and communications infrastructure top investors' preferences. The transport sector underwent a structural change during the pandemic as companies preserved their cash. The strong focus now for the sector is reversing that underinvestment trend.

Meanwhile, communications infrastructure stepped into the limelight as businesses moved online during the pandemic, and subsequent hybrid models have been adopted.

In recent times, the shift to electric vehicles and adapting to newer technologies has boosted appetite for these sectors. In contrast, utilities infrastructure recorded the least interest, with only 25% of survey respondents likely to increase their allocations over the next two years. Adverse headwinds in the sector are keeping investors on the sidelines.

One institutional investor which will be active in the infrastructure market is Railpen. Its liabilities being in sterling and linked to inflation make the pension scheme a UK-centric investor. The scheme's members living in the UK, so their investments should benefit them and their communities, is another reason.

The energy transition, across renewables, storage and networks will continue to be of interest in 2025. This is why Railpen will be watching the government closely.

Lewis Vanstone, an investment director at Railpen, says the scheme will be interested to see what shape GB Energy and the national wealth fund takes.

"The national wealth vehicle needs to be focused on additionality and the difficult areas to fund," Vanstone says.

This could mean struggling areas, such as hydrogen, and not more wind and solar, for which there is high interest among investors.

Real estate

Demographics, digitalisation, de-carbonisation and de-globalisation will continue to drive investment into real estate in the year ahead. For LGIM, these tailwinds are particularly strong in the UK for residential property.

Martin says that most schemes have modest exposures to the asset class, offering the potential for building residential into real estate portfolios. "What will be different next year, is asset owners looking at a wider diversity of different types of residential," Martin says.

Build-to-rent has been a big focus over the last three to five years, while student accommodation has grown over two decades. "We are now seeing a lot of interest and potential in affordable housing," Martin says.

This could include the growth of suburban build-to-rent, which are purpose-built houses rather than flats, in different kinds of location, he adds.

More co-living properties could also start joining institutional portfolios next year, as could housing for seniors. "There is still a lot of growth in residential, but also residential of different kinds," Martin says.

Industrial is another area LGIM sees as being relatively strong within real estate, although instead of the large, big box logistics units, it tends to focus on smaller assets on the edge of cities, where restrictions on land use tend to keep vacancies low.

Social housing sits shovel ready, if you like. You could be getting on with it now.

Nick Spencer, Milliman

"That is benefiting from the continuing build-out of ecommerce," Martin says. "So we are seeing a lot of demand from companies who need to be able to fulfill online orders. We still think there is a lot of growth there."

Nest is also interested in domestic property. "The UK real estate market is quite transparent and is ahead of other global markets in terms of correcting and being at a level that we think is quite attractive," Farrell says. "So we are in the process of re-directing some of our global REIT exposure into UK direct real estate."

This will be core real estate. Nest's manager continues to like retail and industrial in particular, but sees selective opportunities in the office market. "We are starting to see that market bottom out," Farrell says. "Not all offices are the same anymore. It is location specific."

Given that real estate has corrected quite a bit across the UK and Europe, Nest is also looking at real estate private credit. "In some cases, valuations of real estate have fallen, the leverage levels have come down, and yet you get a slightly higher premium when you are issuing private credit right now in that sector," Farrell says.

"So on the margin, it is quite an interesting time to look at private real estate credit as well," she adds.

For Spencer, one area of property will remain a strong theme for pension funds. "Social housing sits shovel ready, if you like," he says. "You could be getting on with it now. Other [areas of real estate] will emerge, but probably slightly further out."

It appears that despite a challenging period for the real estate market, the reset in valuations is leaving investors optimistic about the asset class.

Conclusion

With political uncertainty being lifted on both sides of the Atlantic, we are moving into a new era, and it means that pension schemes and insurers are retaining their bullishness for alternative assets.

"We have been on a journey over the last 10 years where we have seen a lot more investor interest in private markets," Martin says. "There is a lot of momentum behind that. The search for diversification, the desire for achieving a return pickup from complexity and illiquidity – those are definitely still there.

"The new aspect, to some extent, our research has shown, is that investors are interested in sustainability, and impact is important for private markets as well. Asset owners are telling us that they believe they can achieve greater social and environmental impact through private markets. So those things are important too.

"The rate cycle over the last couple of years has put a slowdown on private market activity and allocations. Next year is the year that it starts to improve again."

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pi ESG CLUB

Nature, AI, geopolitics and one particular law celebrates its birthday – this month, portfolio institutional looks at what could influence ESG-led investment strategies in 2025.

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PENSIONS AND LIFETIME SAVINGS ASSOCIATION

FRC CREATES HEATED DEBATE AFTER REDEFINING STEWARDSHIP

The amendment to the definition of stewardship splits the investment community, but the regulator is keen to hear from investors through a consultation. *Andrew Holt* reports.

The Financial Reporting Council's (FRC) proposed amendment to the definition of stewardship in the launch of its Stewardship Code consultation has created much division within the investment community.

The amended definition of stewardship is to become "the responsible allocation, management and oversight of capital to create long-term sustainable value for clients and beneficiaries", with the phrase "leading to sustainable benefits for the economy, the environment and society" being deleted on the basis that some interpreted its inclusion as meaning that the primary purpose of stewardship is to pursue environmental and social objective in and of themselves.

The FRC noted in its launch: "Amending the definition of stewardship to support more transparent conversations between actors in the investment chain about their investment beliefs and objectives, while being sufficiently broad to be applicable to signatories across the investment chain and different asset classes."

James Roe, a partner at law firm A&O Shearman, expressed his support for the move. "We believe that the revisions, if adopted, have the clear potential to improve engagement between listed companies and their shareholders resulting in greater longer-term value," he said.

Roe and his colleagues at A&O Shearman noted in a wider response: "In our discussions with clients and other industry participants, it was evident that there are different views as to what stewardship is and what it is intended to achieve."

This often, noted the law firm, stems from an incomplete picture of the stewardship landscape – the "stewardship ecosystem" – and the commercial incentives driving the behaviour of engagement by individual stewards.

Roe added: "The removal of outcomes also recognises that outcomes may occur over longer periods and may be more subtle. Guidance will also ensure that reporting on outcomes is not too narrowly understood and does not drive short term activities to meet a reporting requirement."

Roe also noted that the FRC recognises that some signatories may follow other reporting frameworks or requirements that align with content of the code.

Significant shift

Highlighting how the changes could impact responsible investment, the Responsible Asset Owners Global Symposia wrote: "The FRC's proposed revisions to the Stewardship Code represent a significant shift in the UK's approach to responsible investment. While the long-term implications remain uncertain, it's crucial for investors to navigate this evolving landscape with a clear understanding of their responsibilities."

But Fergus Moffatt, head of UK policy at Share Action, was scathing about the changes. "It's concerning that one of UK's most important regulators is suggesting amending the definition of stewardship in the Stewardship Code to remove explicit references to social and environmental outcomes," he said.

Moffatt then added: "The Stewardship Code sets high standards for those investing money on behalf of UK savers and pensioners and those who support them. It's designed to make sure investors are safeguarding the interests of these savers and asset owners through the influence they have over the companies they invest in."

Moffatt instead noted: "Responsible stewardship must include consideration of companies' impact driving dangerous levels of global heating, inequality and poor public health on the future savers will retire into."

Cutting through the debate, Frances Deakin, head of responsible investment at Local Pensions Partnership Investments, offered up her own definition: "Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries contributing to sustainable benefits for the economy, the environment and society."

Setting standards

The FRC has also stated that reporting is to be split into two parts, with one: policy and context disclosure, to be updated only as necessary, though still submitted annually, and the other: activities and outcomes report, to be produced annually.

The current code carries some weight within the investment world as it has 273 signatories representing approximately £45trn in assets, setting standards for investors.

The FRC has something of a tough task in making sure that what it puts forward has teeth, but at the same not adding to what some see as an increasing regulatory burden.

But Moffat thinks the FRC should reconsider the whole approach to changing the definition. "Share Action is calling on the Financial Reporting Council to scrap this proposed redefinition of stewardship and stick to its original, which clearly references the key role investors have to play in addressing interrelated social and environmental challenges, by placing climate change and social impacts at the heart of effective stewardship standards."

What happens when the consultation closes will be interesting, and whether the FRC can placate the differing views could present a challenge. Investors wanting a say on the proposed revisions to the code have until mid-February to do so.

INTERVIEW – REBECCA WHELAN

“We are trying to leave the world in a better place than we found it.”

The senior investments officer at the £6bn Avon Pension Fund talks to *Andrew Holt* about learning on the job, joining an ESG leader, building on strong foundations and the importance of investing in nature.

You became senior investments officer in January. How has your first year been?

It’s been a learning curve. Learning how the local government pension scheme (LGPS) works, how the fund operates and how it works together with other funds in our pool. It’s been interesting and a challenge to learn a new way of working.

The people and culture within the LGPS are particularly interesting, coming from a diverse range of backgrounds and the breadth of knowledge they bring.

Could you tell me about the challenges you mentioned?

The biggest challenge has been getting to know how the pension fund works. My previous experience has been in private client investment management, so running model portfolios for financial advisers.

Coming to a pension fund and learning technical elements of how this world works and how the public sector works has, for me, been the biggest challenge.

I still feel like I am learning new things every day. I am now overseeing the investment strategy and the oversight function, so it’s a bit of a change on what I did previously.

What attracted you to the role?

The opportunity to develop my skills. I was looking for something that is different from private client investment management but retained a strong element of investment.

When I received the email about this job, I thought it ticks a lot of boxes for me. I get the opportunity to look at, particularly on responsible investing, something that perhaps is more forward thinking than the private client world, where financial returns are the main driver and responsible investing, or any form of ESG criteria, comes secondary.

Coming from the outside, what do you make of the LGPS and pooling?

I have been impressed, particularly from a responsible investment point of view, as it is embedded in everything we do. I was perhaps surprised at how much emphasis there is on responsible investment and stewardship.

Brunel Pension Partnership [Avon’s pool] is leading in this area. There are 10 partner funds within Brunel and I sit in a lot of meetings with those funds. There is a huge amount of collaboration between Brunel’s funds.

Are the government’s grand plans for the LGPS, which could see them create superfunds, a good idea?

It’s a topical issue. We are going through the consultation at the moment.

Investment in the UK is happening already. We have a huge private markets

portfolio that directly invests in the UK. Our local impact portfolio is an example of how we specifically target the UK, and where possible the southwest [of England].

We might be asked to do more in the future, but, as a fund and as a pool we have good foundations already.

Your role is to oversee the fund's responsible investing, particularly on climate, and implement local impact investments. What have you undertaken to fulfil these responsibilities?

I am building on great foundations. As I mentioned, responsible investment is embedded in everything we do and the fund has made huge strides in decarbonising the portfolio.

That's only part of the story. Perhaps decarbonisation and nature solutions go hand in hand. Perhaps removing carbon from the atmosphere is the next stage of how we will meet our targets.

So we have been doing a lot of work this year on nature-based solutions. We have been working with some of the other funds and Brunel on creating a nature-based or natural-capital portfolio.

Directly targeting sustainable agriculture, forestry and emerging technologies that help the energy transition has been a focus this year and that work is ongoing. We hope to make good progress on that.

On the responsible investing front, natural capital is the next step of our evolution.

On local impact, shortly before I joined the fund, we agreed to commit 3%, around £170m, of our assets towards local impact solutions. And we have made good progress in a year.

That kicked off with the appointment of Schroders for the Wessex Gardens investment, which aims to drive renewable energy initiatives and foster local economic growth. We partnered with five other funds on that and we committed £50m.

We also invested in a portfolio of 17 solar farms across the southwest. That has been positive and a good demonstration of working with other firms doing local investment within the Brunel region to create positive impact.

We implemented an affordable housing solution, investing in the Octopus Investments Affordable Housing Fund. In July, we made a £50m commitment to that fund which will generate around 250 affordable homes.

We are working on another element, which is SME funding. We are in the process of appointing a manager who will run an SME fund.

What are your net-zero ambitions?

There was a lot of work done just before I joined looking at our net-zero targets. Basically, the headline is that we have committed to being net zero on financed emissions by 2045 across the whole fund.
There has been good progress on the interim targets that were set around 2019/20. They include from 2025 to 2030 a commitment to divest from high-impact companies if they cannot show evidence that they have, or they will have, a credible alignment strategy before 2030.

So divestment is an option?
There is a point where we will divest because companies are not meeting our requirements. We are working with Brunel, who are helping us with that, as they are managing the portfolios and engaging with the underlying companies.

How effective, in your view, is the investment industry in addressing ESG issues?
As providers of capital, the investment industry has a huge role to play in influencing companies and getting them to respond to ESG considerations.
There has been huge progress made in this area over the past two decades, which has accelerated since the pandemic. Companies have increased the ESG metrics and the disclosures they are making in their annual and suitability reports.
We have seen developments through institutions such as the International Sustainability Standard Board and the Global Reporting Initiative. These are helpful to work towards forming standards to help incorporate these into the investment process.
Increased standards have a big part to play – the more standards there are, the more the industry has to comply with.
Within the LGPS, Brunel continues to demonstrate leadership in the ESG field.

Is the anti-ESG investment backlash in some quarters worrying?
It's something that has been rumbling for a little while. It has been getting a lot of media attention in the US but is not confined to there.
Some oil and gas majors have been quite vocal about their opposition to ESG policies, which they claim are harmful to their business models.
It poses a challenge, and we may see a shift in the way companies talk about ESG. We may see companies talk about sustainability and responsible growth more.
Maybe it won't change the way companies do things, but it might change the way that they communicate and report on things.
The standardisation of reporting will help deal with the greenwashing claims.
And it has all been compounded by the economic climate as well. Perhaps this has prompted some investors to question the validity of ESG strategies.
Larry Fink from Blackrock has said he is not going to use the term ESG anymore. But ultimately, it won't affect Blackock's policies on ESG.
But ESG investment, if you want to call it that, has huge support from a broad spectrum of stakeholders. And it is critical in shaping a sustainable future.
Fundamentally, we still believe that investing in companies that are genuinely sustainable are going to give the greatest shareholder return to our members over the long term.

What for you is the most important part of your work?
I would say the most important part of what we do is our fiduciary duty to pay the pensions of our members. And to do that, we need to generate stable long-term returns.
That's what we are trying to do. But also it's important to do that in a financially responsible way, managing those financially material, environmental, social and governance risks. We are trying to be responsible stewards of capital.

Do you have any other ambition in the responsible investing space?
It is around the natural capital of the earth. There is a lot of work that we need to do around that to ensure that anything we invest in has the utmost highest integrity.
We want to put together a portfolio that is leading edge within natural capital and goes beyond forestry and agriculture and looks at emerging technologies and is net-nature positive. So basically we are trying to leave the world in a better place than we found it.

What has been the biggest lesson of your career?
I would love to say something hugely profound. But it comes down to the fact that change is inevitable: businesses change, your personal life situation changes, companies evolve, grow, get taken over and you just have to adapt.
Change doesn't have to be bad. So as part of that, being open to new ideas and new opportunities is important. The world is evolving and you have to adapt with it. That applies to all facets of life.

The world is evolving and you have to adapt with it.

WHAT COP16 MEANS FOR INVESTORS

Rebecca White is a global ESG integration lead at Newton Investment Management, while Nicholas Harris is a sustainable investment analyst.

Nature and biodiversity, along with climate, are among the most frequently discussed sustainability topics. The 2021 Dasgupta Review on the economics of biodiversity commissioned by the treasury, highlighted the macro-level connection between nature and economics, and brought these issues to the forefront.

Since then, significant events such as the fines imposed on chemical manufacturers for water pollution linked to 'forever chemicals' have emphasised the importance of nature and biodiversity. The introduction of various regulations, including those related to plastic packaging and waste regulation, as well as the European Union's deforestation regulation, have further heightened the materiality of nature and biodiversity.

COP16 – a turning point?

The 16th meeting of the Conference of the Parties (COP) to the Convention on Biological Diversity (CBD) took place recently in Cali, Colombia, a location known for its rich biodiversity. The conference continued the momentum from the previous biodiversity COP in 2022, which underlined the need to preserve biodiversity following the implementation of the Kunming-Montreal Global Biodiversity Framework (GBF), a set of international goals which aim to halt and reverse nature loss.

One of the target headlines set through the GBF was the '30 by 30' initiative, a conservation target calling for 30% of the earth's land and water to be conserved by 2030 through the establishment of area-based conservation measures. A key aim of COP16 was to turn these ambitions into action by outlining the necessary steps for countries and establishing a framework for monitoring progress.

COP16 highlighted several pivotal discussions for investors as biodiversity becomes increasingly integral to sustainable finance and regulatory landscapes:

- Resource mobilisation and financing gap: there is estimated to be a $700bn (£552.5bn) financing gap to restore nature – which underscores a major opportunity and obligation for private sector engagement in biodiversity.[1] While some private pledges have been made, the scale of financing required indicates that current efforts are insufficient.
- Leadership and policy stability: the divide between developed and developing countries on financing and governance approaches will affect regulation for biodiversity investments. There is a range of investor standards which evolve in parallel, such as the Science-Based Targets for Nature, the Taskforce on Nature-related Financial Disclosures (TNFD) and the International Sustainability Standards Board consultation, emphasising the connection between nature and climate.
- Mandatory reporting and corporate engagement: a key focus of COP16 was the need for governments to provide more clarity on how they will implement their targets, and countries were expected to submit updates to their National Biodiversity Strategies and Action Plans (NBSAPs). These plans may directly affect private and public capital allocation, as governments continue to address the material risks of biodiversity loss. Investors should watch for how these plans evolve, as they may lead to reporting requirements like climate disclosures, such as those of the TNFD. As NBSAPs are implemented, businesses will increasingly be expected to understand their impacts and dependencies on biodiversity and incorporate considerations into their operations.
- Market and product innovation: as discussions about biodiversity credits and other nature finance mechanisms continue, investors can look forward to the development of new financial products and instruments. These innovations could provide alternative returns while supporting environmental objectives, similar to carbon credits, but specifically tailored for biodiversity outcomes.

The discussions at COP16 mark a pivotal moment that could see the shift in biodiversity finance from a niche interest to a mainstream investment priority. However, although billed as the 'implementation COP', COP16 has fallen short of expectations. While notable progress was made on key issues like benefit sharing from genetic resource use, critical agreements on resource mobilisation and monitoring frameworks were not reached. Despite these challenges, the evolving regulatory landscape presents investors with the opportunity to position themselves at the forefront of this growing sector. By recognising and acting on these developments, investors can contribute to and benefit from the transition towards sustainable biodiversity finance.

1) Source: Biodiversity Finance Trends Dashboard 2024, Department for Environment Food & Rural Affairs, GOV.UK: https://www.gov.uk/government/publications/biodiversity-finance-trends-2024/biodiversity-finance-trends-dashboard-2024-accessible-version

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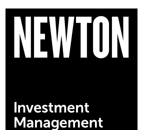


A group of insiders tell *Mark Dunne* what ESG trends they believe could emerge in the coming 12 months.

ESG IN 2025: HOPES AND DREAMS

It has been a challenging year for institutional investors who have been working to make the world cleaner and fairer.

For a start, it was the hottest year since temperatures were first recorded in 1880. Then there were floods in Spain, which killed more than 200 people, while the extreme heat in Portugal ignited more than 1,000 wildfires.

Some UK rivers recorded fresh pollution scandals, an oil spill in the Mediterranean harmed marine life within a 25-square kilometer radius and wars continued to rage. To top it off, fewer electric vehicles are now expected to be made as some production lines in the UK and Germany are set to be switched off.

Unfortunately, these were not isolated incidents. So it is not "goodbye, 2024", but "good riddance".

You could be forgiven for understanding why the sound of those questioning the effectiveness of ESG-led strategies is growing louder.

And those voices are set to gain influential support in the year ahead. The outcome of more than 50 national elections in 2024 has seen some people take power who are known climate-change sceptics. Indeed, America's new CEO takes over in January and once labelled climate change a "scam".

Geopolitics is the elephant in the room given that 2024 was a huge year for elections, says Alex Bernhardt, global head of sustainability research at BNP Paribas Asset Management.

"There are a lot of political shifts globally, and there will be a lot of scrutiny on what policy changes might be implemented in the coming 12 months that could cause shifts in sustainable investment strategies," he adds. "That is definitely going to be an area of focus."

But for Bernhardt, sustainable investing is much more of a global and secular trend. "There are factors at play that supersede the latest election cycle, and which have a material effect on how people choose to invest," he says.

One of those factors is equality. BNP Paribas AM believes that it is one of the biggest macro issues impacting sustainable investing, alongside energy and ecosystems. It carries systemic and idiosyncratic risk, so its influence is felt not just by the overall market, but at the individual company level, too.

For Bernhardt, equality is a huge driver helping investors to achieve their environmental goals. As an example, he pointed to Cop 29, which wrapped up days before we spoke.

An agreement was signed and the deliberations hinged on issues of equity related to climate damage, climate mitigation and adaptation responsibility. "It is all about channeling capital from developed countries to developing countries. That is an issue of equality on a global scale," he says.

"In sustainable finance, there has been a lot of focus over the last 20 years on climate change, which is justified," Bernhardt adds. "But we are not going to resolve issues like that without greater focus on justice or the aspects of climate that implicate social ramifications."

Time to adapt

Another big theme for 2025 is adaptation. Forecasts point to 2024 being the first year on record to hit 1.5-degrees above the pre-industrial average.

"It is becoming clear that we are not transitioning fast enough to meet the temperature rise target, certainly not without a significant overshoot," Bernhardt says.

So more investment needs to be channeled into climate adaptation with "some degree of urgency".

But this is challenging, as monetising such investments can be difficult. For example, an investment in a wind farm produces cashflow from the sale of electricity, but a sea wall just protects people from storms. It does not generate an income.

"There are other challenges, but this is the core one," he adds. "We need to figure out more creative ways of addressing this adaptation finance gap, which is growing and becoming more urgent."

This is an issue Bernhardt is discussing with his clients. "There is a ton of energy around it," he says. "There's more smoke than heat at this point, but I believe 2025 will be a landmark year in terms of how much progress is made towards scaling adaptation finance," he adds.

The natural touch

Bernhardt's final ESG theme for the year ahead is natural capital, which sits at the nexus of the transition and adaptation topics.

If the world is not transitioning fast enough, then we are going to need net-negative carbon solutions to mitigate the resulting temperature rise.

"Natural capital investments are the primary way in which to achieve those net-negative emissions," Bernhardt says. For example, planting or repairing coastal forests creates carbon sinks and/or provides a buffer against hurricanes.

"The nexus of these issues is going to be what we talk a lot more about in 2025 and hopefully there will be more action underpinning them," Bernhardt says.

Also seeing nature emerge as a big ESG trend in the coming 12 months is Rebecca White, global ESG integration lead at Newton Investment Management. She is seeing a focus on this issue in the UK, Europe and Japan and feels that it will continue to rise up the agenda.

Therese Niklasson, who is Newton's global head of sustainable investment, says that nature is coming along steadily, but has more momentum behind it than climate.

Nature loss is a theme *portfolio institutional* has been briefed on many times in the past few years, so what will be different in 2025.

For White, the evolution and emergence of standards in the space, such as ISSB, SBTN and TNFD, will start to put some structure around the topic, which has traditionally been separated into components, such as deforestation and water.

"Investors have been focused on risks with companies and have engaged around this for quite a few years," she says. "It is not necessarily new, but that standards piece is crucial.

"The complexity is much greater than with climate, because you don't have that one metric you can refer to. Nature impacts aren't fungible in the way that emissions are.

"So understanding how to get started and having the standards in place to set what good practice looks like will be important," White says.

Indeed, Niklasson thinks there will be greater focus on regulation related to sustainable investments. "In the UK, 2025 will probably be the year of implementing the Sustainability Disclosure Requirements, when we will see what the market looks like and how impactful it is," she says.

Niklasson believes that a big challenge for the industry next year will be to make nature a mainstream investment. "These

For nature to become mainstream, it needs to be kept as simple as possible.

Therese Niklasson, Newton Investment Management

There's more smoke than heat at this point, but I believe 2025 will be a landmark year in terms of how much progress is made towards scaling adaptation finance.

Alex Bernhardt, BNP Paribas Asset Management

are topics that need to be translated into investment themes," she says. "There is no good in these complex ideas sitting in a fund that only scientists and responsible investment experts can understand. For nature to become mainstream, it needs to be kept as simple as possible."

Different outcomes

How investors consider nature in their portfolios is evolving, a trend Amelia Tan has witnessed.

The head of responsible investment strategy at Legal & General Investment Management (LGIM) says that investors have been aware of nature as an investment issue for years, but now they want to understand how the firm identifies, assesses and manages nature-related opportunities, risks and impacts.

And next year LGIM could make an innovative move into a growing part of this market.

Interest in debt-for-nature swaps is gaining momentum, says Tan's colleague Laura Brown, who is head of client and sustainability solutions. "We are looking at launching strategies in this space where not only is there a nature outcome associated with a bond, but there is also a social outcome incorporated," Brown says.

Real estate is an example of how social and nature outcomes are interconnected. It is about the people who live or work in a property and how it impacts their wellbeing.

"This is something we are seeing a lot of demand for from a range of investors, including – and this is perhaps an interesting trend – the defined contribution space," Brown says.

Tan adds that these bonds typically target developing markets with the conservation of nature being a condition of the financing. But there is a need to produce social outcomes, too. Indeed, within emerging countries, nature is a big source of people's livelihood. The impact of nature loss on fishing is an example.

"The efforts being made to restore nature and biodiversity are also helpful for the local livelihoods of the communities that are directly impacted by such loss," Tan says.

"It is interesting that there has been a lot of talk about the nexus between climate and nature, but ultimately nature and people are also extremely connected," she adds. "Achieving all of this through our investments is something we are focused on."

A different view

When discussing trends in ESG in the coming year, the one topic that will not go away is geopolitics.

The result of the US election, in particular, has left some investors wondering what it could mean for sustainability. "In the short term, there is probably going to be more volatility in terms of the interest in ESG across the Atlantic," Tan says.

"It may have a knock-on impact at a national level, but ultimately, we believe that the long-term case for the energy transition is still intact on the basis of it being economically more viable to use renewable energy.

"Solar is more affordable than oil and gas over time. It contributes to energy security as well with less reliance across national divides," Tan says.

Political risk

For Niklasson, the geopolitical agenda and how it connects with sustainability will become more important in the coming year. "We are in a world facing a broad conflicting geopolitical backdrop than has been seen for many years," she says.

"We have also gone through a record-breaking set of democratic elections, so relationships from a geopolitical perspective are changing, which matters for sustainability."

It is not just about trade, but economic policy and international treaties, such as those ratified at Cop, could be influenced by a change in government.

Being analytical about policy and politics might be a more interesting compass to how you invest sustainably. "That is quite a broadbrush way to talk about it, but if your responsible investment team hasn't traditionally had an analytical focus on that then you are going to have to develop it quickly," Niklasson says.

"I would expect that to be identified by quite a few clients this year, because we are going through such a unique point in time," she adds.

There is a difference between thinking about this through the lens of ESG, so risk-adjusted returns from making good invest-

ment decisions, versus what it means for a sustainable investment fund trying to achieve a positive outcome for the environment in a space that is becoming more difficult to play in. “It is more resource-intensive than ever, affected and influenced by regulatory regimes in a different way than it ever has before,” Niklasson says.

“So that is going to continue being a focus for us,” Niklasson says.

Happy anniversary

Moving on to other issues, next year will be 10 years since the Modern Slavery Act was introduced in the UK and White wonders if the market will focus on what has been achieved since 2015.

“There have been calls from some pockets that this hasn’t been enforced in a way that will have the desired effect,” she says.

There could be a renewed interest in this, potentially with influence on more industries than just construction and agriculture. “There’s definitely a question on my mind as to whether the market focuses on this to some extent, particularly with it being a milestone year,” White says.

Artificial interest

Another main topic of conversation next year could be artificial intelligence (AI). “It could be the solution to so many issues from a sustainability perspective,” Niklasson says. “I see a lot of impact funds leaning into it from that angle, but at the same time, there is this an unknown about it.”

There has been a focus on the social implications of AI, but White is seeing an increasing move towards approaching it from an environmental perspective. Data centres are an area of particular interest here.

Giving them the capacity they need is hugely energy and water intensive, so can AI offer an alternative. “We are having a lot more conversations now around how this can be powered in a clean, green and speedy way,” she adds.

According to White, Newton’s clients have taken some interest in AI, how firms can approach it and what impacts it could have.

“Similar to nature in many regards, we are still in that understanding phase of AI, rather than necessarily setting out specific expectations, because it continues to evolve so rapidly,” White says.

Making an impact

Regulation has been mentioned many times while researching this article, and it could be the catalyst that entices more ESG-led investors into the impact space next year.

Even geopolitical conflicts and political change in Europe and the US are unlikely to deter interest, believes Anna Väänänen, head of listed impact equity at AXA Investment Managers.

We are seeing a faltering of ambition, greenwashing and finger pointing.

Louise Marfany, Share Action

“Despite the uncertainty, the increasing number of investors seeking to do good with their capital, as well as generate a financial return, means impact investing will continue to grow in importance,” she adds.

Väänänen puts this down to the UK taking the “bold step” of starting to regulate funds that claim to make a positive impact in the listed-equity space.

“Together with GIIN’s framework for impact in listed equities, this has led to increased transparency on how listed-equity funds can achieve real-world measurable positive impact,” Väänänen says. “We expect this journey to continue in 2025.”

And the journey could take a different turn when it comes to making a real-world impact in biotechnology.

“We expect the Taskforce on Nature-related Financial Disclosures to continue its work helping companies understand their nature-related dependencies, opportunities and risks. We expect the work to move to sector specific recommendations during 2025.

“This will be an important catalyst for more companies adopting nature-related accounting,” Väänänen says.

What we want

In a change of tone, instead of looking at what trends could emerge in ESG next year, we wanted to know what those promoting such strategies would like to see during 2025.

And two regulatory issues sit at the top of responsible investment campaigner Share Action’s wish-list.

The first is fiduciary duty reform. Current guidance emphases financial return over the impact an investment may have on people’s lives. “That does a disservice to pension savers,” says Louise Marfany, Share Action’s director of financial sector standards.

“To be truly acting in the best interests of their beneficiaries, pension funds need to take account of whether the invest-

ments they make are enabling people to retire with a reasonable degree of security and health on a livable planet.

"We are calling for the law to be clarified to make it clear that people's best interest goes beyond narrow financial return over the short term," she adds.

This is an issue Share Action intends to campaign on "pretty hard" in the year ahead alongside its opposition to the proposed changes to the Stewardship Code.

The Financial Reporting Council (FRC) wants to remove references within the definition of stewardship that cover social and environmental outcomes. But the code exists to protect the interests of savers and pensioners by making sure that those managing their money are stewarding the companies they invest in.

"The social and environmental impacts are important," Marfany says. "Therefore, the FRC needs to keep them at the heart of what it means to do effective stewardship."

Still climate change

Climate change remains front and centre for the campaigner next year. This is due to 2024 looking set to be a record-breaking year for all the wrong reasons.

"We are running out of time and so the critical ask we have of investors is to raise their ambition and urgency on climate," Marfany says. "Despite all of the talk, we are still seeing them pouring money into damaging, high-carbon companies.

"We are not seeing asset managers do enough, frankly, to steward companies to transition at pace," Marfany says. "In fact, we are seeing a faltering of ambition, greenwashing and finger pointing. So we are pressing investors to raise their game. That is our number one ask."

But it's not all bad news. Share Action is encouraged by the momentum on some social issues. One of which is obesity, which it estimates could cost the global economy more than £3.3trn a year by 2035.

Nature impacts aren't fungible in the way that emissions are.

Rebecca White, Newton Investment Management

"We are seeing increasing investor awareness of the role the food industry is playing in that," Marfany says. "It is driving diabetes, heart disease and certain forms of cancer. That is not just affecting people's lives, it is having a huge economic impact."

Investors in Nestlé, for example, filed a resolution to encourage management to make their products healthier, while a group of investors in global food companies like PepsiCo, Coca-Cola and Mondelez called on the sector to be more transparent about how harmful their products are. "That is a positive trend," Marfany says.

Another social issue where Share Action does not want investors to lose momentum is low pay. Marfany claims that some retailers are not paying a living wage to millions of workers.

"It leaves people unable to keep the lights on, heat their homes, pay the rent and struggle to feed themselves," she adds, pointing to research that shows two in five low paid workers regularly skip meals.

Marfany is pleased that investors are taking "a responsible attitude" to the issue and recognise the systemic implications for their portfolios.

"It hinders productivity, drives inequality and places additional resource burdens on the state, which is highly constrained as things stand."

Share Action wants investors to drive higher standards in the UK's retail sector to pay a real living wage, whether that's delivery drivers, cleaners, people on the shop floor or in the warehouse.

These are the issues the campaigner would like regulators and investors to work on next year with Marfany starting to see a "growing body of evidence" about their long-term financial impacts.

A fresh start

Those working to build a more sustainable future suffered a series of setbacks in 2024 as the world appeared to be full of ecological disasters and corporate scandals. The outcome of certain elections only adds to the pressure on sustainable-led investors and those working to create fairer societies where people can be treated with dignity and respect.

Yet have the events of last year only served to harden investors' belief in what they are working to achieve while paying pensions?

Environment, social and governance-led strategies may be maturing and no longer considered niche, but they still have a fight on their hands.

Nature, climate and regulation appear to be the main battlefields in making sure that the coming year is not a repeat of 2024.

The outlook for emerging markets in 2025 is set to be something of a tempest. In fact, one narrative presents the developing world on the edge of a financial storm. This is based on Donald Trump's return to the White House, which is helping to fuel a considerable dollar rally that could wreak havoc on emerging economies. The signs are that this is already taking hold.

This outlook is the view of Nigel Green, chief executive of DeVere, an independent asset manager. "As the dollar strengthens on the back of looming Trump policies on Chinese imports, economies across Asia, Latin America and beyond are staring down a wave of currency devaluations, inflation spikes and economic instability," he says.

"Investors are already seeing echoes of 2016. But this time, the stakes are even higher."

In addition, Trump's renewed America First agenda means that he intends to slap tariffs on exports from Cananda and Mexico. However, the cost of goods arriving from China could reach as high as an unprecedented 60%.

"Such heavy-duty tariffs would likely trigger a dramatic plunge in the renminbi, with devastating ripple effects across emerging markets," Green said. "When China's currency falls, it drags down other emerging market currencies with it, creating a domino effect of depreciations across the developing world."

For dollar-pegged economies like Argentina, Egypt and Turkey, the fallout could be particularly catastrophic, as they face the

EMERGING MARKETS: STORMS AND SUNSHINE

The developing world is the engine room of the global economy, so how could it affect us in the next 12 months?

risk of explosive devaluations, uncontrollable inflation and the threat of full-blown financial crises, Green says.

As the dollar continues its upward trajectory, emerging markets are bearing the brunt of this shift. With most global trade priced in dollars, these economies face rising costs for imports, rocketing inflation and an increased burden on their dollar-denominated debt.

"The challenge isn't limited to just one region," Green adds. "Asian economies, Latin America and African markets alike are vulnerable to currency plunges, inflation hikes and investor flight if the dollar surge continues unabated."

For commodity-exporting nations, a stronger dollar also spells weaker global demand, pushing commodity prices down and squeezing their economies even further. This scenario threatens everything from growth rates to employment stability across these markets.

"Investors looking to emerging markets for growth may soon find themselves dealing with a drastically altered investment landscape as the dollar steamrolls through these fragile economies," Green says.

Beyond currency

The effects of a dollar surge go beyond just currency devaluations. Local currency debt markets in emerging economies are facing mounting pressure as interest rates climb, driven by the global scramble to keep up with the appreciating dollar.

"As borrowing costs soar, these countries will be forced to choose between defending their currencies and sustaining growth – a dilemma that has the potential to destabilise economies in the process," Green adds. "Without flexible exchange rates, these countries may see their economies hit hard by tightening financial conditions that they can no longer control."

But with all this volatility comes opportunity. "The next chapter of this economic story is starting, and for those [who are] prepared, it holds remarkable potential," Green says. "A well-positioned portfolio could leverage these shifts, unlocking new gains in a world where the dollar dictates the rules."

The next chapter of this economic story is starting, and for those [who are] prepared, it holds remarkable potential.

Nigel Green, DeVere

Going for growth

In a similar way, Rob Brewis, who manages the Aubrey Global Emerging Markets fund, has identified a number of opportunities in emerging markets. But his analysis is based on those poised for long-term growth, particularly in regions such as India, southeast Asia and Brazil.

For example, as China's economy slows down, Brewis is noticing the potential for markets focused on renewable energy and consumer growth to outperform, avoiding the commodity-driven cycles of the past.

"There are clear signs that emerging market growth is opening the gap with developed markets once again, but this time led by India, a few countries in southeast Asia and Brazil – but not China," he says.

At the start of 2024, Brewis says he was looking for lower interest rates to be a real driver for emerging markets, particularly countries with high real rates and where inflation was no longer an issue.

"This should still be a positive trend as the Fed begins its rate-cutting cycle," he says. "But the waters have been muddied by a few central banks taking a particularly hawkish stance, such as Indonesia and Brazil."

One key difference in this cycle is that Brewis doesn't expect this heightened growth to result in higher commodity prices.

In fact, he expects the reverse. How, and why, can he make such a claim?

The first reason, he says, is China's vast industrial complex, which built millions of apartments and the infrastructure to go with it, is now operating at a fraction of its capacity. And not surprisingly, venting its excesses on the world – note the pain on the global steel and auto industries, to name but two.

The second factor is the rapid transformation of the energy supply.

Thirdly, is the removal of Covid-induced global monetary excesses by central banks across the world.

It is worth noting, Brewis says, how all the shortages we were worried about a couple years ago – gas, lithium, nickel and wheat, to name a few – have suddenly become significant excesses. "Only the cartelised world of oil is holding up, but there are cracks appearing there as well," he says.

So, who benefits from all this? "Well, without sounding like a broken record, of course, its India. But not just India," Brewis says. "Many other emerging markets are energy importers in sunny parts of the world that are well suited for localised solar power supplied by ever cheaper Chinese goods."

Furthermore, Brewis says, look at how quickly South Africa has turned around a dire power situation just by letting the private sector loose on solar panels. "India, too, will never have to build the coal infrastructure that China did during its development phase," he adds.

This not only benefits countries like India by improving their external accounts but it also helps the consumers as lower food and fuel prices feed into their improved real incomes.

"So potentially, that means growth can continue at a higher rate, and finally, we might see some persistent outperformance from emerging markets," Brewis says.

Brazilian boost

Expectations are also high that Brazil will experience a real economic boost ahead of and into 2027, having won the bid to host the FIFA Women's World Cup that year – a first not only for Brazil, but for South America, too.

"Over the near term, we believe investors should stay attuned to the opportunities in Brazil and may find what we consider an attractive entry point into this large and diverse market," says Dina Ting, head of global index portfolio management at Franklin Templeton.

"The Brazilian market is trading at valuations that we consider favourable," Ting says. "Improved conditions in Brazil's man-

ufacturing sector have been driven by a resurgence in production, stronger job creation and a pick-up in sales growth, according to S&P Global."

Another significant factor in the appeal of Brazil is that since Luiz Inácio Lula da Silva took up his third uninterrupted term as president at the beginning of 2023, he has spent a great deal of time abroad to improve his country's global image.

His efforts seem to be paying off. A survey by think tank Pew Research found that most Brazilian adults are optimistic about their country's status as an international power.

In addition to the G20, Brazil is also set to host other high-profile events such as the UN Climate Change Conference (Cop 30) and the Brics summit of Brazil, Russia, India, China and South Africa in 2025, while also seeking membership of the Organisation for Economic Co-operation and Development (OECD).

In the almost three years since Brazil initiated its formal accession process for OECD membership, the country has achieved many milestones on the road to a power-player goal. "If successful, Brazil would be in a unique position to influence the increasing geopolitical and economic competition between industrialised and developing countries, as it is the only country to be represented in the Brics, the G20 and the OECD simultaneously," Ting says.

In this way, as the eighth largest economy in the world and the largest economy in Latin America, Brazil could well be a strong link in the global discourse on key issues for the Global South, which essentially comprises Africa, Latin America, the Caribbean, Asia excluding Israel, Japan and South Korea, and Oceania outside of Australia and New Zealand.

Risk immunity

Ting, like Brewis, also lists India as having much potential. "India investors are finding the subcontinent – which has already overtaken China as the world's most populous nation – appealing for its relative immunity to global risks, given its domestic-driven economy," Ting says. She cites that its younger labour force has also attracted a market pivot to this prime alternative to China manufacturing.

There are other factors contributing to the positive picture for India. Judging by India's impressive initial public offering (IPO) environment, businesses there are feeling the optimism given the country's 258 IPOs accounted for 30% of the global total by volume at the end of September and 12% by the amount of money raised. Putting this in context, this is in an economy that makes up just over 3% of global GDP.

It is also worth noting that in dollar terms, total returns for Indian stocks have improved by 93% during the past five years, compared with about a 24% rise overall for emerging markets and 5% contraction for China stocks over the same period, according to MSCI. Although one theme keeps returning, that is inevitably an element of uncertainty around the policies of a second Trump term, which are still causing jitters around emerging markets, particularly in Asia, especially given the president-elect's transactional approach to international relations.

And for Ting, China is the one for investors to avoid. The world's second-largest economy seems braced for renewed friction over president-elect Donald Trump's intention to reintroduce tariffs, and investor flows may be following similar tides as those of regional supply chain shifts – that is to say, diversifying from China and toward opportunities in markets such as India and Japan. Adding to the country's economic woes are societal changes like falling birthrates and a rapidly ageing population. Estimates by China's National Health Commission suggest the country's elderly population will exceed 400 million in the 2030s.

And even after China revealed the most aggressive stimulus package it has rolled out since Covid, China's stock markets saw a short-lived rally at the end of September that ultimately fell flat, raising questions about its status going forward. "A lack of detailed measures targeting consumption seems to have disappointed investors and led the bullish sentiment to deflate," Ting says.

All of which raises a big question about whether China will be able to get its investment mojo back.

What is therefore clear is that in 2025 emerging markets are set to have a tumultuous time on many levels. But for investors, it could be a time of opportunities.

There are clear signs that emerging market growth is opening the gap with developed markets once again, but this time led by India, a few countries in southeast Asia and Brazil – but not China.

Rob Brewis, Aubrey Global Emerging Markets fund

THE FINAL COUNTDOWN

$45bn

The increase in debt raised in frontier markets in the first half of 2024 to $3.7trn. Nigeria, Bahrain, Kuwait and Rwanda experienced the highest increases in their debt ratios.

Source: The Institute of International Finance

$1.73trn

The forecast headline global dividend payments in 2024 – 4.2% higher than last year – after a record $431.1bn was returned to investors in Q3.

Source: Janus Henderson

45%

Impact and sustainable mandates are expected to account for nearly half of private market portfolios in the next two years, up from 37% today.

Source: Legal & General

$131.3bn

The amount raised by global private credit funds in the first 10 months of the year, well behind the $215.8bn committed during the whole of 2023.

Source: Preqin

84%

The private equity firms expecting to execute at least five to 10 deals in 2025, up from 12% a year ago.

Source: Deutsche Numis

$9bn

The outflows from Chinese equities in October on regulatory concerns and slowing economic growth.

Source: The Institute of International Finance

151%

The aggregate funding level of defined benefit schemes during October, up from 148.4% a month earlier.

Source: Pension Protection Fund

47%

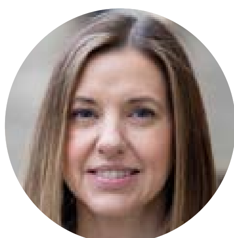
The institutional investors expecting the correlation between public and private markets to decline in the next two years.

Source: PGIM

$171trn

The projected assets under management globally by 2028 – a 5.9% compound annual growth rate.

Source: PwC



Quote of the Month

“We are trying to leave the world in a better place than we found it.”

Rebecca Whelan, Avon Pension Fund

It should actually read: all information, opinions and news relevant to institutional investors.

But that was too long, so we just called it *pi*.

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