SPOTLIGHT

A MONTHLY CATCH-UP WITH THE INDUSTRY'S KEY PLAYERS

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The Lancashire County Pension Fund's investment chief tells **Zak Bentley** about its imminent pooling with the London Pensions Fund Authority to become the Local Pensions Partnership, Brexit and the lessons he's learned from previous infrastructure experiences.

Q How did the partnership between the LCPF and the LPFA come about?

London and Lancashire were exploring a partnership about three years ago. Both funds are outliers to a certain extent in as much as we were the two that probably most believed in internal management and we were the two that most believed in full diversity of exposure. To that extent, we were ahead of the game. It was about scales, mandates and the combining of decent-sized investment teams.

Q What are the respective funds' exposures to infrastructure?

Lancashire has a 12 percent allocation and 9 percent invested. London has a 10 percent allocation and 5 percent invested. They are the two highest allocations in the Local Government Pension Scheme currently. Even with our relatively high allocations, we would have thought about larger allocations, but being already substantially higher, our room for manoeuvre is probably slightly limited.

Q What level of returns are targeted by both funds?

For the LCPF, there is an 8 percent minimum. For LPFA, an inflation-plus 4-6 percent benchmark. I expect we'll both revisit those targets because frankly, we're in a lower return world now and I believe we're going to stay in one for decades. While we've achieved those quite comfortably, realistically if we're going to increase allocations, we'll have to give consideration to targeting. That applies to all asset classes. At LPP, we're likely to take a global approach to all asset investments, so global infrastructure as much as UK infrastructure. Infrastructure is seen as a very appropriate asset class for pension funds and insurance companies.

Q What impact will Brexit have on investments?

Brexit was a surprise. So far, financially, it has been very good for the funds because we're not solely UK-invested. Both funds have foreign currency exposure and the value of those [investments] has improved in sterling terms because of Brexit. We're slightly concerned at how sanguine the markets are about the reaction to Brexit so far. To a certain extent, that's driven by the fact that nobody knows what the negotiating stance is going to be from the UK government. It could be they take a very pragmatic approach and we end up with something that's perfectly workable from an investor's perspective. It's possible they've come to a conclusion that they'll end up with something harder that is more difficult to work with. You can always work with things, you just have to deal with the landscape as it develops.

Q What have you learned from previous infrastructure investments?

As we did the due diligence for our bid on Eurostar, it became very clear this was a wonderful asset that would be completely appropriate for the fund. Given it was a fairly sizeable deal the competition was stark. We bid as much as we could. As the underbidders, we learnt that even as we pool and become bigger investors, we will still be looking to partner with other like-minded investors, as much as anything to reduce the competition that drives prices.

We've raised our profile. We're now seeing a lot more opportunities directly from sellers and their advisors, which we wouldn't have done in the past, and we're going to continue to remain open to opportunities which fit our risk profile and return profile.

Q What is your appetite for greenfield projects?

I think you can afford to take some greenfield risk but it's always going to be a small portion of what you do overall. The UK government would probably like us to be doing more greenfield than we are and that's fine. If they can work with us, then I think there's always a way. I think they proved that with Thames Tideway Tunnel. ■