PORTFOLIO INSTITUTIONAL FEBRUARY 2025

THE RISE AND RISE OF PRIVATE MARKETS

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THE RISE AND RISE OF PRIVATE MARKETS

This summer, 90s rock giants Oasis are due to play a series of long-awaited reunion gigs. It is more than 15 years since the Gallagher brothers last played on the same stage together and the news created a buzz of excitement among their fans. Indeed, all 17 performances were sold out within hours.

Such enthusiasm is not limited to the music industry. Private markets are all the rage in institutional investment circles, with the value of the market growing by a fifth annually and expected to top $20trn (£16trn) in the next five years.

Rising risk and low returns have sent those with long-term horizons toward assets such as wind farms, warehousing, affordable housing, private equity and direct lending.

The political will to invest in assets directly linked to the economy has been a policy picked up by several governments, while the advent of new products has made access easier as institutional investors move away from risky equities and the disappointing returns generated by corporate bonds.

There are other benefits, such as helping to shift economies onto a path that is better for the environment and upgrading the crumbling, out-of-date infrastructure at the heart of our communities.

To reflect the bullishness for these assets, *portfolio institutional* has launched a bi-monthly section dedicated to private market investing. Our coverage starts on page 20 with an in-depth look at these markets.

It doesn't end there. On March 5, we are hosting our second Private Markets Club Conference, which is now a full-day event where investment insiders will debate the big issues facing investment teams within pension schemes and insurers.

The event once again takes place at The Shangri-La Hotel in The Shard and details of the discussion panels and fireside chats can be found at *portfolio-institutional.co.uk/events/*.

We hope to see you there.

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IN THIS ISSUE

26

Cover story: Private markets

What is really going on in the alternative asset classes?

UNCERTAINTY SURROUNDS NET-ZERO INITIATIVE AFTER BLACKROCK EXIT

Asset manager group launches review as US lawmakers target anti-coal policies. *Mark Dunne* and *Andrew Holt* report.

The fight against climate change has suffered a setback after an influential alliance of asset managers suspended their activities.

The UN-backed Net Zero Asset Managers initiative announced the move after Blackrock decided to quit the group. The threat of legal action in the US is one reason for their withdrawal.

The initiative was formed four years ago to unify like-minded asset managers to help them achieve net-zero greenhouse gas emissions by 2050. This could take the form of sharing best practice or members voting in unison at corporate meetings.

Each member of the initiative, of which there are believed to be more than 300 collectively managing more than $57trn (£45.7trn) of assets, has their own path to achieving net zero by 2050. The decision to suspend their activities means that they are no longer obligated to meet that target.

The initiative has taken this step to allow it to conduct a review of its operations to ensure that it is "fit for purpose".

The politics of coal

Blackrock is not the only asset manager to leave the initiative. Vanguard left in December 2022 and Northern Trust pulled out in January. It also quit Climate Action 100+, another decarbonisation alliance.

The withdrawal trend by big-hitting players from climate change initiatives has also reached the Net Zero Banking Alliance, where JP Morgan, Goldman Sachs, Wells Fargo, Citi, Bank of America and Morgan Stanley have departed since the start of December.

Events seem to have snowballed since November when Texas attorney general Ken Paxton sued Blackrock, State Street and Vanguard for "conspiring to artificially constrict the market for coal through anti-competitive trade practice".

His main concern being that their plans to phase out investments in coal could cause higher energy costs across the US.

The complaint was given extra weight after the attorney generals of 10 other states issued their support for Paxton's move, including his counterparts in Alabama, Missouri and Montana.

Blackrock announced its decision to leave the initiative in January, yet State Street has thus far held firm. It said in statement that it would "evaluate" the findings of the review.

This comes at a time when movements like the Net Zero Asset Managers initiative are needed more than ever with average temperatures continuing to rise, wildfires raging and countless lives lost to flooding. Yet most financial institutions are failing to turn boardroom strategies into tangible outcomes, according to the World Benchmarking Alliance.

Its research, centring on banks, pension funds, asset managers and insurers who collectively manage around $200trn (£160trn), found that private finance is "barely moving the dial" on mitigating the financial risks of climate change.

Indeed, only 3% of financial institutions have a transition plan, less than 5% do not invest in new fossil fuel projects and only 6% have targets to scale their financing of climate solutions.

Drill, baby, drill

The Net Zero Asset Managers initiative's decision has, of course, caused concern among those who understand the influence institutional investors have in switching the global economy from extractive to regenerative sources of energy.

One such voice is that of responsible investment campaigner Share Action. "Climate risk is financial risk," director of policy Lewis Johnston said in a statement. "Any approach to responsible investment must address the ongoing climate crisis."

He then added that the initiative is important in helping investors address climate change. "Collaboration is critical for addressing this global challenge, and whilst voluntary initiatives have limitations, they can play an important role in sharing best practice and encouraging commitments," he said. "The announcement that the Net Zero Asset Managers initiative is suspending operations is a backwards step."

Johnston then called for regulators to step in and set "ambitious policies to raise standards and ensure that the financial sector is playing its part in driving the transition to net-zero economies that the world needs".

Patrick McCully, senior analyst at Reclaim Finance, which campaigns to put finance to good use for the climate, was more scathing. "The symbolism of Wall Street's largest investor telling corporate boards and management that they had to address climate change was important, and the symbolism is also important of them now saying let's just forget all that stuff and bend the knee to the climate denialists about to move into the White House," he said.

It does seem that Donald Trump's presidential return looks set to halt the drive towards net-zero initiatives in the US.

The new commander-in-chief wasted little time in reversing Joe Biden's offshore oil and gas drilling ban in his first 24 hours as president. More importantly, he started the process of removing the US from the Paris Agreement – the key global treaty addressing climate change.

Given the suspension of its activities, there is now a big question mark over whether the Net Zero Asset Managers initiative will be able to continue its work. In its statement, the initiative had no doubt, saying it "looks forward to continuing to play this constructive role with investors around the world".

THE END OF US EXCEPTIONALISM?

The perception of the US could change this year, having big implications for investors. *Andrew Holt* reports.

Despite the market optimism surrounding the election of Donald Trump as president, 2025 could be the year US exceptionalism breaks, led by bear steepening in US treasury markets, according to BNY.

In its iFlow data, BNY noted that including its 'Mood index' data on equities, shorts, bond duration and cross-border flows, all point to a significant risk of reversals in the US dollar, US bond duration and US equities this year.

The is a huge reversal on 2024 and against the grain of the current US investor outlook consensus.

"US exceptionalism is at risk of ending, driven by bear steepening in US treasury markets. This dynamic reflects structural shifts in fixed income markets, fiscal policy pressures, and reduced cross-border demand for US debt," BNY said.

Putting this in context, unlike the 1980s, when higher rates attracted cross-border buyers, the current US debt supply increases yield pressures without equivalent demand.

The revealing part is the positive correlation of bond and equity flows which reached a three-year high of more than 0.80% – which in the past has usually been followed by economic and market volatility.

"Correlations between stocks and bonds in a world with US 10-year bonds yielding 5% led by curve steepening and pauses by the Federal Reserve and the moderating impact of a 5% rise in the S&P 500 could serve as a 'speed bump'," BNY said.

This reflects the volatile split between share value and growth as investors are forced to rethink, especially on the magnificent seven set of stocks, the report added.

Market decline

In a worst-case scenario in the year ahead, BNY observes a decline by the S&P 500 of 10% to 20%, an end to US exceptionalism, US rates jumping higher on concerns about fiscal policy and doubts about US debt.

On this outlook, the US will likely be most aggressive with its tariff policy against China and possibly Mexico and Europe, with trade tariffs slowing global growth and boosting inflation.

BNY therefore said that the markets this year are expected to be more volatile than in 2024 and likely to provide less return for the risks, particularly in equities in the US, which is a solidly contrarian point.

"The US exceptionalism trade and the Trump tariff policy mix look incompatible," the iFlows report said, so something has got to give.

The US 2 to 10-year curve has steepened from -30 basis points to +30, and historical trends suggest further steepening toward 75 basis points, signalling potential turbulence for US bonds.

Equity correction

When it comes to US equities, BNY said that they are overvalued relative to global peers and face a "high risk of correction" as portfolio rebalancing and stretched valuations put pressure on continued outperformance. "US equity holdings are above long-term averages, with a strong likelihood of rebalancing in 2025 as investors diversify," according to the iFlow study.

US equities account for 70% of global market capitalisation but only 27% of global GDP in 2024, underscoring their over-representation.

When it comes to the US dollar, it is now at a record high in real terms. Due to favorable inflation differentials and gains, the dollar ended 2024 more than 4% above its 2001 peak.

The effect of a stronger dollar on US imports, inflation and foreign revenues of US companies isn't fully reflected in exchange rates, but that should change in 2025, BNY said.

As 29% of S&P 500 earnings are international and 60% are in currencies other than the US dollar, which could weaken on the selling of US equities, BNY added.

Potential shift

In contrast, Europe and Asia-Pacific (APAC) equity holdings remain "below their five-year averages", highlighting potential for a shift in allocation away from US markets toward undervalued regions.

Short positioning in Europe and Asia is at Q4 2024 highs, indicating room for reversals, while iFlow Mood data shows improving sentiment for APAC and EU equities.

US short-term bill purchases also point to a cautious rotation out of risk assets. Therefore, Europe is well-positioned to outperform, with equities leading the recovery and foreign exchange gains likely to follow.

The Stoxx 600 – made up of companies across Europe – forward price earnings ratio at 12.24 for 2026 is the lowest in 15 years, signalling deep under-valuation. European equities offer a dividend yield nearing 4%, compared to 1.4% for the S&P 500, enhancing their relative attractiveness.

Additionally, extreme euro short positioning and a weak currency provide a foundation for foreign exchange gains as sentiment improves, according to the iFlows report.

When it comes to China it is entering a 'three arrows' moment, marked by the convergence of fiscal, monetary and structural policy efforts to stabilise its economy, BNY said.

"This shift is poised to drive significant opportunities in fixed income, equities, and diversification flows across the APAC region," the study said.

PEOPLE MOVES

This month's round up of the movers and shakers among the UK's institutional investors starts at the £35bn **BT Pension Scheme**, where **Steven Dickson** has become a trustee director.

He was selected for the role by BT's trade unions and replaces the retiring Ben Marshall.

Elsewhere, **People's Partnership**, provider of The People's Pension, has strengthened its investment team with the appointment of **Phil Butler** as deputy chief investment officer.

Previously a multi-asset portfolio manager at M&G, Butler now oversees the investment operations in the £31bn master trust's City office.

The People's Pension is also looking for a specialist to help grow its private markets exposure to £4bn by 2030.

LGPS Central has named **Jayne Atkinson** as its next chief investment officer.

Atkinson, who was formerly head of investment at Unilever's UK pension scheme, joins the pool in the spring when she will oversee almost £30bn of assets.

An actuary by training, she was an investment adviser to blue-chip companies and trustee boards before sitting on the investment committee of the Medical Research Council's pension fund.

The pool has also welcomed **Louis-Paul Hill** as its investment fund oversight and strategy manager (see page 12).

London CIV has named a former head of investment at Tesco's pension scheme as its new chief investment officer.

Jenny Buck takes over in March after 14 years at Tesco, in which time she helped grow the scheme's assets to £25bn.

London CIV has also hired **Tim Jabulani Mpofu** to lead its partner fund solutions. He has a track record at the local government pension schemes of Haringey, Westminster and Ealing.

Finally, the **London Pensions Fund Authority** (LPFA), which manages £8bn for 100,000 members, has named **Jo Donnelly** as its incoming chief executive.

Donnelly joins from the Local Government Association (LGA) in April, where she has been head of pensions for almost three years.

After starting her career at the Home Office in 2002, she has since held pensions policy roles at the treasury and the department of health and social care.

LPFA chair John Preston described the pensions market as "complex and ever-changing" and was impressed by how efficiently Donnelly represented the views of local authorities to government while she was at the LGA.

CALENDAR

Topics for upcoming *portfolio institutional* events*

05 March 2025
Private Markets Club Conference

15 May 2025
portfolio institutional Awards

01 October 2025
ESG Club Conference

*Subject to change

NOTICEBOARD

Our look at the latest deals starts with a scheme working to reduce the 200,000-strong waiting list for social housing in the Northwest.

The Greater Manchester Pension Fund is to build affordable homes across the Northwest after investing £100m in a new regional fund managed by **Legal & General** (see page 21 for more details).

The scheme has also invested in a national housing fund through its pool, Northern LGPS. It invested an undisclosed sum as part of the £375m raised, which is managed by **Heim**, a residential property-focused Norwegian investment manager.

In what has been a bumper period for defined benefit scheme de-risking, the UK pension scheme sponsored by a global food services group negotiating a £1.5bn buy-in with **Standard Life**.

The deal secures the benefits of more than 25,000 members of the **Compass Group Pension Plan**.

The £1bn **Merchant Navy Ratings Pension Fund** has bought some longevity insurance from **MetLife** covering £450m of its liabilities. The deal protects the scheme against the cost of members, or their dependents, living longer than expected.

MetLife has also taken the longevity risk of 1,100 members of British Airways' pension scheme in a £340m deal.

The insurance policy is between the **Airways Pension Scheme** and **Zurich UK** but is structured to include reinsurance from MetLife, which therefore assumes all of the deal's risk.

The workers of shoe-shop chain **Clarks** have had their pensions secured following a second and final buy-in. The £540m deal for the **C&J Clark Pension Fund** by **Pension Investment Corporation** (PIC) follows on from a £280m agreement between the two in 2022.

PIC has also de-risked the **Hays Pension Scheme** in a £370m buy-in. The deal covers more than 4,000 members, meaning that all of the scheme's liabilities are fully insured. The sponsor, recruitment specialist Hays, invested £13m in the deal.

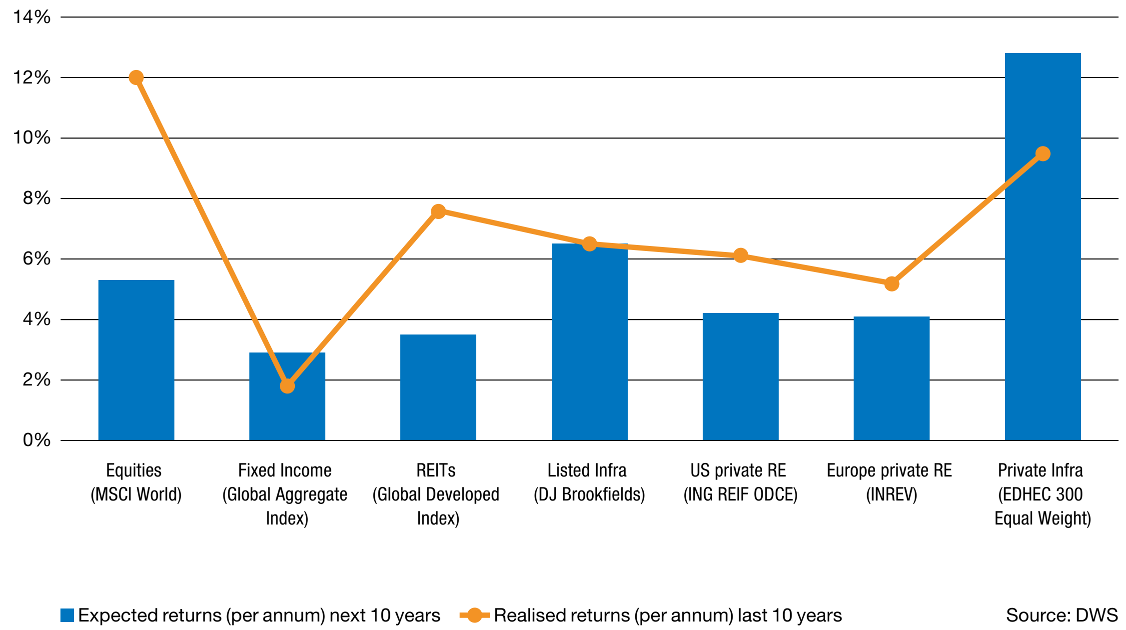
PIC has also insured the benefits of 103 barristers following a £20m buy-in with the **Bar Council**'s pension fund.

Trustee chair Pavan Bhardwaj said the deal removes uncertainty for the scheme and increases security for its members.

This was the first deal completed within Mosaic, PIC's streamlined service for schemes with less than £100m in assets.

Finally, **Royal London** entered the bulk annuity market in 2024 and wasted little time in completing a £102m full scheme buy-in of the **Tennants Consolidated Pension Scheme**.

THE BIG PICTURE: EUROPE'S INFRASTRUCTURE SET TO GENERATE ENVIABLE RETURNS



The transformation of the energy system and rising digitalisation could see the asset class shine in the coming decade. *Mark Dunne* reports.

Private infrastructure assets in Europe are set to generate portfolio-leading returns during the next decade, one asset manager believes.

In a sign of how strong the megatrends driving the industry are, such assets could eclipse the performance of equities by producing returns north of 10% in each year until 2034, according to DWS (see chart above).

Equities were the best performing asset class in the past decade, but given that we are now in a higher interest-rate environment it looks set to pass its crown to European infrastructure.

Indeed, the returns offered by equities are projected to shrink by more than half to 5.3% from the 12% recorded since 2014.

The 12.8% DWS' long-term capital market assumptions framework estimates that private infrastructure will generate in Europe during the next decade is almost 35% greater than the 9.5% such assets returned in the previous 10 years.

It's not just the private side of the sector that could produce an impressive performance. Listed infrastructure is close behind, projected to return 6.5%, the same as it has since 2014.

Such growth will not simply be driven by strong fundamentals alone. Economies are changing and infrastructure is not only crucial to keeping countries competitive by running smoothly, but they are on the front line of enabling digitalisation.

This will drive greater need for energy given the forecast increase in artificial intelligence adoption and demand for data. Serving rising populations across Western Europe is another reason to generate more power.

And where that energy comes from provides another opportunity for institutional investors. To decarbonise the economy by 2050, more cleaner sources of power need to be perfected, built and be operational if governments' net-zero targets are to be achieved.

But it's not just about the financial gains. The asset class can benefit portfolios in other ways. One being that if, as expected, inflation returns on the back of increasing de-globalisation and President Trump's proposed import tariffs. In such circumstances, infrastructure could offer protection.

Nick Smith is managing director of private credit at the Alternative Credit Council.

THERE IS MORE THAN ONE PRIVATE CREDIT MARKET

The Alternative Credit Council's latest Financing the Economy research found that the sector has reached another significant milestone with assets under management (AUM) surpassing $3trn (£2.4trn) globally. This achievement underscores the sector's expanding role in global finance. Indeed, our research indicates that private credit funds deployed $333.4bn (£2.7bn) of fresh capital in 2023 alone. To put that number into context, it's just under the total private credit AUM little more than 10 years ago.

Such significant growth continues to attract interest and scrutiny in equal measures. What our research finds is that the story behind these headline growth numbers is primarily one of diversification, and that it is no longer appropriate to talk about a single private credit market.

This is immediately apparent when we look at the breakdown of AUM by strategy. Our data indicates that corporate lending – a strategy once synonymous with private credit – now accounts for around 60% of the sector's AUM. The remaining 40% is comprised of asset-backed lending, real estate and infrastructure debt strategies – each of which offer investors a different type of return profile while still satisfying the core demand for credit assets which offer diversification and yield.

Even within corporate lending there are increasingly important differences between different segments of the market when it comes to key considerations such as origination, loan documentation and deployment volumes.

Another way to illustrate this trend is to look at where assets are being invested. Private credit managers remain optimistic about global growth opportunities, with most expecting to increase their investments in the coming years. This sentiment captures the core US market, despite this being commonly cast as a crowded space, with managers investing heavily in new origination capacity and increasingly formalising partnerships with the banking sector.

The growth of private credit in Europe is particularly remarkable. The sector now accounts for around 30% of global AUM despite most continental jurisdictions having effective banking monopolies on lending only 10 years ago. A decade of lending in the region means that European borrowers are more familiar with private credit and how it can support their business. Policymakers have also put in place rules that will provide lenders with a stable framework on which to expand their European footprint.

Beyond these two core markets we see continued interest in other jurisdictions – with the Asia-Pacific region seen as the next frontier.

A further area where we find important differences between segments of the market is inflation and the higher interest rate environment. Our research shows that the proportion of significant loan term adjustments, a proxy for stress, are up from an average of 8.07% in 2023 to 11.65% in 2024.

We see a similar pattern when it comes to borrower leverage levels (up) and downward adjustments to valuations reported to investors. However, our data suggests there is likely to be material levels of dispersion around the industry averages.

Encouragingly, transparency to investors is an area of the market where we see more convergence, meaning that investors are increasingly getting more data more frequently and in a way that supports their ability to compare and assess how firms are managing stress.

What these findings highlight is that the private credit market has become deeper and broader as it has grown. Corporate lending is no longer the sole engine of growth, with asset-based lending, real estate and infrastructure debt strategies now significant parts of the market.

Similarly, the sector is now less reliant on the US market when it comes to deployment. Investors therefore have more choice than ever on how to gain exposure to private credit assets, but there are material differences within these markets and the risks they present.

Existing and first-time investors in private credit need to bear this in mind when determining which markets are right for them.

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THE GREAT EUROPEAN HOUSING CHALLENGE

Europe stands at a critical crossroads in its housing crisis, with an unprecedented opportunity for institutional investors to generate sustainable returns, while addressing one of the continent's most pressing socio-economic challenges.

Our research revealed that a staggering €11.8trn (£9.8trn) of investment will be required in the next decade if we are to successfully address Europe's chronic undersupply of appropriate housing. Clearly, this demands a significant, industry-wide rethink about how to close the growing gap in fit-for-purpose housing supply.

A more holistic, multi-decade approach

The traditional approach to housing development in Europe is constrained by short-term political cycles. While government policy typically spans between four to five years, housing strategies require a sustained commitment over decades, which is frequently being disrupted by changes in leadership and regulation.

Addressing Europe's housing shortage therefore requires a complete paradigm shift toward a multi-decade housing strategy that aligns public and private stakeholders over a long-term horizon.

Alongside this, the almost €12trn (£10trn) funding gap is also far beyond the financial capacity of public authorities, making the case for harnessing institutional capital stronger than ever.

The opportunity for pension funds

As managers of patient capital, financial institutions, such as pension funds and insurance companies, are uniquely placed to take a multi-decade position that aligns closely with public and stakeholder objectives and the long-term nature of housing development and management.

There is also a natural symbiosis between the objectives of institutional investors and public-policy goals. While pension funds and investment managers seek stable, inflation-hedged returns, governments aim to ensure sustainable, fit-for-purpose housing supply for their people. This alignment demonstrates exactly how public and private partnerships could mutually benefit from a joint commitment to accelerate Europe's housing delivery.

Similarly, the European residential sector offers a strong market opportunity, due to the robust demand driven by urbanisation and population growth. In fact, the sheer scale of the €12trn funding gap also suggests significant potential for portfolio diversification and the development of new investment products.

The growing market opportunity for European residential came through clearly in INREV's Investment Intentions Survey (2025). This revealed strong appetite from investors – with the sector remaining in the top position for the second year running and favoured by 89% of investors. This is, in part, due to the vast benefits the sector offers, such as predictable and stable income flows, even during muted economic growth and downturns.

Creating a new framework

By participating in large-scale housing solutions, investment managers can demonstrate their industry's capacity to deliver social value and financial performance, which is increasingly important for their stakeholders and beneficiaries.

However, closing the gap in Europe's housing supply will require more than just capital from financial institutions. A sophisticated approach from public and private stakeholders will be required – combining institutional investment capacity with reworked policy frameworks.

This could include direct financial levers such as preferential funding rates or tax incentives, alongside non-financial measures such as streamlined planning processes and land availability programmes.

Ultimately, the key will be creating an environment where capital can flow toward housing development, while maintaining appropriate risk-adjusted returns.

The housing crisis is no longer just a policy issue, it's an invitation for institutional investors to demonstrate how patient capital can drive social progress and sustainable returns. As we consider each stakeholders' role in shaping Europe's housing landscape, the question isn't whether institutional investors should participate, but how they can deploy their capital and expertise to capture the opportunity for financial returns while delivering meaningful social impact.

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INTERVIEW – LOUIS-PAUL HILL

"My role will evolve, but exactly how that happens, we will see."

The new investment fund oversight and strategy manager tells *Andrew Holt* about his first few weeks in the role, his ambitions for the pool and why there are no stupid questions.


LGPS Central

You joined in January. What does your role at LGPS Central entail?

The investment oversight element, what I call the day job, is working with LGPS Central's investment and client teams to ensure the portfolios they are running, and their reporting, meet the objectives of our partner funds. That is the main focus.

Then there is the government consultation, *Fit for the Future*. I have a background in consulting with the LGPS and a background in the private sector, including fiduciary management. So I expect to be involved in working with our partner funds in thinking about how the pooling model might evolve. So looking at the potential for greater delegation and the potential to advise partner funds.

My role, given the government consultation, is likely to evolve.

So in establishing the role there is some pragmatism built in so you can adapt to changes the consultation may present?

Exactly. The pool needs to think about its role in the future. There is definitely a need to do the investment oversight but given my experience, I am keen to help where I can in terms of how it will evolve.

So you will need to box lightly on your feet, dodging and weaving?

The organisation is set up to do that anyway. Everyone is pulling in the same direction. That means not standing still.

Why did you take up the role?

It is an interesting role. There is a big dynamic part to it, which I like doing.

There are good people at LGPS Central and working with good, smart people is satisfying. There is also the chance to have a positive impact on the organisation and our partner funds.

I have always tried to have a positive impact in terms of investment outcomes. Compared to the consulting world, all my work now is focused on that positive impact for investor outcomes. I have no focus on revenue growth, which in the consulting world is an important part of the job. It is nice to focus solely on the investment outcomes.

> **Costs are important, but getting the best investment outcome is something that we should be focused on.**

Do you have any particular ambitions in this role?

Personally, I am not looking too far ahead. But after three years, five years or 10 years, if I can look back and say: "I have had a positive impact and helped the partner funds achieve the investment goals that they were looking to achieve" – I would be happy on a job well done.

I know it is early days, but what has been your biggest challenge?

Before I started this role, I was a little worried about coming in with this oversight role and that people might be defensive. But, so far, everyone has been open, and open to a challenge and open to change.

During the interview process, LGPS Central talked to me about their values, and one of them was: "to be curious enough to challenge and strong enough to change". I liked that attitude. From what I have seen, people in the organisation do live up to that.

You have a strong investment background. What was your view of LGPS Central from the outside?

I knew LGPS Central reasonably well, through advising one of their partner funds. I have had many meetings with people at LGPS Central and advised others who worked with other pools, so I am familiar with them and with pooling.

I had a pretty positive view. LGPS Central is authorised by the Financial Conduct Authority. Working on the other side, I could see that they are focused on listening to partner funds. More recently, there have been strong appointments in senior roles, so I could see that LGPS Central are in a good place.

What do you make of LGPS pooling as a principle?

This has been a long-term evolving process. At the start, I was a little uncomfortable with the appearance of a focus on costs and it being an exercise in getting costs as low as possible.

As you get larger pools of assets, costs do come down. But I am a little wary of that being the key driver. Where we are getting to, and I am a lot more comfortable, the key driver is about the best investment outcome. Costs are important, but getting the best investment outcome is something that we should be focused on. And we are getting there.

Has there then been some push back from LGPS Central via the consultation on these themes?

This consultation hasn't had a big focus on costs. The evolution away from that has happened. The focus is now on investment outcomes.

What is your view of what the government wants to do with the LGPS in terms of potentially creating superfunds and the drive to invest more in private companies and the UK's infrastructure?

The drive to invest in private markets and infrastructure is not a government initiative, as such. There is a long-term trend for the LGPS to invest more in private markets – and infrastructure is one of the main ones.

The reasons for that are obvious: these assets are a good match for the LGPS, as it can take a long-term investment perspective. Therefore, that illiquidity premium from private markets, the LGPS can take advantage of that. They are also a good match for the LGPS in terms of inflation-linked, cashflow-matching liabilities.

In terms of *Fit for the Future*, there is a link to the private markets and infrastructure with the government trying to encourage investments in UK specific private markets. I understand that.

Where I would come from, working with partner funds, is the need to focus on fiduciary duty, meaning the investments need to have the right risk-return profile.

What about the superfunds?

To me, coming from a private sector background, it is a natural evolution and a progression of what we are doing now. Although I couldn't comment on what makes a superfund.

I have no focus on revenue growth, which in the consulting world is an important part of the job. It is nice to focus solely on the investment outcomes.

But I hear from many pension funds that some infrastructure investments don't fit with their objectives.

I am supportive, like most in the LGPS, of having the fiduciary duty and doing the right thing from an investment risk and return perspective. There are opportunities in the UK that deliver that. So it doesn't massively concern me, but that fiduciary duty has to be a priority.

How will these ambitions shape your role?

I need to be flexible. I need to work with partner funds to ensure the existing model that the funds they are investing in are going to achieve the investment outcomes. In the future, my role will evolve, but exactly how that happens, we will see. I expect to be involved in the discussions about building out capabilities [of the pools] in, for example, the provision of advice.

Have you made it your job to meet the partner funds? If so, what have they been telling you?

I have been on quite a few calls with the partner funds. As a former consultant, I believe in that collaborative, consultative approach with clients, and in this case partner funds. That is how LGPS Central acts. And that fits well with me.

There are, from what I have heard, a mixture of views and approaches from the partner funds. What I have been impressed with is LGPS Central clearly has the ability to listen and to do what it can to meet those different objectives and approaches.

It is early days, but have you made any changes to the LGPS' investment approach – or do you have any plans to do so?

It is early days. I have been in the listening phase, if you like. Listening to people inside Central LGPS and our partner funds. I am very much still in that listening phase.

LOUIS-PAUL HILL'S CV

January 2025 – present
Investment fund oversight & strategy manager
LGPS Central

October 2024 – present
Independent investment adviser
Cumbria Pension Fund

March 2010 – July 2024
Investment consultant – Associate partner
Aon

January 2001 – March 2010
Manager of relationship management team
State Street

What strategy changes do you plan for LGPS Central?

It is the same principle. I am currently in the understanding situation and then in due course I will get on to it.

Did you have any input in the government consultation or was it done and dusted by the time you arrived?

I have had input here and there. I have had lots of conversations with people that were pulling together the response.

What are your plans as part of the consultation?

We are looking at the options and how we can deliver for our partner funds.

What has been the biggest lesson that you have learnt during your career?

I like investing and speaking to investment experts. I am also used to speaking to clients and being seen as the investment expert, and my reflection in my conversations is there are no stupid questions.

You should always keep asking questions. So that on-going dialogue and questioning part is so important.


DICTUM MEUM PACTUM
LSE

UK EQUITIES: WHO WILL BUY?

Once the cornerstone of British pension schemes, domestic equities are now a scarcity in institutional portfolios. Can the trend be reversed? *Chris Newlands* reports.

There are a host of items that were relied upon heavily 25 years ago that are almost obsolete today. A quick list might include pay phones, dial-up internet and CDs.

Closer to investment markets, however, and one activity that has almost died a death since the start of the century is the reliance of UK pension funds on their home equity markets.

Although it is a stretch too far to say the undertaking has become obsolete, data shows that British pension funds have gone from investing more than 50% of their assets in UK equities in 2000 to a little over 4% today.

The slide has been as sharp as it has been alarming, with the UK chancellor Rachel Reeves making it one of her priorities to get UK pension schemes to buy British stocks once again. Since Labour came to power last year, she has made a review of the pensions industry a cornerstone of her plans to boost the economy and lift investment in British assets.

But there are those who are surprised that as many UK pension funds invest in British stocks as they do. The sense is the 4% figure could in fact be much lower.

One pension fund manager, who was only happy to talk off the record because the issue was "too emotive and political", said the situation could be far worse.

"We are not incentivised to invest in stocks, let alone UK stocks, and even where we do want to invest in equities there are much better returns overseas than domestically," he told *portfolio institutional*.

"People make too much of this topic and, in my opinion, if the government did intervene it would be a big mistake."

Stronger together

In fairness to Reeves, she has held back from forcing pension funds to invest at home, with the bulk of her reforms centred around merging the UK's 86 council pension schemes, which manage assets of between £300m and £30bn, into a handful of pension "megafunds".

The idea is that the cost savings created by streamlining the system would result in more money being available for domestic allocations.

These megafunds mirror set-ups in Australia and Canada, where pension funds take advantage of size to invest in assets that have higher growth potential, which the treasury says could deliver around £80bn of investment.

"We're going for growth," Reeves said in a statement. "We can use our economies of scale and expertise to invest in the UK. It doesn't solve all the issues, but it is very much a step in the right direction."

The bright lights of Wall Street

Where the pension fund manager does have more of a point is in relation to the performance of the FTSE 100, which has been unremarkable during the past couple of years. While the US' S&P 500 posted back-to-back returns of more than 20% in 2023 and 2024, the UK's main index notched up just 3.8% and 5.8%, respectively.

The absence of the tech giants, such as Nvidia, Palantir and Facebook-owner Meta, has been crushing for the FTSE 100. Just look at Nvidia, one of the dominant suppliers of AI hardware and software globally. Its share price rose 130% in 2024, following an eye watering 240% rise a year earlier.

Susannah Streeter, the head of money and markets at broker Hargreaves Lansdown, described the FTSE 100's recent gains as "paltry".

She said: "Britain's blue-chip index still appears unloved with attention grabbed by the bright lights of Wall Street and the tech-heavy makeup of New York's exchanges, with a frenzy for all things AI fuelling buying behaviour.

"Even though the Brexit hangover has eased, the UK's stagnating economy appears to be putting off investors."

Robin Powell, a campaigner for what he calls positive change in global investing, and author of the blog, *The Evidence-Based Investor*, adds: "Of course UK equities are worth investing in, but so are stocks in every other market around the world.

"We must be realistic," he adds. "We aren't the global economic powerhouse we were at the start of the 20th century. The UK now accounts for only around 3% of global GDP. So, from a purely financial point of view, I don't see a case for pension funds allocating more than 5% of their equity exposure to the UK. Yes, valuations are low in historical terms but that doesn't necessarily make this a buying opportunity."

Thomas Moore, senior investment director of Abrdn's equity income fund, recognises this argument but, unlike Powell, he is hopeful the low valuations in the UK could play a part in fixing the problem and ultimately tempting pension funds back into British stocks.

"After a long period of political uncertainty, the political backdrop finally appears more stable in the UK than elsewhere in Europe, as reflected in the strength of sterling against the euro," he says.

"Household cashflows are in good shape, although consumer confidence remains weak, resulting in a tendency to save rather than spend. Investors are waiting for signs of a pick-up in economic activity before allocating to domestic stocks. When animal spirits return, the impact on domestic stocks could be pronounced."

When animal spirits return, the impact on domestic stocks could be pronounced.

Thomas Moore, Abrdn

Final destination

But the lack of interest in UK stocks is not just down to performance problems. Experts point out that a prolonged shift away from all equities, not just UK stocks, has been driven by several regulatory changes and de-risking among defined benefit (DB) pension schemes, which has forced them into bonds. This liking for fixed income, they say, has been heightened by a focus on stability and liability matching, especially as DB schemes matured and started to wind down.

"Yes, UK equities have been ditched by British pension funds but only as part of a wholesale move away from all equities into bonds as schemes have matured due to aging demographics," says Amin Rajan, chief executive of Create Research, an asset management consultancy. He points out that in 1955 British citizens on average lived until they were 70 years old, whereas now they can expect to live beyond 80.

"Under prevailing regulations, schemes have been enjoined to de-risk as their portfolios have increasingly turned cashflow negative. More money is going out as pension payments than coming in as investment income or member contributions," he says.

Rajan adds that, according to data collected by his company's annual pension surveys, 70% of UK pension assets went into all equities – UK and global – in 2003. Today, that is down to around 15%. Over the same period, allocations to bonds have jumped from 36% to 55%. Indeed, most notably the huge Boots Pension Scheme sold all of its equities in 2001 to invest entirely in bonds.

Rajan continues: "The implied de-risking has been inevitable as schemes mature, close the doors to new members and freeze accruals to existing ones. This is a structural trend that no rip-roaring equity market can reverse.

"Higher and sustained economic growth can help entice a few schemes back into UK equities. But the majority will be obliged to stick to the de-risking endgame, either via insurance buy-outs or self-sufficiency."

UK smaller companies are facing an almost existential threat.

William Wright, New Financial

Axe the tax

So what is the solution? Some say the government should ideally double the minimum payment thresholds into defined contribution pensions, while others would like to see the Mansion House Compact – in which major pension providers pledged to increase allocations to private markets, including private equity and venture capital – extended to UK equities. A few more believe stamp duty on UK shares should be scrapped.

Regarding the latter point, there is a fear that the government is taxing the UK stock exchange out of existence and that any reforms to get pension funds investing with greater zeal into British shares should begin with the removal of the 0.5% tax, which is 2.5 times higher than countries in the European Union charge. In New York, meanwhile, where share prices are comparatively flying, there is no tax at all.

Indeed, the London Stock Exchange saw 88 companies de-list or transfer their primary listing from the main market last year – the most since 2009, according to data from EY. Takeaway giant Just Eat, Paddy Power-owner Flutter, travel group Tui and equipment rental firm Ashtead were among those to announce plans to scrap their main UK listing.

At the end of last year, Abrdn called for an immediate stamp duty cut on FTSE 250 shares in particular on the back of evidence that, during the past 20 years, the number of smaller listed companies with a market capitalisation of less than £1bn has fallen by nearly a third – translating into a net loss of almost 600 companies.

The reluctance to invest in UK stocks was causing a "crisis" for small cap firms, it stated.

Sir Douglas Flint, Abrdn's chairman, said at the time: "Smaller listed companies are an integral part of the UK economy. They drive innovation and generate wealth and jobs across almost every corner of the country.

"Given that the government is serious about boosting UK growth…they cannot afford to ignore UK small caps."

William Wright, founder of think tank New Financial, which provided the numbers showing the slump in pension fund investment in British stocks to around 4% during the past 25 years, is equally fearful.

"UK smaller companies are facing an almost existential threat," he says. "There are many factors behind the decline but the collapse in demand from UK pension funds – which have increasingly switched to globalised portfolios – has been the main driver."

Who's the boss?

That Reeves wants to address the problem is no surprise. She is not the first chancellor to try and do so and will not be last. The fact remains, however, that pension fund trustees are the servants of scheme members – not the government – and that ultimately their fiduciary duty to their clients will decide what they do next.

Powell says: "Pension fund trustees should do their job while ministers and politicians do theirs. Trustees have a responsibility to scheme members and no one else. All their decisions should be made in the best interests of those members.

"And generally speaking, members' interests are best served by global diversification and by avoiding the risk of being too heavily concentrated in any particular sector or country, and that includes the UK."

pi

FEBRUARY 2025

PRIVATE MARKETS CLUB

Welcome to portfolio institutional's first dedicated private markets section. To kick-off our bio-monthly coverage, we analyse the various alternative asset classes to discover if the investment case measures up and look at how institutional investors are managing the illiquidity.

THREE PENSION FUNDS, A CHARITY AND A SHORTAGE OF AFFORDABLE HOUSING

The LGPS leads the charge on cutting social housing waiting lists. *Andrew Holt* reports.

As an indication of ESG investing in action, the Local Government Pension Scheme (LGPS) has been busy investing in a number of affordable housing projects.

The largest LGPS fund – Greater Manchester – has invested £100m into an investment fund developed and managed by Legal & General (L&G) to deliver affordable homes across the Northwest of England.

This new regional vehicle is a structured extension to L&G's Affordable Housing fund, launched in July to develop high-quality, sustainable affordable housing nationally.

It is tailored specifically for the Northern LGPS, of which Greater Manchester is a member, to allow them to deploy capital into affordable housing development specifically in the area.

Councillor Eleanor Wills, chair of the Greater Manchester Pension Fund, said: "We are proud to continue our longstanding partnership with Legal & General to launch a specific vehicle for Northern LGPS that supports the government's plan to provide much-needed affordable homes for hardworking families while ensuring strong, low-risk returns to secure the pensions of our members."

This is part of institutional investment from pension capital playing an increasingly important role in unlocking more homes across the UK, with the sector offering secure inflation-linked returns alongside positive social impact within local communities.

The fund has a strong identified pipeline of new homes which will be developed and operated by Legal & General Affordable Homes, with £1bn invested in affordable housing and more than 8,000 homes in operation or development to date.

The second scheme, the Gloucestershire Pension Fund, has invested £30m in social impact property fund manager Resonance's National Homelessness Property Fund 2.

A £20m slice of this will be invested into buying and refurbishing around 90 properties in Gloucestershire to reduce the number of households in unsuitable temporary accommodation.

Attracting capital

Resonance said that the homelessness property funds model operates by attracting capital from institutional investors, such as pension funds, to acquire properties, refurbish them to a high standard, improve their energy efficiency and lease them to housing partners, such as homelessness charities and housing associations.

For this project, social inclusion charity Developing Health and Independence (DHI) will lease the properties from the fund.

DHI will provide tenants with healthcare support, wellbeing and in finding employment and training opportunities.

Chris Cullen, head of homelessness property funds at Resonance, said he is grateful for Gloucestershire Pension Fund's place-based investment into the fund. Adding that this "illustrates the difference that local government pension funds can make to the area in which their members live".

Thirdly, London CIV, the LGPS pool that serves all London boroughs and the City of London, has teamed up with The Church of England to make a combined £104m "anchor" commitment into Man Group's Community Housing Fund 3.

The initial capital investment in the shortened and trendily named Man CoHo 3, is to enable more than 350 energy efficient, affordable family homes to be built in areas of constrained affordability across the UK.

It is the first step towards an initial capital raise of £300m, funding the delivery of 1,000 homes during the next few years.

This latest investment in affordable housing is the fifth since the LCIV UK Housing Fund was launched in March 2023.

The LCIV UK Housing Fund was launched by London CIV to enable its 32 partner funds to invest in affordable housing, which can reap benefits such as income that typically tracks inflation, high occupancy, low void rates and low correlation compared to other real estate sectors.

Christopher Osborne, head of real estate at London CIV, said: "We look forward to Man CoHo 3 driving returns for our underlying partner funds and through its impact framework accelerating the delivery of much needed new and quality affordable homes in the UK."

In addition, The Church of England's Social Impact Investment programme, managed by the Archbishops' Council, was established in 2020 to respond to the growing need for investment-based models to tackle social challenges in England, including the housing crisis and the need for a just energy transition towards net zero.

These moves by institutional investors come as many councils grapple with mounting financial pressures, with £2.29bn spent last year on providing emergency temporary accommodation to homeless households, an increase of 29% from the previous 12 months, according to homeless charity Crisis.

INTERVIEW – VANESSA SHIA

"Private markets offer so much."

The head of private markets at London CIV talks to *Andrew Holt* about the attraction of alternative assets, gearing investment plans to client needs, the ESG backlash and the importance of believing in yourself.

How do private markets fit into London CIV's investment portfolio?

Our committed assets in private markets stand at about £3.5bn. That is within an asset pool of £33bn across London CIV and means that private markets are about 10% of our total assets. They are clearly a key growth area of focus for our partner funds.

What have London CIV's partner funds asked for on the private markets front?

Currently, there is a tilt towards income generation over more growth-orientated opportunities. That has been across real estate, private credit, infrastructure and natural capital.

Each partner fund has different holdings across different asset classes and has different views on asset allocation. But the commonality amongst most of our client base is a focus on deployment, liquidity, diversification, investing with impact as well as achieving value for money.

Which private markets do your partner funds want exposure to and why?

There is certainly a range of attractive segments across private markets that we are well positioned in.

I'll start with infrastructure, which has tailwinds coming from digitalisation and decarbonisation. It is also being fuelled by artificial intelligence adoption, which makes renewable energy investing more compelling.

There will be a rise in infrastructure secondaries. That is obviously a way for investors to recycle capital and to obtain liquidity where it's required.

In a lower interest-rate environment, we can expect multiples to go up with improvements in valuation, creating a more attractive deal environment. And a more positive macro outlook is clearly positive for assets which benefit from GDP growth.

Fundamentally, infrastructure has that inflation linkage, which is attractive in a high-inflation environment. The uplifts in valuation and the more positive macro backdrop are certainly supportive of this.

Moving on to real estate, we are seeing demand definitely picking up. There continues to be a shortage of properties, which support rent and revenue growth. We are seeing a stabilisation in valuations as well as opportunities, whether that is across logistics, the residential sector or affordable housing.

This aligns with structural trends: whether that is ageing demographics or the need for more energy-efficient buildings.

There are certainly some regional differences. Leasing activity in London has certainly picked up more than in other European cities. There is continued demand for high-quality office space with good amenities, good infrastructure, good transport links and good ESG credentials. The real estate sector will also benefit from lower financing costs.

Logistics is an area that could be attractive. With the trend more towards re-shoring, we are seeing strong rental growth in logistics. Within these sectors, there is a strong linkage to inflation. There is also resilient cashflows and typically less exposure to market volatility.

Moving to private credit, this is an area that will continue to benefit from the pullback of traditional bank lenders in private lending. It has performed well in a high interest-rate environment, and there is strong growth across asset-backed finance and middle-market lending.

In private equity, deal activity is reviving. That has been supported by a more favourable interest-rate outlook and in a more favourable rate environment, as we hope to see more M&A and IPO activity.

And then with increasing artificial intelligence adoption and integration, this is definitely driving a lot of investment within private equity.

Do you, therefore, have any new private markets investment plans?

Our investment plans are typically shaped by our clients' requirements and our desire to invest across different thematics.

But this is in conjunction with the private markets' investment team and with our views on where we think the most attractive opportunities are given the market backdrop.

The missing gap in our product offering is private equity. So it is an area we have been thinking about, to come up with a structure and a potential solution – along with any potential strategic partners that can help us deliver this.

And there is that greater government push for pension schemes to invest more directly in the UK. We are continually engaging with managers, various government departments and industry groups to identify where those opportunities are and how we can invest in them.

There is an obvious need for more local investment to help support environmental and social impacts, but also now with a greater focus on biodiversity.

Our partner funds, along with the wider strategy, determine where the asset allocation is. And, coupled with the Mansion House reforms for the LGPS, we expect them to direct how we will invest in the years to come and what solutions and funds we need to help meet them.

You mentioned it, but what do you think about the government pushing pension schemes towards private markets?

There is under-investment in the UK, whether that is in infrastructure or real estate, so we need to invest in the UK. It is not unreasonable.

We are supportive of doing more in the UK. Having UK investments has always been a core allocation for us.

How important is ESG within your private markets investments?

Absolutely essential. It is integral throughout our investment process – our due diligence process and the ongoing monitoring of our managers. It is also fundamental to long-term value creation and risk management.

Within our due diligence process, we assess the ESG credentials not only of the manager, but also of the fund and the underlying assets. And to the extent that they are very much aligned with our sustainability goals, but also ensure they generate the financial returns we require.

And, with a sizeable investment in private markets, we have a fiduciary duty to shape the ESG practices of our underlying managers. Getting managers to improve their provision of ESG metrics and reporting also helps to evolve best practice.

Presumably, it was in line with your ESG approach that London CIV was quick to launch a renewable infrastructure fund.

We launched our dedicated multi-manager Renewable Infrastructure fund in March 2021, as we forecasted that we would reach the sector limit within our core infrastructure fund of 30%. So we maxed-out our renewable infrastructure allocation, and at that point, given the expected growth, we saw an attractive opportunity set within renewables.

A number of our partner funds had asked us to launch a separate renewables fund that can invest across renewable energy generation, transmission and distribution, but also opportunistically invest in other enabling technologies in the energy transition, whether that's battery storage, electric vehicle charging or green hydrogen development.

Has it proved popular?

It has. It is our largest private markets fund constituting more than half of our overall commitments in private markets, with 56% of that portfolio invested in renewables. The number of investors in our Renewable Infrastructure fund stands at 16.

Is the backlash against ESG a worry? Will it have an impact on private markets?

There has been a backlash, but it hasn't impacted us directly. The fact is the whole world is decarbonising, with most countries having set some sort of net-zero target. Whether it's done in six years' time, 20 years or 30 years, that's the path. That trajectory is only going one way.

I genuinely don't think this backlash is going to have any material impact on the growth of, for example, the renewables market.

Why, in your view, are private markets so popular with institutional investors?

First and foremost, private market investments are uncorrelated with public markets. There's more stable pricing and valuations. And, in a low interest-rate environment, it provides much higher yields.

It allows greater diversification in terms of how you can invest to address any specific investment needs and objectives. You can invest across the risk spectrum of asset classes like infrastructure and private credit.

So there are predictable stable income streams that's obviously tilted towards income generation, or you can invest in private equity, which enables you to invest in high-growth private companies.

In terms of impact and sustainability, there is definitely that real world direct impact. Private market investing aligns well with institutional investors like pension funds and insurance companies that have long-dated liabilities that private markets investments have.

Will private markets continue to enjoy such popularity?

Absolutely yes. Given all that I have just outlined, private markets offer so much. The fundamental drivers underpinning the overall opportunity will certainly remain.

There will be a rise in infrastructure secondaries.

What are the flaws of investing in private markets?

Liquidity risk certainly is high on the list when investing in private markets, so you have to acknowledge that you will be locked up for extended periods in terms of deployment.

In terms of the cost of investing, your private markets investment funds are more expensive than public-market funds.

And a challenge, not necessarily a flaw, is accessing private markets. Such investments are also complex, requiring a lot of knowledge.

You have been in your role for more than four years. What has been your biggest challenge and greatest achievement?

In terms of greatest achievement, we have been acknowledged for building a successful multi-manager platform. We have built the platform from scratch and it continues to grow.

From where we were four years ago and the relationship we have with our partner funds, there has been a lot of positive engagement. That has certainly built the trust and credibility with the partner funds and with the broader investment community.

What objectives have you set yourself and London CIV?

As we approach a new era for the LGPS, it is difficult to set specific objectives. Our over-arching objective is to be our partner funds' pool of choice and to continually deliver funds or solutions that meet their long-term investment objectives.

What has been the biggest lesson that you have learnt during your career?

Believe in yourself and believe in your team. Have conviction in your ideas and to see them through. To think through the logic and to be strong in that rationale when you are delivering on those ideas. It is also important to always take a step back and map out what you need to do and where you want to get to.

PRIVATE MARKETS

BUILDING RESILIENT PORTFOLIOS

London, 5 March 2025

PRIVATE MARKETS CLUB CONFERENCE

THE RISE AND RISE OF PRIVATE MARKETS

Andrew Holt dissects one of the biggest trends in institutional investing.

Private markets are very much the zeitgeist investment. Just take a look at the numbers. Alternative assets under management totalled $13.1trn (£10.6trn) in June 2023, having grown by nearly a fifth in each year since 2018, according to McKinsey. Industry estimates now expect this to expand by more than $20trn (£16trn) by 2030. These impressive numbers present a strong narrative for private assets.

Emmanuel Deblanc, chief investment officer of private markets at M&G Investments, says the growth of private markets is likely to remain strong, driven by structural and cyclical factors. "The expansion is supported by the democratisation of private markets, with new products and regulatory changes allowing a wider range of investors to access these assets," he adds.

One of the key appeals is that private markets play a critical role in addressing long-term global challenges, such as infrastructure upgrades, climate finance and sustainable food systems. "The resilience of private markets during periods of volatility also enhances the appeal, positioning them for sustained growth in the coming years," Deblanc says.

More specifically, the popularity of private markets comes from the obvious benefit of such investments being less correlated with their public asset portfolios. For Deblanc, this is not the only attraction. "Investors are drawn to the ability of private markets to align with impactful themes, such as the energy transition, financial inclusion and climate resilience, which can deliver financial and societal returns," he says.

This hasn't always been the case. There has been something of an evolution here. "If you go back 20 years it was quite difficult to invest in private markets," says Richard Tomlinson, chief investment officer of Local Pensions Partnership Investments (LPPI). "But in that time, the architecture and eco-system around private markets has developed dramatically."

The approach to private markets therefore has changed. "There was this view, which I reject whole heartedly, that you only invest in private markets if it gives you a return uplift – a premium compared to public [investments]. While I understand that, it is not a universal truth for everyone," Tomlinson says.

"That comes from if you are liquidity constrained," he adds. "Whereas, if you are not liquidity constrained, there is a slightly different conversation. It means you can invest in private markets because you like the asset or a pure play to exposure to a certain theme, or it has different sustainability characteristics."

Within LPPI's private markets approach it has a focus on UK infrastructure, which is backed by GLIL, a pension scheme-funded investor. It also has a large chunk of private credit, as well as a private equity portfolio.

Long-term benefits

What should not be overlooked, and alluded to by Deblanc, is the strong case for private markets over the longer term. In an example of its resilience, a study by Schroders highlights the proven track record of private equity to outperform during downturns.

"Global private equity outperformed the MSCI ACWI Gross index during each of the major disruptions with an average annualised excess return of 8%," says Verity Howells, investment research manager private equity at Schroders Capital.

"Even in the depths of the dotcom crash, where private equity was challenged due to its exposure to early-stage technology companies at the heart of the bubble, it still fared better than public markets," she adds. And stressing the point further, amidst the uncertainty surrounding Covid, private equity achieved annualised returns of 18%, while public markets delivered only a 2% return.

This resilience, Howells attributes to something of a different industry sector mix compared to public equities, and long-term capital structures that allow investors to hold investments and continue to deploy through market disruptions. This bodes well for investors into the future.

In addition, private equity firms typically target less cyclical industries, such as healthcare, business services and technology, while limiting exposure to banks and heavy industry. They favour less volatile cash-generating recurring revenue business models.

"The nature of private equity returns, which partly reflect unrealised gains, contributes to less volatile reported returns," Howells says. "These unrealised gains are based on changes in portfolio valuations and are guided by fair-value accounting. Post-reporting period developments can influence these valuations, as firms may incorporate recent positive events into their assessments."

Therefore, one big proviso in looking at a more long-term outlook for private equity is, it should be noted, that the industry

Private markets are not one homogenous blob.

Richard Tomlinson, Local Pensions Partnership Investments

New structures will continue to rapidly evolve as new investors enter the market.

Brent Patry, Blackrock

changed considerably between the dotcom crash in the early 2000s to the return of inflation in 2022, in terms of regulatory and accounting considerations, which could impact historical comparisons.

The financial crisis served as a catalyst for introducing more rigorous fair-value assessment practices, potentially resulting in private equity valuations having had less frequent mark-to-market assessments prior to that period.

But private equity should not just be seen as a positive investment in a past tense. In 2025, spurred by a more supportive rate environment and a restart of M&A and IPO activity, private equity is set to get a boost, says Brent Patry, head of equity private markets at Blackrock. "In our opinion, this will lead to a lot more activity across private equity, as firms look to deploy dry powder," he adds.

Positive trends in deal activity support this opinion. While still below the pandemic peak of 2021, deal activity in 2024 was up by 21% compared to the previous year and outpacing the pre-pandemic average by 45%.

There will also be further developments.

"New structures will continue to rapidly evolve as new investors enter the market. These investors are largely accessing private assets through evergreen fund structures and European long-term investment funds," Patry says.

Private lending

Going forward, Blackrock believes private debt and infrastructure will grow the fastest within the private markets arena.

As private debt continues to cement its status as a sizable and scalable asset class for a range of long-term investors, what is of interest is there is plenty of room for growth. At $1.6trn (£1.3trn) in global assets under management, the asset class accounts for 10% of the $16.4trn (£13.3trn) alternative investment universe. The momentum behind the growth of private debt is being driven by a few major factors.

"Private debt is taking on more funding previously executed in the public markets, which increasingly focus on deals that are prohibitively large for most middle-market companies," says Adam Ryan, chief investment officer of multi-alternatives at Blackrock.

"Companies are also relying on private lenders more for financing as they stay private for longer," Ryan says. "And they have come to value the certainty of execution and flexibility that private debt provides. At the same time, banks are more selective in how they use their capital. Lastly, investors have an increased comfort and familiarity with the asset class."

In addition, the definition of private debt continues to expand as private debt investors start to participate more in asset-backed finance, Oliver Wyman believes.

The market share of asset-backed finance held by private lenders is estimated at roughly 5% today, and private lenders are poised to fill in the gaps left by banks, as they have within corporate credit and real estate. "We expect this trend to accelerate in 2025, alongside growing appetite for such private-debt investments globally, most notably from US insurers," Ryan adds.

Private debt is also becoming more global. While North America represents more than 60% of total private debt assets under management, Europe and the Asia-Pacific have been growing. Today, these regions are more reliant upon bank financing, suggesting a noteworthy opportunity for private debt to expand, similar to the diversification that has taken place in the US.

But there are other factors sparking investor interest. Blackrock has identified a trend that could help shape investor appetite in a number of asset classes.

"Investors can access the transformative possibility offered by artificial intelligence through infrastructure, as well as debt, private equity and real estate," says Adebayo Ogunlesi, chair and chief executive of Global Infrastructure Partners, which is part of Blackrock.

A political animal

Another factor driving private markets is politics. Politically, private markets are hot investments. Governments around the world have taken a great deal of interest in nudging defined contribution pensions towards investing more in alternatives. The UK government is at the forefront of this development, wanting pension funds to back more private assets.

In addressing the government's private markets push, Tomlinson cites two sides to it. "It is now known that the government is looking closely at the supply side, on infrastructure anyway, associated with the likes of planning. My personal view is that they will push that through.

"On other areas, the government has made it clear that they want more investment," he adds. "That is a little bit more challenging. I certainly get the aspiration. It is a little bit harder on the venture capital side. For that, it is more about creating the pathways to move forward from."

In another initiative, chancellor Rachel Reeves announced in her Mansion House speech that the government is committed to establishing PISCES – the Private Intermittent Securities and Capital Exchange System – a platform for trading unlisted company shares, providing shareholders in eligible companies with liquidity and a route to exit.

What this will all mean only time will tell. But the investor industry has hardly been enthusiastic about this initiative thus far.

Inevitably, this governmental push is another contributing factor in boosting alternative assets. "Private markets are evolving rapidly and becoming more accessible to a broader range of investors," Ryan says. "Governments and regulators around the world have taken an interest in giving defined contribution plans more access to private markets."

This so-called democratisation of private markets nevertheless comes with challenges that investors need to be aware of. "Ensuring that private markets are effective within the portfolios of these new investors calls for portfolio construction expertise to build diversification, while providing a degree of liquidity" Ryan adds.

The usual suspects

Given the expansive nature of private markets, how can, and should, institutional investors take a step back and use private markets within a portfolio? "Private markets play a critical role in institutional portfolios by offering diversification and supporting long-term strategic goals," Deblanc says.

"They are particularly well-suited for funding essential projects like the energy transition and infrastructure, which can deliver stable, inflation-linked returns," he adds. "Private markets also serve as a hedge against short-term market volatility, allowing for a focus on sustainable value creation."

When it comes to the appealing segments within private markets, it is a case of what you would call the usual suspects. "Long-term themes such as infrastructure due to the energy transition and impact-focused investments in areas like climate finance and financial inclusion. These align with structural trends and investor demand for sustainability and long-term value creation," Deblanc says.

But there are others. Another area of growing appetite for sophisticated investors, but one not part of the usual suspects, is significant risk transfers (SRT), which allow banks to offload their credit risk while offering investors attractive returns. "We expect interest in SRTs to broaden over time, with significant opportunities in Europe driven by recent regulatory changes," Deblanc says.

> **"Private markets are evolving rapidly and becoming more accessible to a broader range of investors.**
>
> Adam Ryan, Blackrock

Re-shaping economies

Other forces are helping to shape private markets. "A new wave of investment into the real economy should help transform markets, as more companies stay private for longer," Patry says.

Bill Hughes, global head of private markets at Legal & General, says that with the rise of private markets as a major investment theme, there is an increasing demand from institutional investors for investment strategies that are not only commercially competitive, but also sustainable and impactful.

"We have developed a long-term structural framework to guide our investment strategy around four powerful mega-trends that we believe are reshaping the global economy: demographics, decarbonisation, digitalisation and deglobalisation," he says.

"These trends will be positive for a number of sectors and that portfolios embracing them may see outsized risk-adjusted returns," he adds. "We see these mega-trends as particularly beneficial for infrastructure supporting the energy transition, residential real estate, urban logistics and assets or companies associated with the digital economy."

Sustainability and its related issues are therefore major themes driving private markets. "There is significant, persistent demand for solutions to society's biggest challenges, such as the climate crisis, housing crisis, socio-economic regeneration – and this presents a huge opportunity for investors," Hughes says.

Another key factor driving growth in private markets can be attributed to the rise of illiquidity budgets as the UK looks to increase investment into productive finance and mobilise pension capital to drive domestic growth.

To unearth investor trends, Legal & General undertook a comprehensive study of UK institutional investors' attitudes to private markets. The study explored how institutional investors are planning their future private markets portfolios, highlighting key allocation drivers and the increasing importance of impact and sustainability mandates.

The survey found that more than 70% of institutional investors are investing in each of the main private asset classes – private equity, private credit, infrastructure and real estate. However, the key thematic trends most institutional investors seek to address through private markets are climate transition/decarbonisation, digital transformation/AI and digital infrastructure.

Of the four main private markets assets surveyed in the UK institutional survey, asset owners are looking to increase their allocation the most in the following order: infrastructure, venture capital, private credit and real estate.

Interestingly, the research showed that institutional investors are increasingly targeting clean energy/renewable energy – believing that it offers the best investment opportunities.

Reasons to be cautious

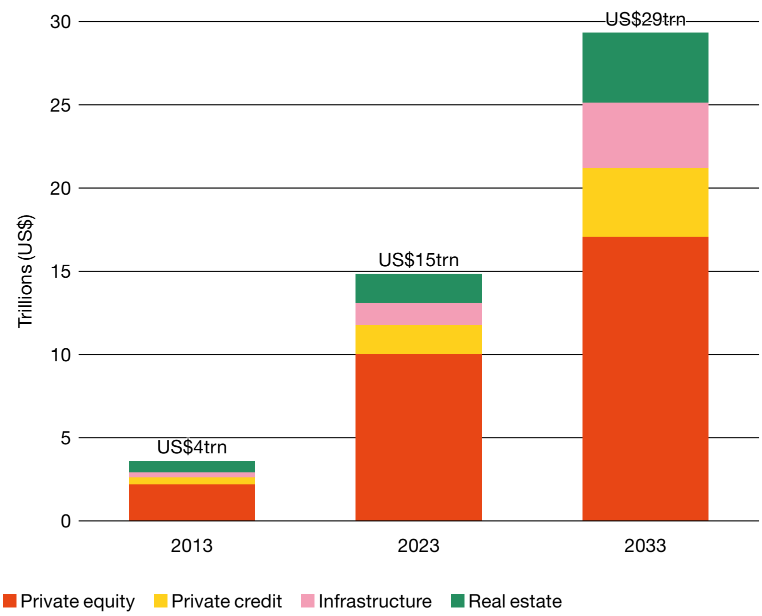
There are though reasons to be cautious about some aspects of private markets. "The scale of patient capital required for projects supporting the energy transition and infrastructure is immense, and these are often complex to execute and requires specialist skills," Deblanc says.

"It underscores the importance of due diligence, combined with depth of experience, which helps us identify and mitigate risk effectively," he adds. "This is where a proven track record of active management matters."

Moreover, private markets are not one big whole. "Private markets are not one homogenous blob," Tomlinson says. "Trading in the equity of private corporations is one thing, or originating private credit is different from classic private equity and infrastructure." An important point investors should be, and no doubt are, fully aware.

But for all that, private markets are set to grow further and become even more important to institutional investors.

Poised for growth: Private capital is forecast to continue its rapid growth into the next decade



Source: Partners Group analysis of Preqin data as of Q1 2023. Private Equity inclusive of Venture Capital.

it is a tough
and demanding
race for
investors.

awards.portfolio-institutional.co.uk/

but nothing
has been
decided yet.

PORTFOLIO INSTITUTIONAL
AWARDS
2025

15 May 2025

DEFINED BENEFIT DE-RISKING: SOMETHING FOR EVERYONE

Employers want to free themselves of their often huge pension liabilities, and a small group of insurers are queuing up to take it off them. Is final salary de-risking really a win-win market? *Mark Dunne* takes a look.

In 2016, construction giant Carillion reported sales of £5.2bn; a little over a year later it went bust. The company – which counts the home of Liverpool Football Club and the regeneration of Battersea Power Station among its work – collapsed under the strain of a £2bn debt.

Yet this was not the full picture. Carillion was on the hook for a further £900m. This was not a loan or money owed to suppliers, but the collective deficit of the 13 defined benefit (DB) pension schemes it sponsored.

The company was unlikely to have to pay the entire shortfall in one day, but it is responsible for that deficit and so it extended the already huge debt pile by almost 50%, hitting its value.

This is an example of why the UK's final salary scheme de-risking market has rapidly grown to be worth around £50bn a year. The market allows DB scheme sponsors, who are typically employers, to relieve themselves of their duty to pay their former employees' pensions through a one-off premium to an insurer for a bulk purchase annuity.

In short: the sponsor pays an insurer to take on the burden of paying the retirement benefits of the members who are covered by the policy.

Bulk purchase annuities take the form of a buyout, where an insurer assumes full responsibility for members' pensions.

The other option is a buy-in, where the insurer agrees to provide the cashflows needed to cover the benefits, but the legal responsibility remains with the sponsor. The deal here is the financial risk of members, or their descendants, living longer than expected is passed to the insurer.

But the question is, after such a strong run, what will happen in this market in the year ahead?

One a day

In 2024, there were about 250 transactions, which is "pretty much one for every working day" – meaning the market was worth just shy of £50bn, says Steve Robinson, a partner at Isio who leads the de-risking team.

Looking at the year ahead, Robinson will be interested to see how the market maintains the volume and the size of transactions going forward. "Last year was expected to be a record year, but it fell slightly short of 2023's £50bn total," he says. "The challenge is, how does the market overall continue the throughput.

"There is enough demand there to grow the market, in terms of volume and number of deals," Robinson says.

Kunal Sood, managing director of defined benefit solutions at Standard Life UK, describes the de-risking market as "buoyant" as the momentum driving transactions totalling around £50bn in each of the past few years is showing no sign of slowing down.

"The pipeline is building up," he says. "Conversations are ongoing with trustees about their de-risking plans, and the expectation is that it could be another £40bn to £50bn year."

Sood is not the only insurer expecting a big year. "We are in January and I can already see a pipeline that is as big as last year's," says Tom Seecharan, co-head of origination at Pension Insurance Corporation (PIC).

"That is not normally the case, as the pipeline develops as the year goes on," he adds. "This is an indicator of it being quite a big year."

For Willis Towers Watson's Shelly Beard, the market is only moving in one direction. "Last year was busy and the year before that was busy. It is going to be more of the same in 2025," says the managing director within the firm's bulk annuity and longevity hedging team.

Seecharan estimates that there are around 4,000 defined benefit schemes that do not have a bulk annuity and that 300 or so deals are expected this year, beating the 250 that were recorded in 2024.

Part of the reason why insurers are seeing growing pipelines is due to the rise in gilt yields. Schemes are now better funded and can afford to buy insurance cover years earlier than expected.

In response, insurers have been recruiting and improving their systems and processes to meet rising demand, says Chris Rice, head of trustee services at Broadstone, a consultancy. "So I expect to see more deals this year."

A trend Robinson has seen in his almost two decades working in this market is that there are not only more transactions, but there are more larger deals, too.

"Although the market potentially being worth £50bn a year is the sexy thing for people to talk about, the market is typically driven by one or two large transactions," Robinson says.

Indeed, of the 250 deals agreed in 2024, £11bn was for NatWest's pension scheme.

It is a trend that looks set to continue. "There are some large schemes in the market getting quotations from insurers," Robinson says.

Standard Life ended last year with a £1.5bn deal with Compass, the food services specialist, and Sood expects more of the same.

"There are more and more schemes of that size which have been on their de-risking journey for some time and will pursue buyout this year. That pipeline is pretty strong.

"If some extremely large schemes decide to speed up their de-risking activity, it could swing to north of £50bn easily. That is my expectation for the year," Sood adds.

From an insurer's point of view, there is no other product like bulk annuities

Steve Robinson, Isio

New players

In a sign that the UK's bulk purchase annuity market is not a passing fad, it welcomed four new insurers last year. Utmost Life & Pensions, Royal London, M&G and Canadian investment manager Brookfield have all entered the market in the past 12 months.

"They have spotted that it is a growth market which is going to be around for a number of years," Beard says.

Royal London and Utmost are focusing on the smaller end of the market, which is believed to be deals worth less than £100m. "They have recognised that that end of the market was slightly less well served than the larger end. They have spotted that there is an opportunity," she adds.

For Rice, the smaller end of the market is attractive as they are more likely to be successful, as not all insurers will quote for those deals.

"If you are looking at £150m deal, you might get six or more insurers involved. For a £15m deal, there might be one or two or potentially three.

"So they know that their hit rate of transacting is higher on those," Rice says. "If they are well structured legally and from an admin perspective, they can do a volume of those deals."

One insurer welcomes the new entrants as good news for schemes. "That level of competition generates more value but also delivers cleverer ideas," Sood says. "We are seeing a bit of both. This is a sign of how buoyant the market is."

For Robinson, the attraction of the bulk annuity market is strong. "From an insurer's point of view, there is no other product like bulk annuities," he says. "If you want to gain market share in individual annuities or in group personal pensions, you normally have to reduce your price. There is a marginal cost of getting the new business.

"With the demand for bulk annuities, this is an area where insurers can write more business without cutting margins on existing business lines.

"There is a demand for new business in bulk annuities unlike any other insurance product," Robinson says. "Hence why insurers want to write more business, are increasing their targets and why new insurers are coming into the market."

He adds that another insurer is expected to arrive this year, which would bring the number of players to 11. Robinson also claims that a further four have been looking at the market for a few years.

The high barriers to entry have deterred them, he says. The first issue is a limited number of people with the expertise to work on such arrangements. Then there is the cost of securing regulatory approval and building the infrastructure needed to run a bulk annuity business. "It is tens of millions of pounds of investment just to enter the market," Robinson says.

A competitive market

Seecharan describes pricing at the moment as "competitive". "We are definitely seeing the impact of new entrants into the market," he adds. "Although most of them are focused, at least initially, at the small end, they could drive good price competition across all deal sizes as they pick up a bigger market share as other insurers might look to focus on slightly larger cases. That domino effect goes all the way up."

For Sood, pricing is competitive because it is a competitive market.

"We have seen spreads tighten over the past six months, which will have a particularly detrimental impact on pricing, especially since rates have risen, which has counteracted any small reduction in pricing," Sood says.

Higher rates are another reason why a lot of schemes might be in a better funding position than they were a couple of months ago. "So on balance, affordability is still going to be strong," Sood says.

Not just about the money

Pricing and achieving good value are important factors for trustees when choosing an insurer. Yet another trend is emerging where issues aside from price are having more influence on the decision to select an insurer.

Beard says that the service the membership can expect from an insurer post-deal is a growing consideration.

"[Trustees] are thinking about how good is this insurer going to be for my members," she says. "What is it going to feel like from my members' perspective to interact with this insurer?"

Sood agrees that the quality of the communication with the members is important, as is the ease at which they can access their data. This should include getting a transfer value as easy as it would be to check the balance on their savings account.

De-risking the de-risked

What might prove so attractive to insurers is that they are taking over a de-risked portfolio. The assets owned by a scheme can be used to pay for the premium, but it seems that the assets insurers will accept are limited.

PIC allows schemes to pay them in cash, gilts, investment-grade corporate debt and swaps. "Some schemes ask if we could take on certain illiquids, and sometimes we do," Seecharan says.

"In the main, they are not structured in a way that is cost-effective for PIC to take and hold, but there are exceptions," he adds. "Property, if it is in the right form, but schemes are generally looking to offload those types of assets."

> **We are in January and I can already see a pipeline that is as big as last year's.**
>
> Tom Seecharan, Pension Insurance Corporation

This all depends on the size of the scheme. For some larger transactions, an insurer might take some property. "The insurer wants to win the deal and so will be flexible about what they will take," Beard says.

It is a different story for smaller deals. "They just want cash," she adds. "As you get a little bigger, they might take gilts as well. As you get bigger still, they maybe will take some credit, but cash and gilts are the core assets everyone is happy with."

The assets Standard Life wants to see in a portfolio are cash and gilts as well as corporate bonds at the more liquid end of the scale. "There is room for some less liquid assets, but they have to be stable and highly rated," Sood says.

"Our advice to schemes pursuing a buyout is to think about positioning their portfolio in a way that would allow them to have the most seamless transfer to an insurer," he adds. "That means aligning to the Solvency II view of the world, but largely between debt assets, which are well rated and have predictable cashflows."

A small price to pay

So the advisers and insurers I spoke to have little concern over demand given higher funding levels and the capacity to serve the market.

It is interesting to note that if the trustees of Carillion's 13 DB schemes wanted to shift the responsibility of paying the pensions of its 27,000 current and former employees to an insurer, it is estimated to have cost them £2.6bn.

This is quite steep in terms of a cash-strapped business having to fund this, but would it have been a small price to pay to de-risk its already risky balance sheet?

The market, it seems, was there.

CRYPTO: GOING MAINSTREAM?

A British pension fund has taken the plunge into crypto. Is this the start of a wider trend? *Andrew Holt* takes a look.

October 2024 could well go down as a groundbreaking moment in the UK's long history of institutional investment. It was then that a pension fund took the giant leap into crypto.

According to Cartwright, a pensions consultancy and an adviser to the as yet unnamed scheme, the trustees went with a 3% allocation to Bitcoin. This is the first known example of a UK pension fund investing in a digital currency.

The corporate defined benefit pension scheme's exposure equates to around £1.5m of the more than £50m of assets it has under management. Interestingly, it has a 10-year timescale, something that will raise eyebrows among other institutional investors.

What it lacks in allocation punch it makes up for on a reasonably long-term timescale. In so doing, it dispels the myth that crypto – or more specifically Bitcoin – is all about trading.

Explaining the decision, Sam Roberts, head of investment advisory at Cartwright, said: "This Bitcoin allocation is a strategic move that not only provides diversification but also taps into an asset class with a unique asymmetric risk-return profile."

Is this the start of a new trend in crypto investment within the pensions, and indeed wider institutional investment, world? The jury, it seems, is most certainly out on that.

One pension pool I spoke to said they are looking at crypto and what it can offer the portfolio, but this is still very much in the assessment phase.

Roberts is convinced that this should be part of a wider tend among pension funds, as Bitcoin, he believes, offers retirement schemes an attractive investment option. "Trustees are increasingly looking for innovative solutions to future-proof their systems in the face of economic challenges," he says.

Therefore, he argues, a Bitcoin allocation "is a strategic move that not only provides diversification but also taps into an asset class with a unique asymmetric risk-return profile".

A new trend?

Simply put, embracing Bitcoin can work as a hedge against monetary debasement and counterparty risk. It offers diversification alongside other growth assets, such as equities, and is a way to access a rare long-term asymmetric growth opportunity as Bitcoin becomes more widely adopted across the world as a valid form of payment.

Cartwright has undertaken a study on this and expects an institutional adoption curve similar to when pension schemes started investing in equities in the 1970s, high-yield bonds in the 1980s and liability-driven investment in the 2010s. It can take some time for institutional investors to get comfortable with a new asset, but then it becomes reputationally risky to not have considered that asset as a natural part of optimal portfolio construction.

More specifically, Roberts says schemes can benefit from the potential upside whilst limiting any downside. "Integrating Bitcoin into a pension scheme's investment strategy is a bold step that reflects the forward-thinking nature of the trustees involved.

"We hope this will be the start of a trend for institutional investors in the UK to catch up with their increasing number of peers and competitors around the world who are already taking advantage of Bitcoin's unique attributes," he adds.

Cartwright's UK pension offering was also created with a low minimum investment threshold in mind, meaning this is open to pension schemes of all sizes, unlike many other investment ideas when they first become available.

A global market

Pension funds in other parts of the world have already taken the crypto leap. The Wisconsin Retirement Board has invested more than $162m (£132m) in Bitcoin spot exchange traded funds (ETFs) – with spot ETFs only being approved in January 2024.

This is a trend worth highlighting, says David Duong, head of research at Coinbase, a crypto exchange platform. "The approvals of spot Bitcoin and ether exchange-traded products and funds [ETPs and ETFs] in the US were watershed moments for the crypto-economy, punctuated by a net inflow of $30.7bn (£25.1bn) since inception [around 11 months ago]," he says.

"That far exceeds the inflation-adjusted $4.8bn (£3.9bn) that the SPDR Gold Shares ETF attracted in its first year after launching in October 2004."

Furthermore, options represent a further maturation of the Bitcoin ETF market that could facilitate new investment strategies, Duong said.

The State of Michigan Retirement System also has exposure to the asset class. It invested $6.6m (£5.4m) in a Bitcoin ETF in July as part of a broader strategy to diversify the fund's assets, while Jersey City Mayor Steven Fulop has revealed plans for the city's pension fund to invest in Bitcoin ETFs.

In Asia, Japan's Government Pension Investment Fund signalled that it is considering investing in Bitcoin and is exploring the impact of the currency's integration into pension portfolios. This comes as Japan explores deeper legislation to embrace digital assets. This move clearly highlights a growing recognition of the potential benefits they could bring to institutional portfolios.

In Europe, some insurance companies have already leapt into investing in crypto. In October, the European Insurance Occupational Pension Authority put the total at €655m (£551m), although this is a mere smidgen of the €8.57trn (£7.2trn) of total assets under management.

No passing fad

Therefore, the move by a UK pension fund into this market is clearly part of institutional investors plugging into the rise and rise of a new world of investment. As the asset is seriously on the rise, the crypto craze can no longer be considered a short-term fad. In fact, it is safe to say crypto went completely crazy last year, with the crypto market increasing by a mammoth $1.7trn (£1.4bn) in 2024, boosted by Donald Trump's victory in the US presidential election.

According to data from Coinglass, the combined value of all digital currencies reached $3.29trn (£2.7trn) by the end of the year, up from $1.6trn (£1.3trn) 12 months earlier.

> **A bipartisan pro-crypto majority in the House and the Senate means that US regulation will likely flip from a headwind to a tailwind for crypto performance in 2025.**
>
> David Duong, Coinbase

Although it is such rapid jumps that puts off some serious institutional investors from investing in crypto. These numbers resemble more of a wild trade than a long-term investment.

That said, the Donald Trump political impetus behind the rise of crypto should not be ignored. An important move Trump has made is the selection of Paul Atkins, a crypto lobbyist, as his nominee to chair the US Security and Exchange Commission, replacing long-time crypto critic Gary Gensler. This means the regulator could look more favourably on all things crypto.

"After struggling with political ambiguity for many years, the next legislative session could be the United States' chance to finally establish some regulatory clarity for the crypto industry," Duong says.

"This [recent presidential] election sent a strong message to Washington DC that the public is disaffected by the current financial system and wants change," Duong says. "From a markets perspective, a bipartisan pro-crypto majority in the House and the Senate means that US regulation will likely flip from a headwind to a tailwind for crypto performance in 2025."

Market momentum is also rising in the UK. The Financial Conduct Authority has indicated plans to fully regulate crypto currencies by 2026, bringing it within the investment mainstream.

And the Markets in Crypto-Assets regulation in the European Union, or MiCA, is being implemented in phases, providing a clear framework for the industry in a European context.

Many other G20 countries and major financial hubs – such as the United Arab Emirates, Hong Kong and Singapore – are also writing rules to accommodate digital assets, creating more conducive environments for innovation, growth and, of course, investments.

A changing market

Looking at the boost in crypto in more detail, there is now more than $109bn (£89bn) invested in Bitcoin ETFs, which are investment funds linked to the price of the currency and provide possibly a more measured way for institutional investors to gain access to crypto. So the institutional investment interest is clearly there.

Asset managers, like Blackrock among others, are also crucially facilitating the drive into crypto. The approval of Bitcoin and Ethereum ETFs by Blackrock and Fidelity Investments in 2024 signals rising institutional interest in regulated crypto, offering diversification for risk-averse investors like pension funds.

This is already playing out. According to consultancy Macroscope, the Wisconsin Retirement Board's investment fund is now the second largest reported holder of Blackrock's IBIT (Bitcoin ETF) with around $100m (£82m) allocated.

Furthermore, tokenised assets, including Franklin Templeton's government bonds and Blackrock's corporate bonds, highlight blockchain's role in potentially enabling instant settlements and reducing counterparty risks. Custodians like State Street and BNY Mellon now provide access to crypto assets, ensuring the investment process is now more fluid and efficient.

"Whether we are talking about pensions, endowments, sovereign wealth funds, insurers, other asset managers or family offices – they are having ongoing diligence and research conversations, and we're playing a role from an education perspective," says Robert Mitchnick, Blackrock's head of digital assets about the institutional investor crypto conversations he is having.

> **Trustees are increasingly looking for innovative solutions to future-proof their systems in the face of economic challenges.**
>
> Sam Roberts, Cartwright

Furthermore, tokenisation of real-world assets – the process of creating a digital representation of a solid object – grew to $13.5bn (£11bn) in 2024, with projections of $2trn (£1.6trn) to $30trn (£25trn) within five years.

This trend is expanding into private credit, commodities, real estate and insurance, giving a strong indication to blockchain's potential in possibly transforming traditional finance. Yet liquidity compliance challenges exist, which may well require regulatory progress.

And according to Duong, some investors are experimenting with using such tokenised assets as collateral for other financial transactions like those involving derivatives, which could streamline operations, with margin calls, for example, and mitigate risk.

Remaining cautious

Although, it is true to say that many institutional investors are naturally cautious when it comes to crypto, and for good reason as everything crypto doesn't always turn to gold.

A couple of pension funds being burnt by crypto proves the point. For example, in 2023 Canada's $190bn (£156bn) Ontario Teachers' Pension Plan (OTPP) said it was steering away from crypto after writing off a $95m (£78m) investment in FTX, the doomed digital currency exchange.

"It would be unwise for us to rush into another crypto investment based in part on feedback from our members," Jo Taylor, OTPP's chief executive, said at the time.

In addition, Caisse de dépôt et placement du Québec, Canada's second-largest pension fund manager, wrote off a $150m (£123m) investment in crypto lending platform Celsius, after its collapse in February last year. The firm has since ended its venture into crypto.

Nevertheless Steve Robinson, head of investment implementation at Cartwright, says there are safeguarding approaches for pension funds by combining a secure custodial solution with a mechanism to quickly trim profits as they arise. This, he says, opens "the door for risk-averse pension schemes and other institutional investors to benefit from Bitcoin's potential growth whilst managing volatility within a secure strategic framework".

It is worth noting that historically, the primary use case for Bitcoin has been as a store-of-value, due to its unique role in the crypto asset class. But developments within crypto and Bitcoin can mean its universe often looks like something of a maze. Yet when it comes to Bitcoin in particular, Cartwright's Roberts has some clear advice for institutional investors. "Take time to look and consider it as part of your portfolio. It is not for everyone. But investors may be surprised what it can offer."

It is likely that more UK pension funds will take the crypto leap. Crypto as an investment, it seems, is here to stay.

THE FINAL COUNTDOWN

23%

The physical risks of climate change could, by 2050, reduce the investment returns of insurers by almost a quarter.

Source: Ortec Finance

30%

Private equity fundraising globally fell by almost a third during 2024 to $680bn – its third successive year of decline.

Source: S&P Global Market Intelligence

$130trn

The estimated size of the world's sovereign debt pile by 2028, up from $95trn at the end of 2024, driven by fiscal expansion in the US.

Source: The Institute of International Finance

2.7%

Global GDP is forecast to fall this year from the 2.9% achieved in 2024. Emerging markets remain the world's growth engine, with a 3.8% expansion expected.

Source: The Institute of International Finance

74%

Almost three in four pension fund executives believe that distributions from private equity will increase in the next three years.

Source: Ortec Finance

$716bn

Investment in emerging markets is expected to be lower than the $944bn recorded in 2024 thanks to forecasts of weaker flows into China.

Source: The Institute of International Finance

67%

Two-thirds of institutional investors do not believe that equity valuations reflect the fundamentals. The level of concern rises to 81% in the UK.

Source: Natixis Investment Managers

$3trn

The estimated value of the global private credit market.

Source: The Alternative Investment Management Association

2.5x

By 2030, artificial intelligence is expected to grow by 350%, more than twice as fast as cloud computing and six times faster than the robotics sector.

Source: Alt Index

Quote of the Month

"My impression of real estate is that there are always unknown consequences."

Andrew Cole, Best Trustees