

Alpha Real Capital

PENSION SCHEMES SET TO INCREASE THEIR ALLOCATION TO ILLIQUID ASSETS

New research from Alpha Real Capital (“Alpha”), the specialist manager of secure income real assets, shows UK pension schemes are increasing their allocations to illiquid assets thanks to greater transparency around the assets, increasing opportunities and the diversification benefits.

This research is timely given the recent news that The Pensions Regulator will not proceed with a proposal to cap investment in unquoted assets to no more than a fifth of a portfolio. Such a cap would clearly have been at odds with pension scheme intentions according to Alpha’s findings.

The survey of 100 UK professional pension fund investors found:

- Some 85% of UK professional pension fund investors say the scheme they work for will increase its allocation to illiquid assets over the next three years, with 7% expecting a significant rise.
- Illiquid assets are growing in popularity across the pension scheme sector as they offer the potential to earn a premium over more liquid assets.
- Schemes already have substantial allocations to illiquid assets – around 58% of investors say their scheme allocates up to 25% to illiquid assets as part of their investment strategy.
- Nearly two out of five (37%) say they allocate up to 10% of their portfolio to illiquid assets, and 3% allocate more than 25%. Just 2% say they have no specific allocation to illiquid assets.

Alpha’s research shows the main reason for increasing interest in illiquid assets is greater transparency around the asset class with 79% saying they are increasing allocations because of that. However, 69% say increased opportunities to invest in illiquid assets is driving interest.

Around 44% of those questioned say they are increasing allocations to illiquid investments because of a growing desire to diversify their portfolio while 8% say improvements in the premium for investing in illiquid assets is driving interest.

Most investors are happy with an additional premium for investing in illiquid assets of less than 1%, the research found. Around 58% say they expect an additional premium of between 0.5% and 1% while 4% will settle for less than 0.5%. However, a third (34%) expect a premium of between 1% and 1.5% while 4% look for an additional premium of more than 1.5%.

Boris Mikhailov, Head of Client Solutions at Alpha Real Capital commented: “Illiquid assets offer the opportunity to earn a premium above more liquid assets which helps explain their growing popularity with pension scheme investors.

“With returns on some other asset classes squeezed, it makes sense to consider illiquid assets and nearly six out of 10 schemes are already allocating up to 25% to the sector and the overwhelming majority are using illiquid assets in some shape or form.”

Shajahan Alam, CDI Director at Alpha Real Capital added: “Pension funds are increasingly looking for certainty of returns through contractual cashflows, higher yields and portfolio diversification. This means growing allocations to illiquid assets.

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“For example, Commercial Ground Rents and Lifetime Mortgage assets can deliver steady and reliable returns that match pension scheme cashflows while generating between 4% to 5% per annum above comparable government bonds. Commercial Ground Rents provide the added benefit of being inflation linked.”

-Ends-

Notes to editors

⁽¹⁾ Alpha Real Capital commissioned the market research company Pure Profile to survey 100 UK based professional pension scheme investors. Interviews were conducted online in August 2021.

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About Alpha Real Capital (www.alpharealcapital.com)

Alpha is a specialist real assets investment manager focussed on secure income strategies. The firm invests in UK and European assets with predictable secure long-term cash flows. Alpha provides market leading and innovative real asset solutions across a range of investments such as commercial ground rents, UK renewable infrastructure, social real estate, and secured lending, combining operational real estate expertise and fixed income skills.

Alpha has a 160 plus strong professional team with over £4 billion of assets under management, including capital commitments.

Alpha operates across diversified investment markets: listed and unlisted property vehicles, open and closed ended property vehicles, UK, and international funds, working with large institutional investors as well as private investors, family offices and wealth managers.

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