



# Building from the ground up

➤ **Association of Member Nominated Trustees (AMNT) co-chair, David Weeks, speaks to Jack Gray about why pension scheme investors may be looking to private equity and how it can play its part in a more responsible investment environment**

➤ **What is the AMNT's role in private equity investments?**

We see ourselves as the non-executive role holding the executives to account. In that sense, we would not call ourselves experts on private equity compared to any other kind of investment.

We did a survey of our members at the back end of last year and we checked out how they view their role. One of the things that came out very clearly was that the member-nominated trustees do put great store by the advice that they get from their professional advisers. We would hold them to account and quiz them, asking them why they come to the view that they do.

➤ **What makes private equity attractive to pension investors?**

First of all, the search for yields at a time of otherwise thin yields and, secondly, I think I would put it down to that private equity can offer a combination of yields and long-term stability. The third thing I would say is that private equity seems to be becoming a more recognised asset class. That is appealing to pension scheme boards that are inclined to be cautious in their approach for two main reasons: they are heavily regulated and, by and large, they are looking at long-term perspectives. For those reasons, the

recognised asset classes are an important criterion.

The next reason I would like to highlight is that private equity can offer asset owners greater scope for influencing company activity compared to a public limited companies (PLC), including on environmental, social and governance (ESG) factors. Trustees reflect the views of their pension scheme members, and we detect that ESG and interest in it came up from the ground roots rather than the pension investment industry itself. That gives the asset class some focus on that.

There are also opportunities for specific types of investment. The ones that have been mentioned recently by AMNT members and cropped up in the World Pensions Council Private Equity Summit in Paris were ESG and technology. I do not know how long-term former Prime Minister adviser Dominic Cummings' vision of a UK Silicon Valley will be, but that may be another trend that is forthcoming.

My final point is there is the start of pressure from the government is circling around. Ros Altmann at the Paris conference talked about social objectives for private-equity type investments and Cummings talked about technology. Those are what I see as attractive factors on the demand side.

➤ **How about on the supply side?**

On the supply side I have noticed three

factors that seem to be circling around. The first of them is the increasing complexity of running PLC regulatory regimes, which makes private ownership more attractive. That was brought home to me a couple of days ago; I'm a shareholder in SSE PLC and I got their annual report. With various appendices and corporate governance they have to take into account runs to something like 300 pages. That is an annual report for a mid-rank FTSE 100 company, which highlights how complex it can be.

The second supply side factor was private equity becoming a recognised asset class with increasing scale in some key markets. I think the third factor is we may see consolidation taking place as a route ahead. In Australia, consolidation has taken place and former Australian Pensions Minister, Nick Sherry, spoke at the conference, where he made the point that private equity is coming into economies of scale. The ones he mentioned in particular were airports and marine facilities.

Pension schemes have reduced in number and, correspondingly, increased in scale considerably. Consolidation is a trend that The Pensions Regulator (TPR) would like to take place here and, as schemes consolidate, the opportunities will increase and private equity may become more attractive to these bigger schemes. I think that is a picture that our members would recognise.

**➤ Does the maturity of a scheme have any effect on how attractive private equity investments are?**

I think it is difficult to come to a conclusion on that. There is no doubt that the majority of defined benefit schemes are very mature now but I am not sure I detect any trend in that.

**➤ What are the possible limitations and risks of private equity?**

It has a bit of a patchy history. Trustees with long memories will remember the dot.com boom, so I think that investors will have that in mind. Secondly is some recent political irregularities. Former Prime Minister, David Cameron, is homing into the picture on this. The potential irregularities may put some off. I am a working trustee as well as an AMNT officer, and we will be watching how TPR views the sector. Is it going to see it as opportunities or is it going to see it as a potential hazard for the reasons I've just outlined?

Linked with those two factors will be

two questions about how we monitor: Does the expertise and capacity exist to monitor the sector with adequate databases? And do pension scheme boards have similar capacity? I think that comes back to the question about scale. As they become bigger they will likely have the capacity but there is probably quite a long tail of schemes that do not have the capacity for that. I think those would be the main longer-term factors.

One also ought to look at the short term. We have got markets that are still a bit volatile due to Covid-19. It seems that the picture is becoming clearer, but will they wait until the volatility of risk has lessened? We will have to keep a watch on that one.

**➤ Has Covid-19 impacted private equity investments?**

The noticeable factor from a survey we conducted in autumn last year was how little impact Covid-19 seemed to have had on investment strategies. The majority of our trustee boards amongst

our members took the view that they had their long-term strategy and they were going to stick with it. There might be temporary blips but their perspectives were long ones and they ought to continue. I think in that sense it would not have affected it as much as expected.

In terms of long-term trends the bigger one would be whether they are looking to diversify into more industries, in particular in the ESG and technology sectors where private equity seems to be making a mark.

Overall, if you talk to the majority of AMNT members, in so far as they can be gathered together at the moment, they would probably come to a view that the private equity sector was likely to be increasing rather than decreasing, and they would be looking to the opportunities rather than the hazards. Having said that, they will be aware that the hazards ought to be kept under careful review.

**➤ Written by Jack Gray**

