



Fireside Chat Fireside Chat with Schroders and Ninety One on the UK's Public and Private Markets

The Rt Hon the Lord Mayor of the City of London Alderman William Russell, with Peter Arnold, Global Head of Private Asset Sales, Schroders and Michael Spinks, Co-Head of Multi-Asset Growth, Ninety One

Alderman William Russell

I am William Russell, the 692nd Lord Mayor of the City of London. And my role is as an ambassador for financial and professional services for the whole of the UK that employs 2.3 million people. And next week, I will take a virtual visit to China, bringing with me a leading UK business delegation from the UK's investment management sector, including the London Stock Exchange, leading asset managers like Standard Life Aberdeen, Schroders, Legal & General, Ninety One, Man Group, and many others.

During the visit, I will host bilateral meetings and roundtables with Chinese asset managers and investors, to learn about China's fast growing asset management sector, promote better understanding between the UK and Chinese investment management industry, and exchange ideas on key topics which are affecting the global investment management landscape such as ESG investing.

Now China's asset management industry has gone through an unprecedented period of growth in the past 10 years with a tenfold increase. It's also at the beginning of an exciting transformation journey, characterised by the shift of funding from the retail to institutional segment, opening up of distribution channels, proliferation of active asset managers, and growing cross-border connectivity between China and the global markets.



As the largest global asset management hub outside of the US, London has a lot to share. London is a magnet to financial institutions as well as global institutional investors, and an important destination for asset managers from all around the world seeking to attract international investors to their own products and services. Overseas clients account for 43%, £3.6 trillion of the total assets managed in the UK. Also being the world's most international and connected financial centre, London provides unrivalled access to global markets. For those looking to attract assets from such managers, London is a vital marketplace to engage with. And today, I have the opportunity to speak to two of the leading experts from the UK's asset management industry to share with us their view of the London market.

Now we have here, Peter Arnold, the Global Head of Private Asset Sales at Schrodgers to share more about the private asset market in London, and what it offers international investors including those from China. So welcome, Peter. Good to see you. And as an expert in private asset investment, can you share with us, what are the key trends that you see in private asset management currently, and also, how are those trends important, relevant for investors, especially those from emerging markets like China?

Peter Arnold

The key trends that we see in private assets currently are clearly affected by what we've seen in COVID and the economies over the last six to nine months. But having said that, we've seen a good resilience throughout the private asset world in terms of private equity, real estate, and infrastructure. And those tend to be the trends that we're seeing in the sense that these are the areas in which investors are focusing on essentially because they have either shown themselves to be resilient in terms of pricing and reaction to the market or because investors are looking for opportunities to invest in dislocated markets.

I think these are, you know, when one thinks about how that translates for investors in emerging markets and China, I think, the interesting opportunities really are that when you look at London and the UK, specifically, we can see that we're breaking out into, sort of, three or four component parts in terms of those trends being relevant. One is real estate. What we're seeing in the real estate market and especially around London, which has traditionally been a haven for emerging market money is that we will see an evolving



investment process that will centre around ESG in offices, for example, where we will look for sustainability, impact, and how these things will become more energy efficient, and so on. So, I think new investments into new buildings will take more into account, these other factors around ESG than just a pure rental profile, cash flow profile. There will be added components to what investors will look at.

I think in infrastructure, we will see, and we are seeing that governments, across the globe, and this is not unique to the UK, will use infrastructure to really kick-start the economy in many respects. And a lot of that will be driven through new technologies or renewable technologies. So, you know, the working from home will push for a lot more telecommunications type infrastructure, renewables are going to be growing and growing. And we're gonna have subsets of renewables as we think about infrastructure.

Alderman William Russell

And with private investments playing an increasingly important role in most institutional portfolios, what do you think a global investment hub like the UK can offer these institutional investors in their private asset investments?

Peter Arnold

Naturally, I think what you will see is that the UK and London specifically will play a great and a consistent part of how people will access private markets. And I say that because really, when you look at the innovation of the last 10 years, in terms of private assets, it's really emanated out of New York and London. And London really being the hub as how you think about investing not only in the UK, but across Europe, but also a hub for global access.

So that trend with Brexit or without Brexit, I think, will continue simply because you've got the ecosystem of knowledge that has built up over the last 10 years. And that doesn't go away in a hurry. So I think, you will find, many of the expertise that one needs, in order to find the opportunities, in order to know how to invest in those opportunities, that London will remain a hub in that with that regard.



Alderman William Russell

And also, what are the key things that investors should consider to fully optimise a portfolio of private assets?

Peter Arnold

In terms of how people should think about optimising their portfolios, to my mind that really breaks down into two components, are you growth orientated or are you income oriented. And if you're growth orientated, you will tend towards having a private equity, real estate, and infrastructure heavy portfolio where you will look for a multiplier effect on your initial investment. And within that, the ESG component will be played out in the near term through the real estate and through the infrastructure, and you will see that increasingly playing out in private equity, but that will be slower in weaving its way into that. But having said that, I know it is, top of mind on most of the private equity players as we think about those asset classes today.

And if you're really thinking about an income portfolio, what you would add to that and have a greater component of that would be in private debt, and that private debt can come through, the corporate direct lending, it could come through, real estate debt, and it could come through infrastructure debt. So, there are many components to that private debt asset class, if you wish, that could come to play in creating a coupon which allows, really, for that income orientated investor into private assets.

Alderman William Russell

Finally, with the vaccines, or the three different vaccines we're talking about at the moment, I sort of feel this is the beginning of the end. And hopefully by March, April, springtime, things will look a lot brighter. As you can tell, I'm quite bullish over the next 12 months, I want to know whether you are too. What's the outlook for private asset investment over the next 12 months?

Peter Arnold

When we think about private assets over the next 12 months and the outlook for the asset classes, I remain bullish. I think the way that the asset class has behaved over the last nine



months in terms of reaction to the market turbulence, market volatility, as well as to the effects of COVID, we have seen huge resilience within the different parts of private assets. Private equity has seen some great flows on the basis of people who are looking to take advantage of dislocation. Infrastructure has remained very steady because of the long-term nature of the underlying assets, and therefore, short-term movements have less effect on them. And I think from a real estate perspective, there's been a wait and see, but I think as we look forward and have more clarity post a vaccine, there's going to be some very interesting opportunities that will arise from that.

And lastly, in private debt, as we see the effects of COVID, sort of solidified, and we see who will survive and who won't over the next three years, it's gonna create a tremendous opportunity on the debt side as well. So, I think for those reasons, I see that private assets will remain a key component to people's asset allocation. I think on the other side, there are still sets of differing clients across the globe that have not really yet accessed this market and I think the last 9 to 12 months will have shaped their opinion that it is becoming a safer place or a place of opportunity. And therefore, I see those portfolio asset allocations to private assets increasing. So, for those two, or for those multiple reasons, I remain bullish for the asset class, not just for the 12 months to come, but for the longer term as well.

Alderman William Russell

Very good to hear. Well, thank you, Peter. It's been a fascinating chat.

And next, I will speak to Michael Spinks, the Co-Head of Multi Asset Growth at Ninety One on the public market in London, and what it offers to international investors.

Michael, it's good to see you again. Thank you for doing this. And I know you have previously spoken at our webinar, Meet the Leaders, Investment Management Series. And as an expert on public asset investment, can you share with us, what are the key trends and opportunities that investors should be looking out for in the public market?

Michael Spinks

Well, thank you, Lord Mayor, and delighted to talk to you again.



I think the question of trends is a really important one for investors to focus on because sometimes, we do focus too much, I think, on day-to-day short-term volatility in markets, whereas support for strong compounded returns really comes from these underlying structural trends. That's the underpinning for savers, institutional investors, and companies trying to meet liabilities.

Now this is very much our approach is to assess these possible visions of the future and the drivers behind the outcomes, think about the areas perhaps of undiscounted change in the market that could present opportunity. And it's an approach that provides this anchoring guide for medium-term thinking on financial markets. So, I think I could probably highlight five trends over the next few years to really focus on.

First, extremely pertinent to the viewers is the rise of China. Highly relevant, the emergence of a consuming middle class in China and more broadly in Asia, is pulling the centre of economic gravity eastwards. As China's transitions from its heavily investment-led model into a more consumer-led model, it will increasingly have influenced not only in Asia, but actually globally. And for investors, the development of capital markets in China and growth dynamics across Asia is a tremendous opportunity to compound returns.

Secondly, technological disruption made all the more pertinent clearly by the COVID pandemic, it's also widespread in multiple other fields and continues to challenge traditional industries and create new products. But we don't think of it so much as a series of objects but more as an enabler of goods and services, and allowing transformations in the workplace and mobility, and in health care.

Thirdly, climate change, I mean, extremely relevant clearly in recent days with the Green Horizon Summit, and such a huge topic. The defining challenge arguably of our generation, and we look here for the enablers and beneficiaries of decarbonisation as more countries and companies commit to net zero goals, consumer preferences acclaim to changing very rapidly. The opportunities for investors are there to provide the essential capital required to make the transition and also generate returns.



Fourthly, debt in one way or another, monetary and fiscal authorities will find themselves responding to the very high levels of debt that we have now building up. And the pandemic has, of course, just thrown fuel on that fire with the extraordinary support that we've needed to support individuals, businesses, and the broader economy.

And finally, demographic challenges, by their nature, these do take time to materialise, but somewhat rarely in financial markets actually, we have a high degree of certainty about how they're likely to shape. So, if you look at, say, the US where we're moving now from the baby boomer generation dominating to the millennial generation actually being the largest cohort in the US population. And that does change the nature of consumption, they're starting to move to the point where leverage is increasing, household formation starts to occur, their incomes rise. So that equally, I think, will have some ramifications for the next few years ahead. So, they're very high level rather quickly, but five trends that we think are shaping up over the next 5 to 10 years.

Alderman William Russell

Michael, thank you, very interesting. And I'm gonna pick you up on the one trend because this time last week, we were just finishing the Green Horizon Summit here at the Mansion House, which we hosted ahead of COP26. And ESG is definitely one of the biggest themes affecting investment in 2020 and will continue to affect investment. So, could you give us, please, some tips on how investors can capture sustainable investment opportunities in the public market?

Michael Spinks

Absolutely. Well, first, I could say what a fantastic event it was...

Alderman William Russell

Well, Ninety One were a very fine sponsor and I had a very good bilateral with Hendrik du Toit. So, thank you for your support. We appreciate that.



Michael Spinks

Well, very happy to be part of it. I think it just demonstrated the very powerful alignment between politicians, policymakers, asset owners, asset managers, in building the momentum and sustainability towards financially based action. And there's a real sense, I think, of change.

I think it's also worth mentioning that 2020 was the year when not only just momentum really turn into action, of course we have President Xi, in his speech at the United Nations, committing China to a net carbon neutral target by 2060. And that I think, will also prove to be a critical moment in years to come alongside the EU and the UK where we've also got ambitious targets. And, of course, we await the same from America.

When it comes to the sustainability challenge, I think the big question is how can we generate economic growth in returns while putting the causes of climate change into reverse, mitigating the loss of natural capital while maintaining social cohesion and broad based progress. And there is such clear role, I think, for financial markets and investors in that, the financing required to clean up our energy system over the next 30 years or so, is anything between \$100 trillion and \$150 trillion. So, if we go for the lower end of that, that's \$3.5 trillion a year. And that clearly is gonna have to come from private capital and is of course an enormous opportunity to generate returns.

And within the other enablers and beneficiaries of decarbonisation, we think of three groups of companies. There are the efficiency providers, improving resource efficiency, there are those that help to improve the provision of renewables, and there are those that contribute towards electrification, particularly as regards to transportation. So, I think there is also this widening gap between those companies that do understand and embed sustainability into their business. And I mean, they're beyond environmental into other social parts, where the leadership and culture of the business is very much steeped in sustainability, and those where it is absent.

I think understanding the positive and negative externalities, created by a company's activity is really important for investors because we are seeing those externalities much more



rapidly valued and priced by markets. And perhaps, I could also mention fixed income, because, you know, we're also seeing the same from countries, those countries that are more exposed to physical and transition risk, and are not putting in policies in place to adapt are likely to have to pay a higher price to borrow in future years, purely because the economic risks are going to be so much higher to those countries. So, I think there's a multitude of opportunities and it's a complex area, but it's a fascinating area to have the debate. But I think it's a really interesting area that's going to be, I think, the real driver by in returns, it needs to come.

Alderman William Russell

Very good. And, of course, last week or the green gilt was finally announced by the Chancellor. And that is something which we're very excited about. Sometime in 2021 there'll be a green gilt and I'm sure many asset managers here in London around the world will be invested in our green gilt, or many green gilts to come.

Now people always say London is the world's most international market for the admission and trading of equity debt and other securities. From an investor's point of view, what do you think are the biggest benefits of being based in London and what the main strengths of London's public markets are?

Michael Spinks

I think, I mean, for hundreds of years, hasn't it, London's been a central trading point, be it for physical goods, commodities and, of course, more recently even financial securities. And I think, highly, it's been this fulcrum position between Asia and the Americas, I think it's one of the reasons why we're very well positioned from that perspective. And it's such an appealing financial centre, I think it appeals enormously to international businesses in terms of the ease of conducting business, the ability to attract capital, to attract talent, we have a thriving highly professional culture. And I'd say, when Ninety One demerged from Investec earlier this year, of course, we chose to list in London as well as South Africa.

So capital market and investor access, I think, is extremely easy from London. And in fund management of course, we have a thriving fund management community in London and



that community is also very important if we're working on big picture subjects such as sustainability, we need to work together as an industry. And when it comes to engaging with companies on important issues, we do on occasion, work with other large institutional investors to achieve a particular outcome. And I think it's very important to be part of that wider ecosystem.

Alderman William Russell

Well, you've mentioned how Ninety One is also listed in South Africa and London, and Ninety One started in South Africa, that's where it all began. So, can Chinese investors invest in Africa's growth via London? And what are the investment opportunities from other markets that investors can capture in London?

Michael Spinks

Well, I think, London and the UK market is, of course, extremely international. We have so many companies here that are dual-listed or solely-listed in the UK but actually, have an extremely global business or are very linked to an area such as Africa. And I think as you've mentioned, we started out in Africa, I think that gives us quite a distinct view on the world we've developed over the past three decades or so, into a more mainstream player. But still, our roots are very much in Africa. And I think, you know, we from a London perspective, we also invest in, you know, an African infrastructure, real estate, equities, and fixed income. But I think that London provides a fantastic starting point and jump-off point to so many other areas of the world. We are global investors and that's where we really see the opportunities very much from the viewpoint of starting in London.

Alderman William Russell

Michael, thank you. It's been a fascinating chat. And I look forward to my virtual China visit next week. Together with Ninety One and other UK investment management firms. Thank you very much for doing this for us. We much appreciate it.