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LGPS:
High-Quality Income Via Multi-Asset Credit

A Valuation Year

As Local Government Pension Schemes (LGPS) reconsider their investment allocation this year, flexible, income-seeking, liquid strategies such as Multi-Asset Credit appear as an attractive option in this challenging environment.

14%

Increase of ratio of pensioners to employees.[1]

21%

Investment Income contribution to LGPS' total income; rest is provided by employees and employers.[2]

[1] Source: LGPS: Statistical Release for England and Wales (2016/2017 to 2020/2021).

[2] Source: LGPS: Statistical Release for England and Wales (2020-2021).

LGPS Headwinds

Need for Income
Pension schemes need to raise their investment income as the ratio of pensioners-to-employees keeps increasing.

Economic Uncertainty
Generation-high inflation, rising interest rates, geopolitical tensions and a potential economic slowdown ahead.

Illiquidity of Real Assets
Strategic decisions to allocate to real assets, such as infrastructure and property, cannot be implemented quickly.

MAC Solutions

Higher Income
As interest rates rise, Multi-Asset Credit (MAC) strategies can capture the higher yields available in the broad Fixed Income market.

Flexibility
MAC strategies can reduce duration to mitigate interest rate risk, and also rotate to the most attractive sectors in each market environment.

Liquidity
Due to the flexible nature of MAC, strategic allocation can be implemented in a timely manner.

In these uncertain economic times, coupled with ongoing geopolitical tensions, a MAC strategy is well-placed to help LGPS maximise investment returns.

MAC's focus on income and quality, with its inherent flexibility and diversification across alternative Credit asset classes, helps capture attractive risk-adjusted investment opportunities.

MAC Strategies Can Mitigate Headwinds and Capture Opportunities

Income
This is a good time for income-seeking strategies given higher market yields. MAC allows investors to capture these high levels of income with Investment Grade levels of risk.

Sustainable
A deeply embedded Responsible Investing process with a commitment to decarbonise allows a MAC manager to achieve higher returns while taking less risk in Credit markets.

Flexible
MAC has the ability to select and rotate between the right asset classes, right sectors and right geographies at the right time, responsibly.

Fundamentally Driven
As dispersion and default rates are set to increase, a MAC strategy with a bottom-up research approach is essential to selecting quality companies.

Diversification
With equity markets richly valued (by most measures), and traditional Fixed Income highly sensitive to rates, MAC offers an attractive, uncorrelated alternative.

Inflation Hedging
The strategy can select those companies less affected by inflation and rising costs, essentially those with pricing power.

Liquid
Unlike other alternative and inflation-hedging strategies (for example Infrastructure), MAC strategies offer better liquidity (daily, weekly, monthly) and an allocation can be deployed faster.

Interest Rate Hedge
The strategy can materially allocate to floating-rate asset classes, thus minimising interest rate risk by actively managing duration.

CQS has managed Credit for over 20 years and believes compelling opportunities lie ahead given higher yields and rising dispersion. We specialise in generating income and in research-driven, responsible Credit investing.