

# Alpha Real Capital

## SECURE INCOME REAL ASSETS TIPPED TO PROVIDE A MUCH NEEDED SUPPLY OF MATCHING ASSETS AT ATTRACTIVE RISK-ADJUSTED RETURNS OVER 2022 AND BEYOND

Alpha Real Capital (“Alpha”), the specialist manager of secure income real assets, says the strong stock market performance in 2020 and 2021 means many UK pension schemes have made good progress towards meeting their long-term goals, and are primed to de-risk.

However, there is a dramatic shortage of inflation-linked assets to de-risk into. As a result of this it expects to see growing demand from schemes for secure income real assets. Moreover, they are a welcome supply of inflation-linked assets that, due to their private markets nature, provide pension schemes with an opportunity to structure features to better suit their needs.

Demand for private market real asset investments by pension schemes is also being driven by the search for yield, wider opportunities, and portfolio diversification. They also provide unique opportunities to invest in line with ESG objectives, not least the opportunity to focus on social impact without forgoing returns.

As pension schemes look to de-risk, many will look to increase their inflation matching assets, but Alpha warns demand for these is likely to continue to outstrip supply. On 23rd November 2021, £1.1 billion of index-linked gilt 2073 (nominal) was issued, and analysis from Alpha reveals demand for this was £17.7 billion (nominal), which meant it was 16 times oversubscribed. The sale cleared a yield of -2.38%, a record low yield for a syndication.

Alpha highlights Commercial Ground Rents (CGRs) as a good example of what pension schemes can achieve versus just holding index-linked gilts (ILGs). CGRs provide a good risk-adjusted return. They currently trade at spreads of c.4% to 5% over long-dated index-linked gilts. Investors receive investment grade cashflows, income security, inflation-linkage, and capital stability. The cashflow profile is also more attractive than for ILGs as the income generated is significantly higher for CGRs. This enables pensions to be paid, whereas cashflows from ILGs is very much back-end loaded.

**CIO and Head of Sustainability at Alpha Real Capital, Ed Palmer, said:** “Many pension schemes are getting closer to their end-game and need to bear down on inflation and interest rate risk. Whether the target is insurance buy-out, a low dependency run-off portfolio or going into a consolidation vehicle, all of these end destinations for pension scheme liabilities involve even higher inflation hedging levels than currently prevail. Investors backing these liabilities will therefore be faced with the challenging task of finding suitable matching assets. We estimate that around 30% of UK pension scheme inflation-linked liabilities - worth up to £450 billion - are un-hedged. This will fuel demand for secure income real assets”

**Director of Cashflow Driven Investments at Alpha Real Capital, Shajahan Alam, said:** “The higher income level from a secure asset gives more investment freedom to the pension scheme to pursue opportunities and avoid having to sell assets to meet pension payments. Also, contracts can be structured to better match assets with liabilities. For example, the inflation-linkage in CGR contracts

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is linked to RPI with caps and floors as opposed to just RPI. Such 'limited price indexation' will be familiar to pension schemes as their pension payments also feature caps and floors. This means the inflation in the asset accurately matches that of the liabilities."

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## Notes to editors

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## About Alpha Real Capital ([www.alpharealcapital.com](http://www.alpharealcapital.com))

Alpha is a specialist real assets investment manager focused 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 infrastructure and secured lending, combining operational real asset expertise and fixed income skills.

Alpha has a 160 plus strong professional team with over £4.6 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 wealth managers.

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