CAMRADATA
A With Intelligence Company

Diversifying Investment Opportunities in Defined Contribution

Whitepaper

Sponsored by

FULCRUM

Premier Miton INVESTORS

Clear and Independent Institutional Investment Analysis

We provide institutional investors, including pension funds, insurance companies and consultants, with data and analysis to assess, research and report on their investments. We are committed to fostering and nurturing strong, productive relationships across the institutional investment sector and are continually innovating new solutions to meet the industry's complex needs.

We enable institutional investors, including pension funds, insurance companies and consultants, to conduct rigorous, evidence-based assessments of more than 5,000 investment products offered by over 700 asset managers.

Additionally, our software solutions enable insurance companies to produce consistent accounting, regulatory and audit-ready reports.

To discuss your requirements

+44 (0)20 7832 6517
info@camradata.com
LinkedIn
@camradata

camradata.com

© Copyright CAMRADATA Analytical Services June 2023
This marketing document has been prepared by CAMRADATA Analytical Services Limited ('CAMRADATA'), a company registered in England & Wales with registration number 06651543. This document has been prepared for marketing purposes only. It contains expressions of opinion which cannot be taken as fact. CAMRADATA is not authorised by the Financial Conduct Authority under the Financial Services and Markets Act 2000.CAMRADATA Analytical Services and its logo are proprietary trademarks of CAMRADATA and are registered in the United Kingdom. Unauthorized copying of this document is prohibited.

Contents

Welcome to CAMRADATA's Diversifying Investment Opportunities in Defined Contribution Roundtable

With defined contribution (DC) rapidly becoming the dominant system of pension provision in the UK, the investment sector is waking up to its burgeoning new client's needs.

Regulators too, are grappling with how to provide a framework for new cohorts of investors who have the capacity – if not yet the appetite – to take on complex and illiquid long-term projects with an element of risk to drive returns.

Diversification needs to be a key thread of any default strategy for a population still largely disinterested or poorly educated about their financial futures, but the decision on where and how to draw the line on this mix is not clear.

Complexities such as climate-conscious investing and understanding a world in which capital markets may look different to all our back-tested, historical models only serve to confound matters further.

Shifting life expectancy, tied in with a nation undergoing a re-polarisation of living standards, adds to the conundrum of producing an outcome that will fund decent living standards when contributions have remained at the bare minimum for the majority.

And that's before we account for inflation and those who have self-selected funds that may no longer be offering what they need.

Combine all this with political pressure to allocate this long-term capital to projects that could grow an economy paralysed with poor productivity, and trustees of DC schemes and mastertrusts have a tricky road to navigate ahead.

This whitepaper will assess the issues from contribution rates through to the right age to buy an annuity (or not) and everything in between.

Meet the Team

Sean Thompson
Managing Director

Natasha Silva
Managing Director, Client Relations

Amy Richardson
Managing Director, Business Development

Sam Buttress
Associate, Business Development

Sarah Northwood
Marketing and Events Coordinator

Orin Ferguson
Associate, Business Development

Diversifying Investment Opportunities in Defined Contribution Roundtable

The CAMRADATA Diversifying Investment Opportunities in Defined Contribution Roundtable took place in London in May 2023

Exploring diversifying investment opportunities in DC pensions.

As defined contribution becomes the dominant scheme for pension provision in the UK, a growing number of asset managers are waking up to its investment needs - but adapting to this new approach from a lifetime of defined benefit is not without challenge.

The UK's pension landscape has shifted considerably in recent years. The once-widespread defined benefit (DB) schemes have mostly closed to new members, allowing defined contribution (DC) to emerge as the UK's dominant type of pension. As Anna Eagles, trustee director at Law Debenture says, the investment trust and professional services provider says, there has also been significant change in the DC space itself, particularly in terms of asset allocation.

"If you go back more than five years, you would probably be mainly invested in equities, bonds, and a bit of cash," she says. "Nothing too exciting."

Over the past five years, several changes have emerged.

"DC has sometimes been thought of as the younger sibling of DB," adds Eagles. "Often, it can feel like it gets the hand-me-downs in terms of products; something that's not quite the right fit but is deemed 'good enough'. At other times, being the younger sibling is positive and we learn from our previous mistakes."

As DC has gradually come to dominate the pension landscape, master trusts have also stepped in to provide investment solutions to meet the changing needs of scheme members.

Jonathan Lawlor, senior investment consultant (DC) at consultancy and admin business XPS Pensions Group, says although each master trust wants to demonstrate the strength of their investment business, they are still bound by regulations.

"Regulations dictate you must design a default that is suitable for the demographics and risk profile," he explains. "You can top the performance tables with 100% equities but that isn't matching the demographic or risk profile of the membership. There needs to be more sophistication in how we judge master trusts."

> ***"We don't build defaults to be the best or to be different. We build them to provide the best outcomes for members. The majority of our 156,000 members sit in the default option, but we spend most of our time ensuring that meets their needs"***

Steve Charlton, managing director – defined contribution, EMEA and Asia at financial services company SEI, says the investment proposition is often driven by members' needs. "We don't build defaults to be the best or to be different. We build them to provide

the best outcomes for members," he says. "The majority of our 156,000 members sit in the default option, but we spend most of our time ensuring that meets their needs."

Delivering better investment outcomes

Schemes and master trusts need to engage with members and understand their investment needs, which can be a considerable challenge the bigger they get. But there are also other challenges, such as ensuring members have a strong understanding of how their schemes will help them achieve their long-term financial goals.

"We undertook research looking at the connection between members and their workplace pension, and found there was a complete disconnect," says SEI's Steve Charlton. "Members didn't have a sense of ownership about their pensions whatsoever."

SEI compared this feeling of ownership with other savings products. "There was a much greater degree of emotional connection because they had selected these products themselves," he says.

Greater engagement and education can help members understand their employers' obligations, and give them greater ownership of their pensions.

"Engagement with our own staff starts with our graduate intake, educating them around the pension arrangements," says Charlton. "If they get through the first year, then the programme changes slightly to what you should invest and why. The programme evolves."

However, he acknowledges that some sponsors just see pension provision as a legal obligation and efforts generally focus on what can be delivered through an app or websites, "which of course people don't have to engage with".

More recently, the cost of living crisis and higher inflation have increased pressure on members and forced them to make difficult decisions about how much to save for their retirement.

"It is important that members understand what their contributions will do for their pensions in the long term," says Lydia Fearn, partner at advisory firm LCP. "You need to get them in the mindset of saving for retirement early, and ideally you should try to put up your contributions as you move through your career to support a more positive outcome in later life."

Higher inflation is having a significant impact on investment returns, which is another argument for boosting contributions.

"If somebody is contributing only 8%, unless we get a fantastic inflation plus 8% return, it's not going to provide them with the sufficient income they need for retirement," adds XPS Pension Group's Lawlor. "So, real contribution levels, which we have no control over, need to go up."

Costs and the problem with passives

One of the biggest issues for the industry to date is cost. One issue centres on how master trusts have competed to offer lower fees and schemes have sought to maximise their investment returns.

> ***"There has also been a greater drive to invest in illiquid assets in recent times to help schemes to meet their obligations to members. Schemes are increasingly using asset classes like private equity, private credit and infrastructure to help members meet their investment objectives."***

Phil Crookston, investment consultant (DC) at Capita, says although scheme sponsors and trustees have a good idea of what they want from an investment. "Sometimes when sponsors are looking at master trusts or changing the DC vehicle, you might put a couple of good options forward, but they just go out and find the cheapest," he says, "But there is often a good reason why it is cheap."

Over the years, this focus on cost has driven more schemes into low-cost, passive strategies that have served them well when public markets were rising during the low-rate environment after the Global Financial Crisis. However, the inflationary and higher rate environment of recent years has posed new challenges for schemes.

"We need to go back to the fundamentals and get trustees to believe there is a benefit for members if they are willing to pay the fees," says SEI's Charlton. "The benefit is that you are going to improve outcomes through allocating to these strategies net of costs without disproportionately increasing risks."

The reluctance to pay fees also seems incongruous with how people behave in every other aspect of daily life. But this might be because of the unknowns that surround investment, says Matt Roberts, partner and head of alternative solutions at Fulcrum Asset Management.

"If you take your car to get fixed, it might have new tyres fitted and work again," he says. "But finance is inherently uncertain and you can't always fix things."

"There was a move to the cost-minimiser model driven by the idea that one of the only things schemes can control is getting costs down. As a result, many schemes now have lots of passive strategies."

However, there are signs that some schemes are starting to look beyond passive strategies or models, says Roberts, as they often fail to provide the tools and building blocks needed to generate strong returns in a more nuanced market environment than in previous years.

"You can't invest in some asset classes passively, and that will mean there are things that are useful to hold within portfolios that you can't get through the cost-minimiser model," he explains. "And in some asset classes, active can be lower cost than passive, which may be counter-intuitive. For instance, you can find some very low-cost, active high-yield bond strategies."

New appetite for illiquids?

There has also been a greater drive to invest in illiquid assets in recent times to help schemes to meet their obligations to members. Schemes are increasingly using asset classes like private equity, private credit and infrastructure to help members meet their investment objectives.

Traditionally, there have been challenges for investors in illiquid assets, which remains a relatively new area for DC schemes despite their longstanding use in the DB market. Increasingly, concerns over liquidity, lock-up periods, and pricing remain for pension schemes to overcome. But attitudes are softening.

One of the opportunities for DC schemes and master trusts lies in the changes that DB schemes are experiencing as they close to new members and adjust their portfolios to cater for an older cohort. In some circumstances, this is seeing them offload their illiquid investments, which could lead to attractive investment opportunities in the secondaries market.

"On the defined benefit side of things, we are seeing some schemes trying to remove illiquids," says LCP's Fearn. "So, how do we in DC capitalise on that because we can make use of these assets? I know some managers are trying to work that out and it could be quite beneficial for members."

The issue of liquidity, while traditionally a challenge to overcome, will be dependent on their size, and some strategies will remain out of reach for smaller schemes.

"Realistically, small schemes will pick up more of the off-the-shelf products," says Eagles. "Trustees can raise concerns and highlight the issues with illiquid asset classes, but that doesn't mean we don't want to help find solutions. It is right to learn from past issues and not just sweep them under the carpet."

However, for DC schemes and master trusts, illiquidity may be less of an issue, particularly with the range of ages they cater for.

"We talk about the problems of illiquidity, daily pricing and fair value, but members don't even look at it," says SEI's Charlton. "If you take somebody between the ages of 25 and 50, you can have a programme of reducing exposure over a period and recycling within the fund. What matters is making sure that when that person comes to take their benefits, they have the best outcome they could have had for the duration in which they were invested."

If that means there is something illiquid like infrastructure, which Charlton says may provide a better outcome with a similar risk profile, "then we should be looking at it as trustees, as strategists, as master trusts, and as consultants".

Investing in Britain

Among illiquid assets, infrastructure has attracted more attention, as the Conservative government has highlighted it as an area where they would like to see greater investment from pension funds to help boost the UK economy. New regulations and laws permitted in the post-Brexit legislative landscape could free up more schemes to invest more in UK infrastructure. However, there could be dangers with this approach.

"For all of the good that illiquids and alternatives offer, the worst thing that could happen is that we're legislated or compelled to do it," says SEI's Charlton. "If you've got a large master trust that's compelled to put 5% every year into the market, what on earth will you do when you get too big? How will you allocate that money? Are there enough projects? And will you end up sitting in cash?"

It could also potentially cause challenges for trustees that have a fiduciary duty to their members to deliver the best investment outcome possible.

"As a trustee, you're thinking about your fiduciary duties regardless of what the government says they would like pension schemes to invest in," says Law Debenture's Eagles. "So, you have to consider diversification, acting prudently and thinking about member outcomes and the membership profile."

Although infrastructure has caught the attention of politicians, there are lessons to learn from previous mistakes in the asset class.

"There are lots of amazing opportunities to make money, do really interesting things and impact investing with illiquids, but we mustn't neglect the all- important task of portfolio construction," says Fulcrum's Roberts.

"Investors need to be able to choose from a range of different providers. There is a major challenge with manager selection and concentration risk in illiquids, and that has burned pension schemes in the past. Diversification across different underlying strategies is important." Scalability of infrastructure allocations is another challenge as schemes and master trusts continue to grow.

"Once you get to a certain size you get disadvantages of scale," explains XPS Pension Group's Lawlor. "Perhaps you will have to put a break on it and say to a master trust that once you're beyond a certain size, say £20bn, you can't have any more contributions coming in."

For schemes that want scalable and liquid exposure to infrastructure assets, public markets could offer an alternative way to access the asset class.

"Listed infrastructure is massively scalable, and can provide a very good outcome for members," says Jim Wright, fund manager of the Premier Miton Global Infrastructure Income Fund and former fund manager within the British Steel Pension Scheme. "The size of the ticket doesn't matter too much."

"The listed infrastructure return is the same as the private infrastructure return and deviates massively from the broader equity market," he says. "And with listed infrastructure, you have complete transparency as well as complete liquidity."

The role of ESG in DC

Another trend among DC schemes is the growing awareness and interest among scheme members for ESG strategies, particularly those tackling climate change. There have also been regulatory initiatives, such as TCFD, that have forced schemes to consider and address carbon risk in their portfolios and their environmental impact. This means schemes have an increasingly sophisticated ESG approach.

"The industry has been through a learning phase over the last five to 10 years," says Fulcrum's Roberts. "Initially, schemes invested in strategies that only held low-carbon stocks as a way of tackling climate change. But that has evolved, including the idea of encouraging high-carbon companies to transition, often through engagement. This is difficult. It requires commitment, persistence and a plan." Roberts says a plan will help schemes to have better engagement with companies in their portfolios and help them reach their decarbonisation targets.

Again, this comes with challenges. ESG investing is nuanced and each scheme has a different set of goals and approaches to achieving decarbonisation.

This is where an active approach can have considerable advantages over passive strategies.

“We invest in North American gas pipeline stocks, which you can argue is bad because it is facilitating fossil fuel use,” says Premier Miton’s Wright. “But you can also argue that it is good because gas can displace coal, which is much dirtier, and fill in the gaps between the roll-out of renewable energy.”

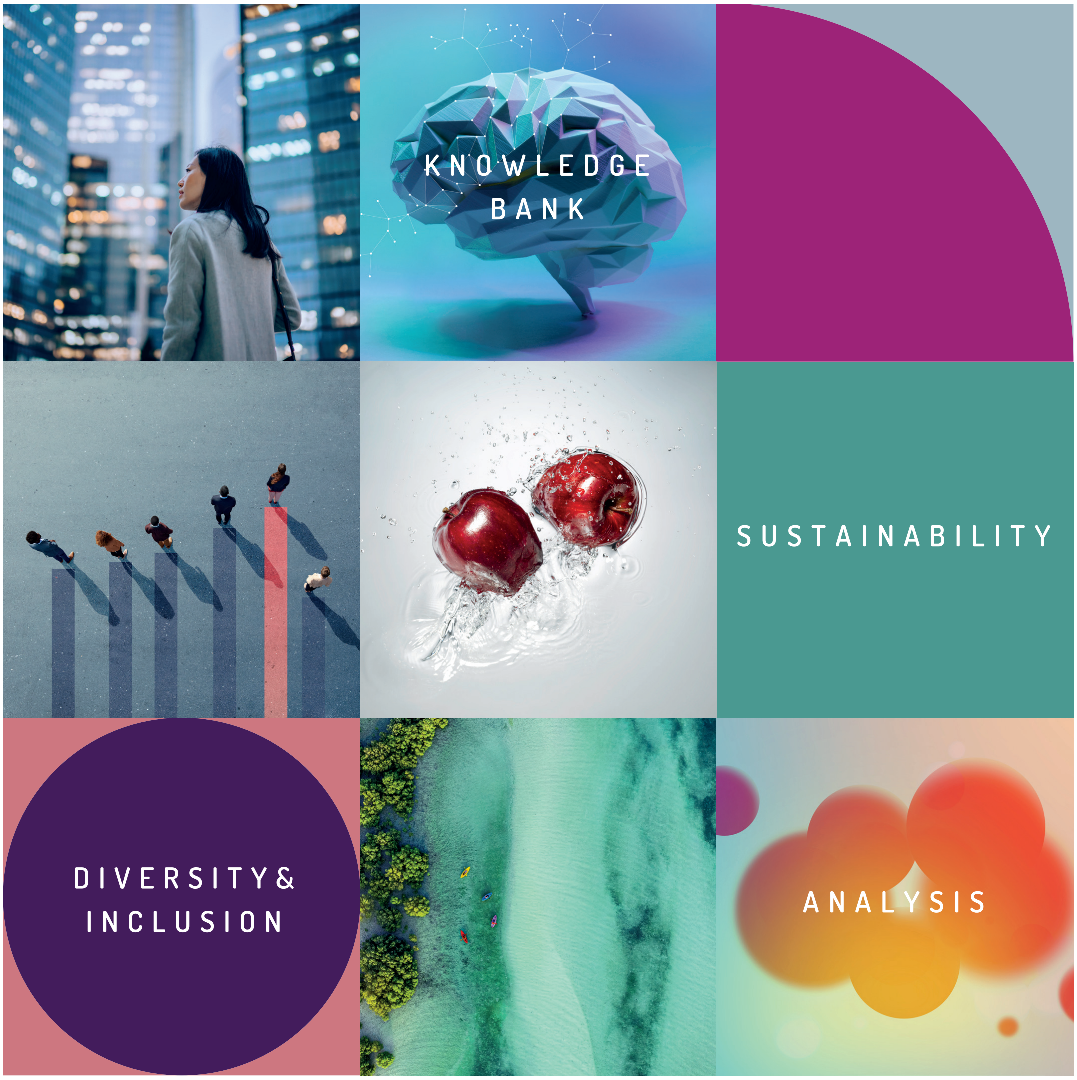
As shareholders representing a range of different investors, active managers can also engage more effectively to bring about change, says Wright.

Ultimately, schemes and master trusts must have good alignment with their investment managers, not only to achieve their ESG goals, but to deliver the best outcomes for members.

“Assessing the alignment of interests and your culture is a key part of picking a fund manager,” Wright continues. “You can’t necessarily control the financial outcomes, but one thing you can control is which fund manager you pick and the culture of the people you work with as partners.

“And that applies to everything and must take into account whether your fund manager has your best interests at heart, including when it comes to the fee structure.”

> ***Assessing the alignment of interests and your culture is a key part of picking a fund manager. You can’t necessarily control the financial outcomes, but one thing you can control is which fund manager you pick and the culture of the people you work with as partners.”***



Bringing data to life

We provide institutional investors, including pension funds, insurance companies and consultants, with data and analysis to assess, research and report on their investments.

CAMRADATA is committed to fostering and nurturing strong, productive relationships across the institutional investment sector and are continually innovating new solutions to meet the industry's complex needs.

info@camradata.com

CAMRADATA

Roundtable Participants

Matthew Roberts, CFA

Partner & Head of Alternative Solutions

Personal Profile

Matthew is Partner and Head of Fulcrum Alternative Solutions. Prior to joining Fulcrum in 2018, Matthew was a Portfolio Manager for the Towers Watson Partners Fund and before that he was a manager researcher in fixed income, hedge funds and other alternatives from 2005.

Matthew holds a BSc in Economics and Finance (2005) from the University of Bristol. He has been a CFA charterholder since 2009.

Company Profile

Founded in 2004, Fulcrum is a highly innovative, independent asset manager offering a broad range of investment capabilities. Headquartered in London, we also have offices in New York and Tokyo, with a growing presence in Europe and Australia. Fulcrum's people are at the heart of its business, with the partnership representing a team of over 90 people with approximately £4.9bn* in assets under management. All investment management activities are carried out from our London headquarters.

Independently owned, the firm is large enough to enjoy economies of scale and a breadth of expertise, but equally nimble enough to be able to respond quickly to market events or alter course to adapt to new opportunities. Through a unique and transparent investment approach, the aim is to build lasting relationships based on the alignment of client interests with Fulcrum's own.

Fulcrum's five key investment capabilities include Macro, Risk Premia, Alternative Solutions, Climate-aligned Investing and Thematic Equities, spanning systematic and discretionary investments, managed both internally and externally. Through our Solutions Team we also manage bespoke mandates on behalf of pension funds, institutions and charities. Our long-term goal is to work with clients that share our purpose and who seek expertise to help them meet their own objectives.

*as at 30 April 2023

FULCRUM

Jim Wright
Fund Manager, Premier Miton Global Infrastructure Income Fund

Personal Profile

Jim Wright joined Premier Miton in January 2017 and launched the Premier Miton Global Infrastructure Income Fund in March 2017. Jim also took over the management of the Premier Global Infrastructure Income Fund in May 2020. Before joining Premier Miton, Jim managed the Global Duration Equity Portfolio of the British Steel Pension Fund – an in-house listed infrastructure portfolio – from its inception in October 2006 to the time of his announced resignation in October 2016.

This portfolio represented over 95% of the fund's allocation to infrastructure and its success was recognised with a nomination for "Best Use of Infrastructure" at the 2016 Institutional Investor UK & Ireland Awards. Jim is a qualified chartered accountant.

Company Profile

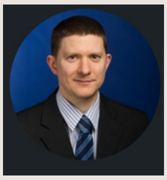
Premier Miton Investors is an active investment manager, with capabilities across equities, fixed income, multi-asset and absolute return strategies.

Our culture provides a platform for our investment teams to flourish and perform. We are independent thinkers, unconstrained by a house view. We take our role as stewards of assets very seriously, and focus on responsibly allocating capital, engaging with companies and considering our impact. We are active members of responsible investing initiatives including Climate Action 100+, the Investor Forum and the Carbon Disclosure Project (CDP).

Additionally, we are signatories to the Financial Reporting Council's UK Stewardship Code and the UN's Principals of Responsible Investing.

Premier Miton
INVESTORS

Roundtable Participants



Phil Crookston

Investment Consultant (DC)

Personal Profile

Phil is a qualified actuary who has over 20 years' experience in all aspects of UK pensions. Initially starting with traditional DB work at Mercer and XPS, then moving across to DC work whilst at KPMG in 2015. This involved several projects of moving single trust schemes to master trust as well as working with GPPs to get improved terms. Phil has acted as consultant to a range of own trust DC schemes, providing governance services to schemes who wish to remain own trust and working alongside providers to prepare market insight documents covering various aspects.

More recently Phil has undertaken a lead role in the provision of DC investment advice at Capita, providing bespoke performance monitoring reports and suitability advice on new defaults when schemes move to master trust.

Outside of work Phil has three young children and is an FA qualified coach, coaching both U12 and U8 girls at grassroots level.

Capita

Anna Eagles

Trustee Director

Personal Profile

Anna Eagles joined Law Debenture as professional trustee in 2016 and now represents LawDeb on a number of DC, DB and hybrid arrangements ranging from under £100m to over £10bn across different industry sectors.

She acts in both chair and non-chair roles, on Boards and Committees for trust-based arrangements, as well as on governing bodies for contract-based arrangements (under the FCA's regulatory structure).

Her current roles include Governance Committee chair for a £2bn contract-based DC arrangement, a member of the Vanguard Independent Governance Committee responsible for overseeing the investment pathways in drawdown as well as chairing governance, administration and operational committees across a variety of schemes.

In January 2023, Anna finished her 5-year appointment to the Smart Pension Master Trust board.

Anna is an Accredited Member of the Association of Professional Pension Trustees and a Fellow of the Institute and Faculty of Actuaries.

LawDeb

Lydia Fearn

Partner

Personal Profile

Lydia re-joined LCP in May 2022 to support the growth of the DC business and deliver advice to DC clients of all types and sizes.

The team advise a wide range of clients, supporting them on all areas of DC including investment strategy, scheme design, communication strategy and their wellbeing strategy with a focus on financial wellbeing.

Previously, Lydia was the Head of Pensions Consulting at Capita and the Head of DC and Financial Well-being at Redington, as well as working for Barclays and Hewitt Associates where she was responsible for providing investment advice to both DB and DC clients.

Steve Charlton

Managing Director Defined Contribution EMEA and Asia

Personal Profile

Steve joined SEI in 2017 as SEI's Defined Contribution Managing Director for EMEA & Asia. In his role, he is responsible for building upon the success of SEI's UK DC proposition across global markets.

Steve has 35 years' experience in the pensions industry, with particular expertise in defined contribution plans. He joined SEI from Vanguard Asset Management where he was their Defined Contribution Manager for Europe.

Prior to Vanguard, Steve had a 20 year career in consulting working for Mercer, Punter Southall and Towers Perrin

LCP INSIGHT CLARITY ADVICE

sei

Moderator

Jonathan Lawlor
Investment Consultant (DC)

Elizabeth Pfeuti
Chief Client Officer

Personal Profile

Senior Investment Consultant at XPS advising on DB and DC schemes. Adviser to the National Pension Trust, an XPS Master Trust. 30+ years experience working across actuarial, administration, communications, research and investment.

Personal Profile

Former Dow Jones staffer Elizabeth Pfeuti is Rhotic's Chief Client Officer and a member of the Rhotic Media executive leadership team. A highly-decorated journalist, Elizabeth has been in financial journalism for around 15 years. At Dow Jones, she covered the asset management, investment banking and investor services beats for Financial News, where she also wrote on a wide range of regulatory themes

She was previously the European Editor for CIO Magazine and boasts an exceptional contact book of buy-side and in-house institutional CIOs and asset management executives. More recently she has worked on corporate briefs for pension consultants, investment banks and asset management groups.

XPS Pensions Group

RHOTIC

For Professional Investors Only

Alternative Solutions for DC Savers

Our focus is on building innovative, ESG integrated, alternative investment solutions. Specifically designed for DC investors, our strategies provide exposure to a wide range of liquid and illiquid underrepresented asset classes.

For further information on any of Fulcrum's investment strategies, please contact **chris.gower@fulcrumasset.com**

fulcrumasset.com

This material is for information only and is not intended to be re-distributed. It is directed at professional clients and eligible counterparties only and it is not intended for retail clients. Redistribution or reproduction of this material in whole or in part is strictly prohibited without prior written permission of Fulcrum Asset Management LLP (Authorised and regulated by the Financial Conduct Authority, No: 230683). © 2023 Fulcrum Asset Management LLP. All rights reserved. FC206 160623

FULCRUM

Investment innovation
Macro foundations

FULCRUM

A New World: Private Market Innovation for DC

"Our focus is on providing DC members with high-quality, value-add assets from across the private markets spectrum"

The FCA's new LTAF rules are a turning point in enabling DC schemes to access the private markets. Until now it has been very difficult for fund platforms to offer illiquid investment strategies to DC Schemes and the LTAF structure removes many of these barriers. In turn, this could greatly benefit DC savers in the years to come due to three key reasons:

1. Many people do not save enough for their retirement, so the potential for additional returns from an LTAF can help to close that "savings gap".

2. A DC member's risk currently comes predominantly from listed equities during the accumulation phase. Adding a broad range of complementary, idiosyncratic private market investments can provide diversity to their portfolio.

3. Private investments have the potential to offer enhanced sustainability benefits, either through funding world-changing technology or through trying to solve the many social and environmental issues we face.

Under the LTAF, illiquid assets could become a key part of a DC member's portfolio, giving exposure to long-term private markets, such as infrastructure, providing a broader canvass for asset class diversification. However, the efficacy of the investment will depend on how the LTAF itself is designed as the rules allow for significant variation.

Our chosen approach is to build a diversified strategy capable of investing widely across the private market spectrum, accessing a range of niche specialists in their respective fields. We are focusing our efforts on innovating for DC to provide members with high-quality, value-add assets through a solution designed for them from the ground up.

Author:

Chris Gower, FIA
Institutional Client &
Consultant Relationships

Going modular

When we set up the Fulcrum Alternative Solutions team in 2018, one of our primary goals was to improve the quality and access of alternative investments available to DC savers. We have achieved this in the liquid space, with the launch in 2018 of Diversified Liquid Alternatives and now we aspire to do the same in private markets via the LTAF.

Our innovative modular investment design allows for breadth and depth of diversification across the five key asset classes in private markets: infrastructure, credit, private equity, natural resources and real estate. Within our design, priority will be given to value-add investments as we believe these fit best in the accumulation phase.

FULCRUM

Our intention is to be a “bridge” between DC members and specialist, value-add fund managers. There are large numbers of these highly specialised asset managers in the private markets that will most likely never launch an LTAF, though they would welcome the chance to provide access to their strategy to DC pension schemes. Fulcrum’s LTAF will act as a financial conduit, backing talented managers (using an open-ended ‘fund-of-one’) and connecting them to long-term DC member capital, across a broad range of underlying strategies as outlined below.

Transparency of fees and costs

We have always been, and will remain to be, fully transparent on fees – looking through our holdings to report all underlying asset management fees and expenses.

Performance fees are a hot topic in DC with the Chancellor of the Exchequer announcing last September that performance fees would be removed from the DC charge cap to spur UK pension fund investment in UK assets. Despite this, we have had strong feedback from the clients and consultants we have spoken to that performance fees remain difficult for DC schemes and are not wanted. Therefore, we have designed an LTAF that has no performance fees in it at any level.

A new investment paradigm?

With DB membership numbers declining, is this an opportunity for DC schemes to move pension fund investors into a new investment era? We believe it is, thanks to both the regulatory tailwinds and the LTAF’s ability to invest more broadly, and more easily, in private assets.

Market moves and the increase in the cost of capital are likely to create numerous, compelling private market opportunities in the months and years to come. Fulcrum's aim is to make these available to DC savers through working with specialist managers, and in doing so, create a long-term private markets programme with strong ESG integration credentials embedded throughout. Many DB funds are now closed, with workplace DC assets set to approximately double from £500 billion to £1 trillion by 2030.

Buying is good, building is better

The ownership and maintenance of pre-constructed, existing assets like solar and hydroelectric facilities is, of course, crucial to meeting sustainability goals, and is where many ESG-focused funds concentrate. But it's not enough. We need to build new renewable power generation facilities, new battery storage sites, install new home heating systems and improve the efficiency of our buildings at a much faster rate. These investments could, we believe, come with a substantial tailwind in terms of investment returns.

Fulcrum invests across private and public markets and incorporates sustainability and ESG innovation across both areas. In the private markets, we believe that having a small-to-mid-market value-add investment programme gives the best 'bang for buck', both in terms of return per unit of risk and across sustainability metrics. Our hybrid-liquidity offerings provide highly diversified exposures to create a real-world impact for the generations to come without sacrificing return.

The LTAF has the potential to be a catalyst for DC Schemes to invest in global private market assets over the coming decades. At Fulcrum, we are plugged in and ready to go!

DISCLAIMER

This content is provided for informational purposes and is directed at professional as defined in Directive 2011/61/EU (AIFMD) and Directive 2014/65/EU (MiFID II) Annex II Section I or Section II or an investor with an equivalent status as defined by your local jurisdiction. Fulcrum Asset Management LLP ("Fulcrum") does not produce independent Investment Research and any content disseminated is not prepared in accordance with legal requirements designed to promote the independence of investment research and as such should be deemed as marketing communications. This document is also considered to be a minor non-monetary ('MNMB') benefit under Directive 2014/65/EU on Markets in Financial Instruments Directive ('MiFID II') which transposed into UK domestic law under the Financial Services and Markets Act 2000 (as amended). Fulcrum defines MNMBs as documentation relating to a financial instrument or an investment service which is generic in nature and may be simultaneously made available to any investment firm wishing to receive it or to the general public. The following information may have been disseminated in conferences, seminars and other training events on the benefits and features of a specific financial instrument or an investment service provided by Fulcrum.

Any views and opinions expressed are for informational and/or similarly educational purposes only and are a reflection of the author's best judgment, based upon information available at the time obtained from sources believed to be reliable and providing information in good faith, but no responsibility is accepted for any errors or omissions. Charts and graphs provided herein are for illustrative purposes only. The information contained herein is only as current as of the date indicated, and may be superseded by subsequent market events or for other reasons. Some of the statements may be forward-looking statements or statements of future expectations based on the currently available information. Accordingly, such statements are subject to risks and uncertainties. For example, factors such as the development of macroeconomic conditions, future market conditions, unusual catastrophic loss events, changes in the capital markets and other circumstances may cause the actual events or results to be materially different from those anticipated by such statements. In no case whatsoever will Fulcrum be liable to anyone for any decision made or action taken in conjunction with the information and/or statements in this press release or for any related damages. Reproduction of this material in whole or in part is strictly prohibited without prior written permission of Fulcrum *Copyright © Fulcrum Asset Management LLP 2023. All rights reserved.*

Bringing your content to life

Deliver your thought leadership exclusively to the institutional investor market through the Knowledge Bank feature on CAMRADATA Live.

A free service for subscribing Asset Managers to upload content including articles, whitepapers, podcasts and videos as well as the opportunity to feature in our weekly newsletter with full 360 reporting. Share your knowledge, your way, with the people that matter.

info@camradata.com

CAMRADATA

Premier Miton INVESTORS

Listed Infrastructure Insight

"We believe that the characteristics of infrastructure assets, which can offer asset-backed, inflation-linked, long-term returns, may be well-suited to institutional investors. Listed infrastructure funds give exposure to the asset class with liquidity and a breadth of exposure across infrastructure sectors and different geographies".

Premier Miton Global Infrastructure Income Fund

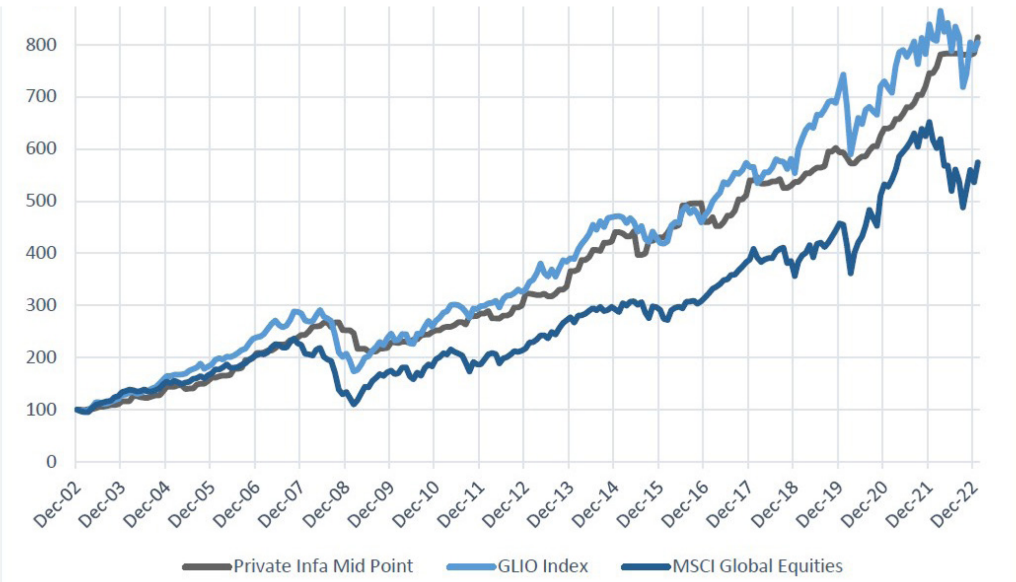
The growth in infrastructure as an asset class has arguably been one of the success stories of thet last 20 years, with infrastructure assets providing an attractive combination of resilience and growth, and a useful source of diversification when compared to traditional asset classes. The sector has positive attributes for all types of investor, but may be particularly suited to long-term institutional investors, given the nature of infrastructure assets and their return profile.

Infrastructure includes many large- scale, capital-intensive assets built out over many decades. Particularly in the utilities sector these assets are often monopolies, such as electricity transmission and distribution grids. Returns are usually determined by an independent regulator, with a mandate to support the reliability of the assets and incentivise growth capital.

These regulated returns can provide a stable, predictable cashflow and dividend flow to long-term investors, and are frequently linked to local inflation metrics. Investors in infrastructure can take advantage of these resilient, regulated returns from assets as diverse as renewable electricity generation, toll roads and fixed-line telecommunications networks.

Even where returns are not regulated, the nature of the assets in the sector can provide stable, visible, long-term contracted returns, as customers commit to use the assets over a long period of time. Sectors such as mobile telecommunications towers and natural gas pipelines provide investors with multi-year visibility of returns, and like regulated assets, these returns are often linked to measures reflecting local or regional inflation metrics.

Global Listed Infrastructure Organisation (GLIO) Index compared to Private Infrastructure and Global Equities – indexed to 100



Source: Global Listed Infrastructure Organisation (GLIO) data from 01.12.2002 to 01.01.2023. Past performance is not a reliable indicator of future returns

Author:

Jim Wright
Fund Manager

An alternative way

Traditionally, institutions have accessed the infrastructure sector through direct investment in assets or through unlisted funds, which purchase a single asset or a collection of assets and where investors own stakes proportional to their investments in the funds. This has proved successful in terms of returns, which the above chart, showing aggregate data for 'Private Infrastructure' illustrates.

However, it does come with some disadvantages. Liquidity can be problematic, as it takes a significant period of time to make an investment and institutions are unlikely to be able to exit before the terminal date of the fund. Also, there is concentration risk if funds are invested in a single asset or small number of assets, limiting exposure to specific infrastructure sectors or geographies.

Listed infrastructure strategies offer an alternative way for investors, including institutions, to gain exposure to the sector. These strategies give exposure to the underlying infrastructure assets through equities investing in these sectors. As shown on the chart above, the listed infrastructure strategies have kept pace with private infrastructure funds over the past two decades and have significantly outperformed the wider equity market. They offer abundant liquidity and also a broad spread of assets across infrastructure sectors and geographies and provide a straightforward way for institutions to allocate to infrastructure.

One of the concerns commonly expressed around listed infrastructure strategies is that they are comprised of equities, and therefore correlate too closely to broader equity indices. It is useful to look at recent experience to see where the strategies can provide diversification when compared to conventional equity allocations.

2022 was a challenging year for equity markets, with broad indices delivering a negative return. In contrast, the Premier Miton Global Infrastructure Fund recorded a positive return, as did the broader Investment Association Infrastructure sector. The positive return demonstrates the relative defensive nature of the stocks in the listed infrastructure universe, in this case providing valuable diversification for investors. For example, the largest individual sector component of the Premier Miton Fund is utilities – a sector that makes up only 3% of the FTSE All-World Index.

A fertile feeding ground

The chart below illustrates another positive attribute of listed infrastructure, which is that the quoted companies can provide a fertile feeding ground for private investors looking for high quality assets at attractive price levels. The data illustrates that, over a sustained period, the multiples paid by private investors, including pension funds, private infrastructure funds, private equity funds and sovereign wealth funds, have been materially higher than the underlying aggregate multiple of earnings for the listed infrastructure benchmark. EV/EBITDA is a ratio that compares a company's Enterprise Value (EV) to its Earnings Before Interest, Taxes, Depreciation & Amortization (EBITDA).

The continued acquisition activity in the sector has provided a welcome boost to returns for listed infrastructure investors, and also highlights the significant underlying value in this area of the wider asset class.

Infrastructure EV/EBITDA - Individual Transactions v GLIO Index December 2007 to January 2023

Source: Global Listed Infrastructure Organisation (GLIO) data from 01.12.2007 to 01.01.2023 Past performance is not a reliable indicator of future returns.

Premier Miton INVESTORS

The portfolio is currently constructed around the key long-term themes for global infrastructure, combining returns on existing assets with growth in areas essential to the functioning of society in the 21st century.

Firstly, we have a strong focus on the energy transition, and have investments in companies which we believe will benefit from the increase in renewable energy generation, the growing electrification of areas such as passenger cars and trucks and from developing technologies such as hydrogen as a fuel, carbon capture and storage and energy storage solutions.

We see the energy transition driving long-term positive returns from companies involved in wind and solar generation, from regulated utilities with electricity transmission and distribution grid assets, and from companies owning European electricity interconnectors.

We have a significant weighting in US regulated utilities and renewables, where we believe that the impact of the Inflation Reduction Act signed into law by President Biden in July 2022 will be a significant driver in broadening and accelerating the impact of the energy transition in the USA.

The second core theme in the fund is the provision of infrastructure to support the consistent growth in demand for high-speed data connectivity. Mobile telecommunications towers and masts and fixed-line fibre networks are the core assets supporting data networks, and in our view are consistently undervalued based on their long-term return potential as usage grows to meet customer needs. As well as owning the "pure-play" infrastructure stocks such as towers companies, we also own a number of network operators who themselves own significant fixed and mobile network assets.

Thirdly, we believe that natural gas is an essential transitional fuel, displacing coal, and augmenting renewables in electricity generation, and we have exposure to North American gas pipeline assets and liquified natural gas (LNG) export facilities.

In summary

We believe that the characteristics of infrastructure assets, which can offer asset-backed, inflation-linked long-term returns, may be well-suited to institutional investors. Listed infrastructure funds give exposure to the asset class with liquidity and a breadth of exposure across infrastructure sectors and different geographies. Listed infrastructure funds may also offer a dividend income for investors, with the Premier Miton Global Infrastructure Income Fund currently yielding 4.2% as at 31.05.23 (Source: Premier Miton).

The level of income paid by the fund may fluctuate and is not guaranteed. The historic yield reflects distributions declared over the past twelve months as a percentage of the fund price as at the date shown. It does not include any preliminary charge and investors may be subject to tax on their distributions. As the objective of the fund is to treat the generation of income as either an equal or higher priority than capital growth, the fund's charges will be taken from capital instead of income. This may result in higher levels of income payments but could result in capital erosion or constrain capital growth .

Risks

The value of stock market investments will fluctuate, which will cause fund prices to fall as well as rise and investors may not get back the original amount invested. Infrastructure investments are often in large-scale projects whose profitability can be affected by supply problems or rising prices for raw materials or natural resources. Changes in the wider economy and government regulation can also have a significant influence. This fund may experience high volatility due to the composition of the portfolio or the portfolio management techniques used. Past performance is not a reliable indicator of future returns. Forecasts are not reliable indicators of future returns.

INFORMATION: For Investment Professionals only. No other persons should rely on the information provided. Whilst every effort has been made to ensure the accuracy of the information contained within this document, we regret that we cannot accept responsibility for any omissions or errors. The views and opinions expressed here are those of the author at the time of writing and can change; they may not represent the views of Premier Miton and should not be taken as statements of fact, nor should they be relied upon for making investment decisions. Reference to any particular investment does not constitute a recommendation to buy or sell the investment. A free, English language copy of the Prospectus, Key Investor Information Document and Supplementary Information Document are available on the Premier Miton website, or copies can be requested by calling 0333 456 4560 or emailing contactus@premiermiton.com.- Financial promotion issued by Premier Portfolio Managers Limited (registered in England no. 01235867), authorised and regulated by the Financial Conduct Authority, a member of the Premier Miton Investors marketing group and a subsidiary of Premier Miton Group plc (registered in England no. 06306664). Registered office: Eastgate Court, High Street, Guildford, Surrey GU1 3DE. 010240/290623

Important Notice

This document is produced by CAMRADATA Analytical Services Limited ('CAMRADATA'), a company registered in England & Wales with registration number 06651543.

CAMRADATA is neither authorised nor regulated by the Financial Conduct Authority in the United Kingdom nor the Securities and Exchange Commission in the United States of America.

This document is a marketing documentation and is not intended to constitute an invitation or an inducement to engage in any investment activity. It is not intended to constitute investment advice and should not be relied upon as such. It is not intended and none of CAMRADATA, its holding companies or any of its or their associates ('With Intelligence Group') shall have any liability whatsoever for (a) investment advice; (b) a recommendation to enter into any transaction or strategy; (c) advice that a transaction or strategy is suitable or appropriate; (d) the primary basis for any investment decision; (e) a representation, warranty, guarantee with respect to the legal, accounting, tax or other implications of any transaction or strategy; or (f) to cause the With Intelligence Group to be an advisor or fiduciary of any recipient of this report or other third party.

The content and graphical illustrations contained in this document are provided for information purposes and should not be relied upon to form any investment decisions or to predict future performance.

CAMRADATA recommends that recipients seek appropriate professional advice before making any investment decision.

Although the information expressed is provided in good faith, the With Intelligence Group does not represent, warrant or guarantee that such information is accurate, complete or appropriate for your purposes and none of them shall be responsible for or have any liability to you for losses or damages (whether consequential, incidental or otherwise) arising in any way for errors or omissions in, or the use of or reliance upon the information contained in this document. To the greatest extent permitted by law, we exclude all conditions and warranties that might otherwise be implied by law with respect to the document, whether by operation of law, statute or otherwise, including as to their accuracy, completeness or fitness for purpose.

CAMRADATA Analytical Services Limited and its logo are proprietary trademarks of CAMRADATA and are registered in the United Kingdom.

Unauthorised copying of this document is prohibited.
© Copyright CAMRADATA Analytical Services Limited 2023

CAMRADATA
With Intelligence
One London Wall
London
EC2Y 5EA

+44 (0)20 7832 6500
camradata.com

Join us on LinkedIn