

Alpha Real Capital

STUDY REVEALS INFLATION AS BIGGEST WORRY FOR LOCAL GOVERNMENT PENSION SCHEME FUNDS

New research ⁽¹⁾ with UK Local Government Pension Scheme (LGPS) Fund professionals in England and Wales reveals that 58% of LGPS fund professionals said inflation is their fund's biggest worry. The second biggest worry by a long way was longevity at 19%. Some 14% cited affordability of future accrual as their fund's biggest worry, and 9% cited geopolitics.

The research, which is from Alpha Real Capital (Alpha), the specialist manager of secure income real assets, also reveals that 53% of respondents said the target for their investment portfolio post-valuation would be an Inflation + (CPI +) target while 47% cited Gilts + as their benchmark.

The latest Inflation figures were for April 2022 coming in at 9% for CPI and 11.1% for RPI. Alpha comments that, in light of high inflation prints in recent months and the survey results, managing inflation risk will be top of mind for LGPS. This is especially relevant this year as March 2022 is the date for triennial valuations and a trigger for reviewing investment strategy. Secure income real assets, with their contractual inflation-linked returns should feature as an asset class that will help LGPS meet their objectives.

Shajahan Alam, CDI Director at Alpha Real Capital said: "A higher inflation world is a very plausible scenario going forward. In such a scenario many assets can struggle to perform. To protect portfolio performance, investors will need assets that provide contractual inflation-linked returns. Secure income real assets will therefore be an attractive option for LGPS funds, bearing in mind that they also have inflation-linked liabilities. In addition to the inflation protection, these assets can also provide attractive returns for the investment grade risk they offer investors."

Boris Mikhailov, Head of Client Solutions at Alpha Real Capital said: "Out of all institutional investors LGPS funds are arguably best positioned to make the most out of secure income assets. This is because they can take a truly long-term view when investing. There is no buy-out 'endgame' with insurers. So unlike many corporate DB schemes that shy away from investing in illiquid assets or feel a need to reduce their holdings if buy-out is on the horizon, LGPS funds can hold these assets for the long-term. For example, long-dated assets such as commercial ground rents or unlevered infrastructure as well as delivering secure income at yields of 3% to 5% p.a. higher than Government Bonds also offer a high degree of inflation protection. This is particularly beneficial in the current market environment."

Phillip Rose, CEO at Alpha Real Capital added "Long income real estate, social infrastructure and renewables infrastructure, offer LGPS funds attractive risk-adjusted returns with high levels of

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inflation linkage and predictable cashflows. In a world where concerns are rising about “higher for longer” inflation, these inflation-beating asset classes address a key LGPS concern.”

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Notes to editors

⁽¹⁾ Alpha Real Capital commissioned the market research company Pure Profile to survey 100 LGPS fund professionals. Interviews were conducted online in April 2022.

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About Alpha Real Capital (<https://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 infrastructure, and secured lending, combining operational real asset experience and credit expertise.

Alpha has a 160 plus strong professional team with £4.7 billion of assets under management, including capital commitments – of which over £1bn is in social assets.

Alpha operates across diversified investment markets: listed and unlisted investment vehicles, open and closed ended property vehicles, UK, and European funds, working with large institutional investors and wealth managers.

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