European Pensions

Spring 2022

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See page 88 to hear from EIOPA's Petra Hielkema

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A duty to protect pensions

Every so often a pensions news story comes along that has you reading in disbelief. This was the case for an unusual pensions-related story that emerged from Ireland last month.

An Irish pensioner, propped up by two men, was brought into a post office to collect his pension – only for staff to discover that the pensioner was in fact deceased. The police believe that the pensioner had, unfortunately, died a few hours earlier. The two Irish men were charged with deception, with the full details yet to be established.

Similar stories have been reported on in the past – in September last year, an Austrian man was arrested after admitting that he had kept his dead mother's body in the basement of his house for over a year, so that he could claim her pension.

Such a story is rare; the pension fraud cases that *European Pensions* usually reports on involve ruthless criminals targeting individuals and firms. Sadly, the threat of pension scams and cyberattacks are a huge problem for the industry. Whilst scams have been prevalent in the UK for several years, scams and cyberattacks are becoming more frequent in Europe.

"THE THREAT OF PENSION SCAMS AND CYBERATTACKS ARE A HUGE PROBLEM FOR THE INDUSTRY"

Pension company KLP, based in Norway, recently warned customers of its banking division, which is marketed towards its pension members, that some customers have received fake calls from people who claim to be from KLP Banken asking for login information.

In August 2021, Germany's Raisin Pension also revealed that it had fallen victim to hackers – with affected customers reportedly in the tens of thousands. Dutch pensions administrator, Blue Sky Group, was also hit with a cyberattack in September last year. These attacks serve as an unfortunate reminder that the threat of scams and cyberattacks, whatever form they may take, are ever-present.

The pensions industry has a duty to do all it can to protect members' pensions from the devastating impact of pensions fraud. This includes making members aware of the signs of a pension scam and having emergency plans and procedures in place in the event of a cyberattack. Fraudsters will always exist but it is the industry's job to protect pensions.

Natalie Tuck, Editor

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EIOPA publishes methodological framework for stress-testing IORPs

EIOPA AIMS TO SUPPORT THE DESIGN AND MANAGEMENT OF TESTS

Written by: Natalie Tuck and Jack Gray

The European Insurance and Occupational Pensions Authority (EIOPA) has published a methodological framework for stress-testing Institutions for Occupational Retirement Provisions (IORPs).

The framework presents a set of standard approaches, practical rules and possible methodologies to support the design phase and the management of future IORP stress test exercises.

EIOPA said the rules and guidance provided will help to make the planning and administration of IORP stress test exercises more efficient, while providing for sufficient room to tailor the analytical tools to the specific objectives of the exercise at hand.

The methodological framework serves as a reference point and toolbox from which appropriate approaches can be developed and custom-fitted, bearing in mind the specificities of the individual exercise in question.

In particular, the methodological framework for stress-testing IORPs sets out: Horizontal approaches and types of analysis that can be applied to all types of IORPs and schemes within the divergent European occupational pension frameworks; a toolbox approach to choose the most relevant set of analyses to be employed and further adjusted to the objective of the individual exercise in a proportionate manner; and approaches to address new and emerging risks, particularly environmental risks.

The stress-testing of financial institutions has evolved considerably over the last few years and has become a core tool for supervisors to identify and assess risks and vulnerabilities in the financial system. EIOPA is mandated to conduct regular EU-wide stress test exercises for the European IORP sector, in collaboration with the European Systemic Risk Board.

Meanwhile, the European Commission (EC) will be reviewing the fiduciary duties and stewardship of occupational pension schemes as part of its review into the IORP II Directive.

Speaking at the launch of European Retirement Week, European Commissioner for financial services, financial stability and the capital markets union (CMU), Mairead McGuinness, gave an update on the upcoming IORP II review.

"Like the insurance sector, pension funds hold assets worth trillions of euros and play an important role in capital markets – you will know that the prudential rules for the pensions sector are set out in the IORP II Directive," she said.

"This directive has improved the rules on governance, information provision and cross-border business, benefitting both providers and beneficiaries. It was one of the first pieces of new financial services legislation, referring to environmental, social and governance (ESG) risks. While we still need to see how these rules work in practice, we will consider the need for further steps as we prepare the next review of the directive."

In particular, she said the commission will assess whether the fiduciary duties and stewardship rules of pension funds should be clarified to increase their contribution to European green deal targets.

McGuinness also touched on another piece of European legislation that is set to transform the pensions market – the regulations for pan-European personal pension (PEPP) products, which go live in March 2022.

In other news, EIOPA has submitted its advice on pension tools to the EC.

The advice covers two tools – the pension tracking system and the pensions dashboard. The first aims to help citizens understand what income they can expect in their retirement and raise their awareness on whether this will be sufficient.

Currently, there are 20 member states where citizens are unable to obtain an overview of their pension entitlements in an accessible way from all possible pension sources. EIOPA's advice to the EC provides a set of principles, good practices and recommendations, aiming to facilitate citizens' digital access to personal pension information in those member states.

As part of this, EIOPA has also developed a visual roadmap that contains four phases from preparation to launch, including relevant conceptual and practical steps to consider under each phase. In respect of product design, EIOPA recommends displaying key information in a simple manner to make a pension tracking system appealing and understandable for consumers. Member states are also encouraged to connect to the European Tracking Service to offer intra-European Union (EU) mobile workers access to their pensions entitlements accrued in the course of their career.

"This directive has improved the rules on governance, information provision and cross-border business, benefitting both providers and beneficiaries"

Regarding the pensions dashboard, the aim is to increase transparency on adequacy and sustainability gaps to support policymakers at national and EU level to make informed decisions.

EIOPA also published its digital transformation strategy, which aims to ensure a systematic, balanced and holistic approach to the digitisation of the European pensions market.

EIOPA stated that technological transformation was generating a "wave of change" across economic and financial sectors, which was in turn affecting consumers and businesses across the EU.

It has therefore outlined a strategy with the aim of addressing the challenges posed by the digitisation of the insurance and pensions sector and enabling stakeholders to capitalise on the opportunities presented by new technologies and business models.

Five long-term priorities that will guide its contributions on digitisation topics were identified by EIOPA.

It will collaborate with the EC on developing financial data spaces, including in areas of sustainable finance and pension data tracking systems.

EIOPA noted that it expected artificial intelligence to play a "pivotal role" in the digital transformation and it will seek to ensure the use of trustworthy artificial intelligence systems while ensuring financial inclusion.

News in brief

■ The inflow of capital to occupational pensions in **Sweden** has increased by 23 per cent during the past year, according to new figures presented by Insurance Sweden. During the past four quarters, almost SEK 56bn of occupational pension insurance and life insurance was transferred, with most of them taking place in the second and third quarters of 2021. Compared to the same period last year, the capital raised has increased by SEK 10.4bn.

■ The weighted average return of the seven funds in **Romania's** pillar II pension system was 5.88 per cent in 2021, according to the Romanian Pension Funds' Association. The 2021 return translates into a net gain for participants worth RON 4.5bn. The total number of participants registered in the system reached 7.78 million at the end of 2021, of which four million are paying monthly contributions.

■ EIOPA has launched a follow-up survey concerning the Pan-**European** Personal Pension Product (PEPP). Following its first inquiry, EIOPA is now seeking evidence to gauge and better understand the potential take-up of PEPP by eligible providers.

■ **Dutch** pension fund, ABP, made a return of 11.1 per cent on investments over the past year despite the impact of the pandemic, pushing its current funding ratio up by 16.7 percentage points to 110.2 per cent. The fund's assets grew to €550bn due to the investment performance, with the policy funding ratio also increasing to 102.8 per cent.

Irish govt makes amendments to Pensions Act, 1990

THE PENSIONS AUTHORITY HAS PUBLISHED GUIDANCE FOLLOWING THE GOVERNMENT'S CHANGES

Written by: Natalie Tuck

The Irish government has made various amendments to the Pensions Act, 1990 of which the Pensions Authority has published guidance.

The amended regulations were signed by the Minister for Social Protection on 25 November 2021. The regulations make amendments to existing regulations under the Pensions Act 1990, as amended (the act), in relation to disclosure, scheme registration, trustee investment qualifications, funding standards, cross-border requirements, and bulk transfers; and revoke and replace the existing investment-related regulations under the act.

In response, the Pensions Authority has published an information note summarising the main changes. In regard to occupational pension schemes (disclosure of information) regulations, the amendments include the scrapping of the Annual Benefit Statement and, for defined contribution (DC) schemes, the statement of reasonable projection provisions; these will no longer apply once a scheme makes the first Pension Benefit Statement (PBS) available to members, in accordance with regulations 31 to 37 of the European Union (Occupational Pension Schemes) Regulations 2021 (2021 Regulations).

These provisions require schemes that commenced on or before 22 April 2021 to make the first PBS available by 31 December 2022. One-member arrangements (OMAs), which commenced on or before 22 April 2021, must make the first PBS available from 22 April 2026. Pay-as-you-go schemes will continue to provide the ABS.

Furthermore, the exemptions for OMAs in respect of audited accounts and valuation reports (for DC schemes) have been removed. Transitional measures are inserted so that the requirements apply to OMAs commenced on or before 22 April 2021, in line with the transitional measures applied to these schemes in relation to annual reports.

The note also covers the main changes to the investment regulations for occupational pension schemes, which has seen the existing investment regulations revoked in full and replaced by two new sets of regulations. The authority has also provided information on several other areas of the act that have seen amendments.

The authority has also published its Code of Practice for trustees of occupational pension schemes and trust retirement annuity contracts (RACs). The code sets out its expectations for the conduct and practice of relevant trustees in complying with specific requirements.

It outlines the authority’s expectations regarding scheme governance, administration, internal control procedures, investment, defined benefit financial management, fit and proper requirements, and additional requirements for DC master trusts. The authority said it had given careful consideration to the points made in responses to its consultation and has made some changes to the initial draft Code of Conduct, which was published on 22 July.

Furthermore, the authority has also published amendments to the Trust RACs (Disclosure of Information) Regulations 2007. As a result of the changes, the Trust RAC provisions for the ABS and Statement of Reasonable Projection will no longer apply once a trust RAC makes the first PBS available to members in accordance with regulations 31 to 37 of the European Union (Occupational Pension Schemes Regulations 2021).

Picture by: Anne Paul Roukema

Dutch government appoints dedicated Pensions Minister

CAROLA SCHOUTEN HAS BECOME THE COUNTRY'S FIRST DEDICATED PENSIONS MINISTER

Written by: Natalie Tuck

The Dutch government has appointed Carola Schouten as the country's first dedicated Pensions Minister.

Schouten of the ChristenUnie party will officially be titled the Minister for Poverty Policy, Participation and Pensions. She fills one of the three positions that the party had in the cabinet following the general election in the Netherlands, and played a part in negotiating the coalition agreement with the party's leader, Gert-Jan Segers.

"I am very grateful to Carola for again having the courage to take on this great responsibility," Segers stated, adding that he thinks it is "very special" that Schouten wants to take on the role of ensuring solidarity between young and old people when it comes to a fair pension.

Schouten, who previously served as the Minister of Agriculture, Nature and Food Quality, takes on the mantel from Wouter Koolmes, the former Minister of Social Affairs and Employment in the Netherlands.

The appointment of a dedicated Pensions Minister comes at a crucial time for the country, which is transitioning to a new pension system expected to be complete by 1 January 2027.

In other news, Dutch pension funds are in favour of indexing from a funding ratio of 105 per cent and above, according to the Dutch Pension Federation.

With the Future Pensions Act expected to enter into force on 1 January 2023, a year later than originally agreed, legislation has been committed to ensure that indexation can be retroactively applied in the run-up to the new system, as early as 2022. However, the Dutch Pension Federation believes that such legislation could be simpler as funds have to meet several conditions in order to increase pensions earlier.

The Dutch Pension Federation believes the rules for determining the maximum indexation should be more in line with the current system.

Dutch Pension Federation chairman, Ger Jaarsma, said: "Pension funds want to index if this works out well for workers and retirees, also in the long term. That has been their ambition for many years. This bill is intended to increase the chance of indexation in the shorter term, but it contains matters that make it unnecessarily difficult. In our response, we indicate how the legislation can be made more enforceable."

With rising inflation, calls for the indexation of pensions are increasing. For many retirees, their pension has not kept pace with rising prices, and it is also important for working people that their pension accrual follows these price increases. As a result of the new measure, pension funds that want to rise pensions in line with inflation will be given more scope to do so.

The news comes as the federation also revealed that many Dutch pension funds are publishing higher funding ratios in their quarterly figures, mainly due to positive returns.

The average funding ratio of Dutch pension funds increased to 115 per cent in 2021, after starting the year at 100 per cent, according to Aon.

Its Pensions Thermometer revealed that December provided a final boost to the funding ratio, rising from 111 per cent to 115 per cent in one month, caused by a sharp rise in interest rates.

In addition, the policy funding ratio, based on the average funding ratio over the past 12 months, rose from 94 per cent to 108 per cent.

Norway's GPFG returned 14.5 per cent in 2021

THE RETURNS WERE PRIMARILY ATTRIBUTED TO STRONG DEVELOPMENTS IN THE EQUITY MARKET

Written by: Natalie Tuck

Norway's Government Pension Fund Global (GPFG) made a return of 14.5 per cent in 2021, Norges Bank Investment Management (NBIM) has revealed.

NBIM, which is responsible for the investments of the GPFG, said this equates to NOK 1,580bn. The return on the fund's equity investments was 20.8 per cent, the return on the fixed-income investments was -1.9 per cent, whereas investments in unlisted real estate returned 13.6 per cent.

The return on unlisted renewable energy infrastructure was 4.2 per cent. The fund's return was 0.74 percentage points higher than the return on the benchmark index, equivalent to NOK 76bn.

NBIM CEO, Nicolai Tangen, said: "The good results are mainly due to very strong developments in the equity market throughout the year. There was good return in all sectors, but the investments in technology and financials performed particularly well. The investments in technology returned an impressive 30.2 per cent."

Real estate also performed strongly in 2021, after a demanding year in 2020 due to the pandemic.

"The real estate sector has had a good recovery, with listed real estate companies having performed particularly well with a return of 26.8 per cent," Tangen said.

The krone strengthened against several major currencies over the course of the year. Currency movements contributed to a decrease in the fund's value of NOK 25bn. In 2021, NOK 129bn was withdrawn from the fund.

The fund had a value of NOK 12,340bn as at 31 December 2021. Seventy-two per cent of the fund was invested in equities, 25.4 per cent in fixed income, 2.5 per cent in unlisted real estate, and 0.1 per cent in unlisted renewable energy infrastructure.

In other news, the Norwegian government has reinforced its commitment to keeping the management of the country's GPFG with Norges Bank.

It has done so by changing the mandate for the committee appointed to review which developments, internationally and in the financial markets, may affect risk and return in the GPFG and assess what significance such developments may have for the management and governance of the fund.

The mandate section where the committee is asked to discuss "whether the current model where the fund management organisation remains within Norges Bank would be the most suitable also going forwards, or whether new challenges suggest a different model" is to be withdrawn.

"The question of the placement of the fund within Norges Bank stands apart from the rest of the committee's mandate. The government emphasises that there should be stability in the management of the fund," Minister of Finance, Trygve Slagvold Vedum (Centre Party), said.

The question of the placement of the fund has recently been thoroughly examined, and there was broad consensus in the Norwegian Parliament (Stortinget) both in 2018 and 2019 that the management should remain within Norges Bank. The new Central Bank Act has been in force since 2020.

"We must avoid creating uncertainty about the management of the fund," Vedum added.

The rest of the mandate remains unchanged. The committee is to submit its report by 1 October 2022. The report will be circulated for public consultation and will form part of the basis for further development of the management of the fund.

Estonian govt considers voluntary rises for pillar II contributions

THE NATION'S MINISTRY OF FINANCE IS CONSULTING ON WHETHER SAVERS SHOULD BE ALLOWED TO VOLUNTARILY INCREASE THEIR PILLAR II PENSION CONTRIBUTIONS

Written by: Natalie Tuck

Estonia's Ministry of Finance is consulting on whether to allow savers in the second pillar pension system to voluntarily contribute more to their pensions.

The country's Minister of Finance, Keit Pentus-Rosimannus, said the change would enable people to increase their pension savings and secure a larger pension in the future.

"A large part of the Estonian people continue to accumulate pensions in the second pillar. If the changes are approved, there will be an additional opportunity to increase contributions."

The Ministry of Finance is proposing to allow people to save at a rate of 4 per cent, or 6 per cent, in addition to the current 2 per cent rate. Pension savers would need to apply to change their rate of saving and can opt to change this rate once a year. The new rate would take effect from 1 January each year.

The proposal only concerns the 2 per cent deduction from a person's salary; the increase in the rate of payment of the funded pension part of the social tax (4 per cent) is not affected. Therefore, the proposed changes do not affect the budget of the first pillar or the pension rights earned in that pillar.

The Estonian first two pillars should guarantee an average pension of 40 per cent of the average salary.

Swiss pension funding ratios ended 2021 at all-time high

THE FUNDING RATIOS OF PRIVATE AND PUBLIC SWISS PENSIONS ALL SAW SIGNIFICANT INCREASES OVER THE COURSE OF THE YEAR, ENDING AT AN ALL-TIME HIGH

Written by: Natalie Tuck

The funding ratios of Swiss pension funds were at an all-time high at the end of 2021, according to Swisscanto.

Its Pension Funds Monitor revealed that the funds' estimated asset-weighted coverage ratios rose again in the fourth quarter of 2021.

For private pension funds, the funding ratio stood at 124.6 per cent at the end of the year, compared to 116.1 per cent at the end of 2020. For fully-funded public pension schemes, the funding ratio was 116.7 per cent (109.2 per cent).

For partially-funded public pension schemes, the funding ratio was 94.4 per cent (87.7 per cent).

Swisscanto's Pension Funds Monitor is a real-time indicator of the financial position of the second pillar pension system in Switzerland.

It provides information about the average funding ratio and the average investment performance of Swiss pension funds.

In 2021, the pension institutions in Switzerland that were surveyed had managed to achieve an estimated asset-weighted return of 9.25 per cent (unweighted: 8.38 per cent).

With the exception of global bonds and Swiss bonds, all asset classes were found to have made positive contributions to returns.

News in brief

■ **Taiwan's** largest pension fund, the Bureau of Labour Funds, is set to issue a climate-focused stock mandate worth USD 2.3bn, according to *Reuters*. Open tender bidding for asset managers wanting to be involved in the mandate will begin in the first quarter of 2022. The fund has USD 199bn worth of assets, with around half of it invested in offshore markets. The fund's assets are currently being managed by BlackRock, Fidelity Investments and Pimco.

■ KKR, Ontario Teachers' Pension Plan Board and Public Sector Pension (PSP) Investment Board, have announced the completion of the acquisition of **Australian** energy infrastructure investment company, Spark Infrastructure. The acquisition was completed through an all-cash transaction for approximately AUD 5.2bn. All regulatory approvals have been obtained. Spark Infrastructure invests in energy infrastructure businesses within Australia and is involved in supporting the transition of Australia's electricity grid to one that is increasingly reliant on renewable energy.

■ **UBS Asset Management (AM)** has divested from five energy companies that it identified as not making enough progress on climate risk. The asset manager has excluded the companies across its climate aware funds, and its actively managed equity and fixed-income sustainability funds. The companies divested from were Exxon Mobil, Imperial Oil, Kepco, Marathon Oil and Power Assets. Its divestments come following a three-year engagement programme in an effort to improve their climate credentials.

Australia's APRA publishes annual superannuation bulletin

THE APRA HAS PUBLISHED STATISTICS ON SUPERANNUATION PENSION FUNDS IN AUSTRALIA

Written by: Jack Gray

The Australian Prudential Regulation Authority (APRA) has published its *Annual Superannuation Bulletin* for the year ended 30 June 2021.

As at 30 June, total superannuation assets were AUD 3,307bn, while total APRA-regulated assets stood at AUD 2,267bn.

Of the total APRA-regulated assets, AUD 901bn were in MySuper products.

Total self-managed super fund assets were AUD 822bn at the end of June, while exempt public sector superannuation assets totalled AUD 164bn.

Contributions for entities with more than four members totalled AUD 127bn in the year ended 30 June 2021, while contributions into MySuper products was AUD 62bn.

Total benefit payments were AUD 95bn for entities with more than four members, while they totalled AUD 25bn for MySuper products.

Austalians' average pension pot values for superannuation funds with more than four members was AUD 106,162, while the average pot for those in MySuper products was AUD 59,768.

APRA also released its policy and supervision priotities for the next 12-18 months, with its key priorities being centred around its two strategic themes: 'Protecting today' and 'prepared for tomorrow'.

CTPF submits 2021 Annual D&I Report

THE CTPF INVESTED 48 PER CENT OF ITS ASSETS IN MWDBE FIRMS

Written by: Jack Gray

The Chicago Teachers' Pension Fund (CTPF) has submitted its *2021 Annual Diversity and Inclusion (D&I) Report* to the Governor and State of Illinois officials.

It announced that it invested USD 6.2bn, or 48 per cent of total fund assets, with minority, women and disadvantaged-owned business enterprise (MWDBE) firms in the 2021 fiscal year, ending 30 June 2021.

This represents a 27.2 per cent increase in the amount of money CTPF invested in MWDBE firms in comparison to the 2020 financial year.

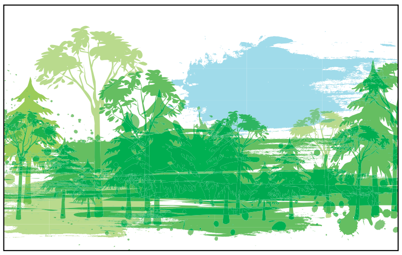
CTPF said it was proud to remain a leader among pension and retirement systems throughout the United States in providing MWDBE firms access to investment opportunities.

Investments included USD 3.66bn managed by female-owned companies, USD 1.55bn managed by African American-owned companies, USD 825.4m managed by Latino-owned firms and USD 171.5m managed by Asian-American owned firms.

"These investments pay dividends for our members and yields excellent overall long-term returns and financial stability for our members," said CTPF executive director and interim CIO, Carlton W. Lenior Sr.

Diary dates 2022

The latest events occurring across the European pensions market



SUSTAINABLE INVESTMENT SUMMIT
24 March 2022
Waldorf Hilton Hotel, London
Sustainability has become one of the biggest and most important topics in the investment space, drawing growing focus from investment managers, pension funds, insurance companies, charities and corporates. This one-day summit, covering ESG, SRI, impact investing, sustainability and governance, will offer delegates the up-to-date knowledge and guidance they need to help them understand the complexities of the sustainable investment market, whilst networking with their peers.
sisummit.net/index.php

EUROPEAN PENSIONS AWARDS
7 July 2022
London Marriott Hotel, Grosvenor Square, London
Now celebrating their 15th year, the European Pensions Awards are a celebration of the hard work and dedication displayed by pension schemes and providers from across Europe. The evening gala, to be held at the prestigious London Marriott Hotel, will honour the investment firms, consultancies and providers from across Europe who have displayed excellence, innovation and a genuine passion for providing exceptional service in everything they do.
europeanpensions.net/awards/

IRISH PENSIONS AWARDS
17 November 2022
Shelbourne Hotel, Dublin
Entering their 11th successful year, the Irish Pensions Awards continue to go from strength to strength. These awards aim to give well-deserved recognition to those pension funds, pension providers, advisers and pension professionals who strive to maintain the highest standards of excellence, dedication and professionalism in everything they do, despite the challenging economic and political landscape that many businesses have found themselves operating in.
europeanpensions.net/irishawards/

Not to miss...

PLSA ESG CONFERENCE 2022
9-10 March 2022
Online
plsa.co.uk/events

IAPF SPRING CONFERENCE WEEK
22-25 March 2022
Online
iapf.ie/events

PENSIONS AGE SPRING CONFERENCE
28 April 2022
London Hilton Tower Bridge
pensionsage.com/springconference/

PLSA INVESTMENT CONFERENCE 2022
25-26 May 2022
EICC, Edinburgh
plsa.co.uk/events

People on the move...

The latest news and moves from people within the European pensions industry

If you have any appointments to announce please contact natalie.tuck@europeanpensions.net

MARKUS AHO

Finland's Varma has announced the appointment of Markus Aho as vice president, unlisted investments. Aho previously worked in Varma's investments as a forerunner of the private equity team and as a director of Varma's private equity team. He takes over the role from Mikko Koivusalo, who will work as the director responsible for special projects and as a member of the investment team.

TAINA ANTILA

Finnish earnings-related pension provider, Elo, has appointed Taina Antila as compliance director and member of the management team. Antila is responsible for the company's risk management and compliance. She has previously worked in numerous companies in the financial sector, where she was responsible for developing compliance activities, among other things.

STEFAN WEDA

WTW has appointed Stefan Weda as Benelux head of corporate risk and broking. Weda will be responsible for driving corporate risk and broking growth in the Benelux, in addition to overall business management and operational transformation. He joins from Aon, where he has held a range of leadership roles, latterly as CCO for Aon's Commercial Risk, Health & Wealth business in the Netherlands.

JONATHAN ASHWORTH

Jonathan Ashworth has been named as Shadow Work and Pensions Secretary for the UK's Labour Party. Ashworth replaces Jonathan Reynolds, who has been moved to the role of Shadow Business Secretary. Ashworth was moved from his position as Shadow Health Secretary to take up his new role and will be shadowing incumbent Work and Pensions Secretary, Thérèse Coffey, who welcomed Ashworth to his new job.

RUTGER VAN DER HOEVEN

Aon has appointed Rutger van der Hoeven as managing director of specialities. The role will expand on the positon of managing director commodity trade, which Van der Hoeven has held for the past six years, with responsibility for credit solutions. Aon has also appointed Rogier van Velden as executive director of credit solutions and Walle Romijn as executive director of commodity trade.

ERIK KLEVÄNG CALLERT

Sweden's Andra AP-fonden (AP2) has appointed Erik Kleväng Callert as chief investment officer (CIO). He is currently CIO and sustainability manager at PRI Pensionsgaranti and has previously been CIO at both SPP Pension & Insurance and at Nordea Life & Pensions. He is also a board member of the Institutional Investor Group on Climate Change (IIGCC). He will take up the position in spring 2022, and succeeds Hans Fahlin.

LUCA MATASSINO

Mediolanum International Funds has appointed Luca Matassino as chief business officer. In the newly created role, Matassino will oversee the firm's growth in core markets, focussing on the client experience. Based in Dublin, he will report directly to the firm's CEO, Furio Pietribiasi. He has over 25 years' experience, most recently as Eurovita Spa head of sales. Previously, he was UBS Asset Manager executive director and deputy head of Italy.

BRENDAN MCCAFFERTY

The UK's Department for Work and Pensions has confirmed the appointment of Blueprint for Better Business non-executive director and trustee, Brendan McCafferty, as the chair of the National Employment Savings Trust (Nest), following an open competition. The former Brightside Group and Axa chief executive officer will take over the role from Otto Thorensen, with his five-year term having begun on 1 February.

ANDREW KAIL

Legal & General (L&G) has appointed Andrew Kail as the new CEO of L&G Retirement Institutional, the group's Pension Risk Transfer division. Kail joined L&G Retail Retirement in 2021, having previously spent 30 years in a variety of roles at PwC, including head of financial services. He takes over the role from Laura Mason, who has been appointed CEO of L&G General Capital.

BENOIT HUDON

Mercer UK has named Benoit Hudon as president and CEO, subject to Financial Conduct Authority approval. Hudon will maintain his UK wealth leader role, which he has held since 2018, and will also join the Mercer Executive Leadership team, reporting to Mercer CEO and president and vice chair, Marsh McClennan, Martine Ferland. He brings over 25 years of experience in risk and HR management consulting and has held various leadership roles previously.

JULIE TOWNSEND

PGIM Real Estate has appointed Julie Townsend as ESG lead for Europe and Asia Pacific. Based in London, Townsend will oversee the ESG strategy and implementation across the European and Asia Pacific regions and will be responsible for building upon the firm's sustainability goals and targets. She will report to global head of ESG and head of Americas Asset Management, Christina Hill.

The land of fire and ice: Finding a balance

Whilst the Icelandic pension system may have been ranked as the world's top pension system, there is still room for improvement. Sophie Smith **reports**

WRITTEN BY SOPHIE SMITH

Although it may be best known for its impressive natural wonders, volcanoes and glaciers, Iceland is also gaining increasing reputation for the strength of its pension system.

Featured in the *Mercer CPA Global Pension Index* for the first time in 2021, the country dethroned the Netherlands from its top-ranking position, also maintaining its top ranking in the *Natixis 2021 Global Retirement Index*.

Mercer's report attributed the country's success to several key features, including a relatively generous state pension, a private pension system, which covers all employees with a high contribution rate that leads to significant assets being set aside for the future, and a well-governed, and regulated, private pension system that has good design features.

"To be ranked number one was a surprise," says Iceland Association of Pension Funds managing director, Þórey S. Þórðardóttir, explaining that a third-place result, behind Denmark and Netherlands, was instead expected.

Gildi head of communication, Aðalbjörn Sigurðsson, agrees, stating that whilst he was expecting Iceland to be close to the top, he was not expecting the system to be ranked number one. "That said, we know the strengths of the system, one of which is its sustainability, as much as it is, for example, well financed," he continues, highlighting the strong roots in the Icelandic welfare system as another strength.

Leading the field

Icelandic Confederation of Labour (ASI) president, Drífa Snædal, also draws particular attention to the system's strengths in regard to workers' pension rights and payments. "That aspect is fixed in the collective agreements and in legislation, which state that pension contributions must be paid from salaries, and that employers are responsible for delivering the pension contributions," she explains. "Those two factors together form a strong foundation for our pension system.

"Pension contributions, set in the collective agreements and supported by legislation, and the social security minimum pension payments, together provide a guaranteed minimum pension, as well as wage-related pension payments. The interplay of these two components is a subject of constant revision and improvement, but combined, they result in a smaller drop in income at retirement, and ensure that nobody is without income."

Agreeing, OECD analyst, Pablo Antolin, says that Iceland has a good complementarity between the different components of its pension system.

"Iceland has a strong mandatory occupational pension system complementing a tax-financed, means-tested public pension," he says, pointing out that the coverage of the occupational system is high at 83 per cent of the working-age population.

Additionally, he notes that whilst the mandatory contribution rate in occupational plans is 12 per cent minimum by law, it is 15.5 per cent for most by collective agreement.

"This is the largest mandatory contribution rate for funded (asset-backed) pension systems in the OECD," he emphasises. "Additionally, around 45 per cent of the working-age population also save into voluntary personal pension plans. Overall, at the end of 2020, total assets in occupational and personal plans represented 207 per cent of GDP."

Recent reforms have improved the outlook for Iceland further, as Antolin explains that, in 2017, the open defined benefit (DB) scheme for civil servants was transformed into a defined contribution (DC) scheme to unify the rules with the private sector.

However, Antolin notes that old DC schemes for civil servants that are highly underfunded still remain. And whilst these schemes were closed to new entrants in 1998, the funding ratio is very low, at only 33 per cent at the end of 2020.

"The government is the guarantor of the pensions and has to cover the shortfall as pensions are due," he explains, suggesting that an injection of funds into the scheme from the government could bring the funding ratio closer to 100 per cent to guarantee future pension payments. "This would be comparable to what was done in 2017 when the open pension scheme for civil servants was transformed into a DC scheme."

Too big to succeed?

Þórðardóttir, however, argues that the most urgent issue is raising or removing the limit on foreign investment, or foreign currency exposure, as it is stipulated in the Pensions Act.

"Currently the maximum exposure by law is 50 per cent, which in effect keeps the fund portfolios at or below 45 per cent as the funds need a cushion for possible exchange rate fluctuations and market swings," he explains.

And, according to Sigurðsson, many of the biggest funds in Iceland are close to this limit, prompting concerns as to where pension funds will find new investment options, as Iceland is "a small country with a big pensions system".

"This is something that must be addressed and there are talks now of making a change to this limit," he continues, suggesting that "hopefully, those talks will have some results in the coming months".

Indeed, Snædal says that a "general consensus seems to be forming that this limit on pension funds' foreign currency investment is unfortunate".

She says: "These views are expressed within the pension funds themselves, by the government and the Central Bank, and naturally, these views are also heard within the Icelandic labour movement, which is a large stakeholder in the pension funds. There is also talk about whether it is desirable to have over a half of the pension funds' assets invested domestically, and it raises questions about sufficient diversification and whether the current system contributes to overheating in the Icelandic economy. The sheer size of the pension funds in the Icelandic economy also places further responsibility on them to have a clear investment policy in terms of company ethics, treatment of employees and social impact, etc."

Antolin also warns that there is a potential concentration risk as pension funds invest a lot of money in a rather small economy, noting that, at the end of 2020, 35 per cent of Icelandic pension assets were invested abroad, which is below the OECD average of 40 per cent.

However, Antolin says that "investment regulation does not seem to be binding", suggesting instead that home bias may be more of an explanation as to why pension funds in Iceland are not closer to the allowed limit in terms of foreign currency exposure.

Þórðardóttir also suggests, however, that the Icelandic government should begin work to develop a programme of infrastructure investments, or public-private partnerships, where pension funds could play a larger role.

Levelling the playing field

In addition to the challenges faced by the pensions industry itself, Snædal suggests that improvements could also be made to support the lowest-income groups and those with limited pension rights.

In particular, Snædal argues that social security pension payments are too limited, warning that labour market inequalities are reflected in unequal pension payments.

"Debates about the pension system are mainly focused on the social security system, the interplay of social security pension and the pension funds, and how we ensure that those who have not collected generous pensions throughout their working lives are guaranteed income security at retirement," she explains.

"THOSE TWO FACTORS TOGETHER FORM A STRONG FOUNDATION FOR OUR PENSION SYSTEM"

"We also need to ensure equal treatment in the system by ensuring certain groups cannot avoid contributing to the system and that the system does not discriminate. The pension funds cover very different groups and the disability burden is much heavier for some pension funds than for others."

Indeed, Þórðardóttir also highlights the importance of reducing the gender gap in pensions, as well as addressing the differences in disability-burden between funds (blue-collar vs white-collar), which can lead to different old-age pensions.

Snædal identifies the gender pension gap in particular as "one of the major pension-related challenges", noting that women who currently receive pension payments are more likely to have been outside the labour market, compared to women who are now at a working age.

"The right to maternity/paternity leave was recently equalised and that will make a great difference," Snædal acknowledges. However, she argues that the gender imbalance that exists will have an impact for another 40 years at least, with specific measures needed to correct the imbalance.

Despite industry concerns, Antolin points out that Iceland has one of the lowest gender gaps in pensions in the OECD, at 13 per cent compared to 26 per cent on average.

However, Snædal warns that the gender pay gap is "still a fact", and will continue to be reflected in pension fund payments.

"In marriages/partnerships, one partner often has more pension rights than the other, a difference that can be corrected by a transfer of rights," she explains, arguing that joint pension rights in marriages/partnerships should become the principle.

"Such a change would improve the status of those caring for the home and family members while they are at a working age, so that people in a marriage/partnership accrue equal rights."

Rising to the challenge

Gender is not the only challenge though, as Sigurðsson warns that the Icelandic pension system must also react to the fact that the Icelandic people have one of the longest life expectancies in the world, which is "rising quite rapidly".

"There are talks now of how the system and individual funds will meet this development and I am confident that we will deal with it appropriately," he clarifies however, acknowledging that there are a number of ways in which this could be addressed.

"Most of these points have to do with the social security system in Iceland and/or things that the government must address, for example reducing government debts as a percentage of GDP," he continues. "But of course, in a system as big as the Icelandic pension system there are always things that can be done better, for example, in regards of informing the fund members of their rights and how the system works."

Progress is underway to improve member engagement, however; Þórðardóttir says the Icelandic Pension Funds Association has been distributing general information about the pension system on social media, in an effort to raise awareness amongst younger savers.

"The association has also, in cooperation with Finance Iceland (SFF), attributed to education in primary schools on issues that have to do with the pension system itself, the pension funds in general and their issues," he adds. ■

GUEST COMMENT

Creating a change

Iceland's second-largest pension fund Lifeyrissjodur Verzlunarmanna (LV) chief investment officer, Arne Vagn Olsen, **chats with** Sophie Smith **about how the scheme is stepping up its focus on climate change issues**

WRITTEN BY SOPHIE SMITH

Lifeyrissjodur Verzlunarmanna (LV) was one of 13 Icelandic pension funds that recently committed to investing in green projects as part of the Climate Investment Coalition. How has the scheme incorporated environmental considerations into its investment strategy so far, and what approach will the scheme take in future to continue work around climate issues?

Environmental considerations have been a part of LV's investment strategy for a long time, although the focus has massively increased over the past few years. LV was an early mover as a signatory to the United Nations' Principles for Responsible Investment back in 2006 and has participated in the founding of several organisations in Iceland that focus on environmental, social and governance (ESG) issues.

LV published its first *Responsible Investment Policy*, including an exclusion list, in 2021 and we are slowly but surely learning how to implement ESG considerations in different asset classes, as well as on the portfolio as a whole. We recently subscribed to a global data provider on the ESG front and that has enabled us to analyse our portfolio and investment ideas on a more detailed level than before.

Last but not least, we are hiring an ESG specialist for the asset management department in the coming months that will enable us to put even more effort into ESG incorporation.

LV has also become the first pension fund to join the Festa Climate Declaration. What does this commitment mean for the fund?

LV became a member of Festa in 2018. Festa is a catalyst for change and a bridge-builder between the public and private sectors that focuses on sustainable development through the Sustainable Development Goals (SDG), climate change, and corporate social responsibility.

LV's membership to Festa supports the fund's journey to increased focus on sustainability in its operation in general with a focus on asset management. It also supports the fund's know-how building and capabilities regarding responsible investments, the development of the fund's culture, and is part of the fund's focus on SDG, particularly goal number 17 – Partnership for the Goals.

LV reported strong returns despite the impact of the pandemic, with members' earned pension rights and lump-sum payments both increased as a result. How did the pension scheme adjust its investment strategy to mitigate the impact of Covid-19, and do you expect much continued impact from Covid-19 in future?

We've had excellent returns with over an 8.8 per cent real rate annual return for the past five years. This allowed us to raise benefits by 10 per cent in 2021, something that we are very proud of. In terms of our investment strategy, we've held a significant exposure to risk assets during this time but are now closer to dialling back a bit, given late cycle dynamics and increased political risk.

The impact from Covid-19 was negative in the beginning but has proven to be beneficial for risk assets, given the amount of stimulation from central banks. The long-term effects of Covid-19 are likely to be structural in terms of how we work and that will have an impact.

How has the scheme dealt with the operational difficulties posed by Covid-19, such as staff shortages?

For the most part we haven't been affected compared to many of our peers in Europe and the USA. We had periods of working from home, but not that often, so all-in-all we've been able to manage very well. Video meetings have proven to be very convenient when meeting managers we already know well, but are unlikely to replace in-person meetings with new managers etc. ■

INTERVIEW

Getting your priorities straight

Jack Gray **speaks to PensionsEurope secretary general,** Matti Leppälä**, about the organisation's priorities for the coming year and the challenges that may need to be overcome**

What developments do you expect to see regarding the Institutions for Occupational Retirement Provision (IORP) II Directive this year, and what work will PensionsEurope and its members be doing to prepare?

Many of our members are in scope of IORP II and there have been some interesting developments. In Sweden, the big pension insurance companies that were under the insurance Solvency II regulations are now transformed into pension funds under the IORP II Directive, as of 1 January this year. So, we no longer have the UK within the scope but we have big new pension funds like in Sweden that are within the scope.

The upcoming revision to IORP II is important for us and a clear priority. The situation is that the directive stipulates that the revision should take place by January 2023, but we think that it will be delayed. The European Commission, which is responsible for any proposals to change the directive, will issue a call for advice to the European Insurance and Occupational Pensions Authority (EIOPA). That was expected last year but was delayed, and now, perhaps during the first six months of this year, they will issue this call for advice. We have no exact date, but that is the assumption. Then, EIOPA will provide its advice, which is really important. If you look at the previous revision, the role of EIOPA was crucial in formulating the advice that the commission then based their legislative proposal on. EIOPA will really get started when the commission asks them to.

Are there any issues or challenges around the directive that need to be addressed or could become apparent in 2022?

There are issues like whether they would reopen the debate about the harmonised solvency framework, which was the central issue in the previous revision that we were able to resist. We hope that will not become an issue. There are many other issues, such as that the cross-border provision of the IORP Directive does not work. There was a report published by EIOPA, which shows that only 33 cross-border IORPs exist and their market share is 0.2 per cent. Of the existing previous cross-border IORPs, many were between the UK and Ireland, and they are no longer there. Everybody can conclude that the IORP hasn't been a success in this area.

Another issue that is very important for us is the fact that the European pension legislation is very national. This is unlike other European rules on financial services, which are mostly harmonised. For IORPs, the delegated legislation does not exist. You have the level one directive and it's implemented by the member states, but it leaves much more room for national adaptation than, for example, in insurance or banking. This is something that was very important for our members, we did not want harmonised rules in governance or communication, not at the level that was envisaged by EIOPA and the commission.

There are issues like what to do with communication. Technology is changing and we need to see whether governance rules are adequate. There is also the issue of proportionality, because we have a very diverse landscape and proportionality is important, so what rules apply to the really big pension funds and to the really small ones, and all those in between. If it's a revision of the directive, everything is on the table but we don't know what will happen.

What work will you be doing to prepare for the changes?

What we have done in the meantime is survey our members to see what they think about different issues and we will continue to prepare this spring for the main issues that are important to us. We will then engage with EIOPA when there is the call for advice, and going forward with the

legislators and commission. There are a great many details that we will go through with our members to see what can be improved. We also want to be proactive. We will prepare internally to be able to react to the process but we also want to proactively think about issues like proportionality, the governance issues, international requirements and cross-border issues.

What other priorities does PensionsEurope have for the coming year?

There is another piece of work that is related to the directive; the commission is going to ask EIOPA for advice as part of the sustainable finance action plan on the fiduciary duty of pension funds and the prudent person principles, which is the basic principle for investments, and whether then the sustainable finance issues should be more reflected in that. That's part of the European Commission's sustainable finance action package that was published last autumn. One part of that is that it will ask EIOPA to look at these issues.

Also, the prudent person principles and the fiduciary duty are central issues of the IORP II Directive. So, how these processes go together is important and we will see how that plays out. Even though there is pressure to go forward with the sustainable finance action plan, we think it's important it's done within the context of the IORP II revision, so it is not a separate issue.

There is also the Corporate Sustainability Reporting Directive (CSRD) that we are responding to, to assess whether these different reporting standards are compatible or aligned. We have been concerned with this and have pointed it out, but at this point we are not sure how many problems we will have with this.

One issue that is very topical is clearing. The big pension funds especially need to clear their interest rate exposure and currency risk, especially the big funds in the Netherlands and some in other countries where you have big pension funds. There are two issues: one is that pension funds are still exempt from central clearing and there is still a possibility to extend this exemption by one year, but a permanent solution should be found. The other is that pension funds had mainly used the UK-based central clearing options and we have lobbied for an extension of the equivalent of the UK-based central clearing partners. We have seen that the commission is in favour of this so they will propose a three-year extension, and we are in favour of that.

There will also be a European-level stress test this year. The Capital Markets Union action plan had three issues specific to pensions: pension dashboards, the national tracking service and auto-enrolment. We now have to see what the commission will do with these topics going forward.

The Pan-European Pension Product should become live on 22 March 2022, so we will see how many providers there will be. There is an upcoming revision but not for a couple of years, so we will need to see how it works out. There are also a number of financial market topics that are really important for pension funds as long-term investors: the European long-term investment fund legislation, the Alternative Investment Fund Managers Directive, and many others. We will be working on those. ■

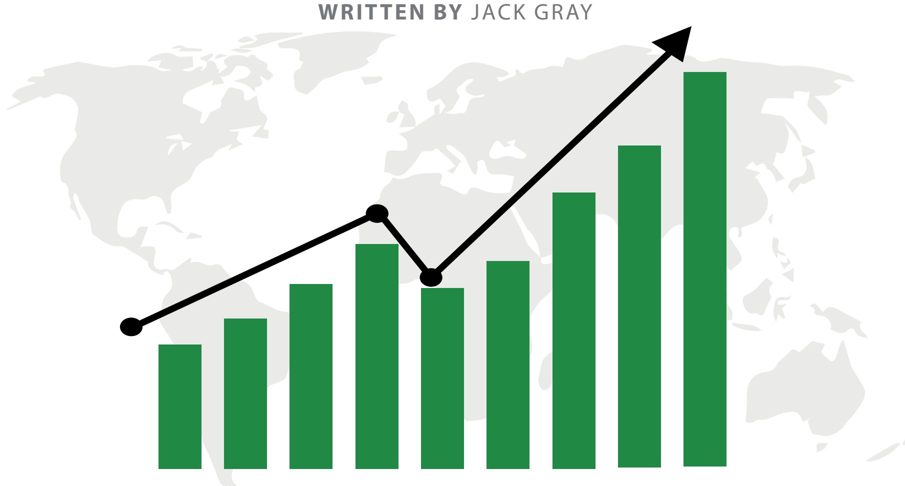
INVESTMENT TRENDS

Uncharted territory

As European countries try to economically recover from the ongoing Covid-19 pandemic and the financial shockwaves it has created, how will pension schemes' investment trends adapt to new challenges and opportunities?

Jack Gray **investigates**

WRITTEN BY JACK GRAY



Predicting the future can be a difficult task, but pension professionals from across Europe are attempting to do just that as the world enters 2022. Following two years of upheaval and uncertainty, pension schemes again have the task of navigating uncharted territory in a fluctuating investment environment.

Investors may turn to alternatives and more diversified equity strategies, due to concentration risks in developed market equities amid continued strong equity performance. There is also expected to be a strong focus on investments that meet environmental, social and governance (ESG) targets as the continent increases its interest in sustainable investment.

The impact of Covid-19 is still being felt, and investors are currently having to navigate and adapt to a high-inflation environment, which is expected to impact scheme liability valuations. This environment presents risks but also opportunities as pension investors manoeuvre their way through the volatile landscape.

Traditional classes

Traditional asset allocations have often helped pension investors navigate through periods of volatility, but LCP investment consultant, Odhrán Mulrooney, warns that these 'safe harbours' may not offer the same protection as they have previously.

"With equity markets at all-time highs and bond yields at all-time lows, significant volatility and risk lie on the horizon for investors," Mulrooney explains.

"In the past a traditional 60 per cent equity and 40 per cent bond portfolio offered some protection during rough seas, but central banks are stepping away from their quantitative easing experiment, leaving behind an extremely unbalanced market in its wake.

"As a result, historical correlations can no longer be relied upon and safe harbours may no longer exist. European government bonds offer little value for investors outside of managing liability risk."

However, opportunities still exist within the credit universe, he states. Improved funding positions have reduced the required return needed from the assets, along with the risk that needs to be taken. As schemes seek to capture equity market gains, multi-asset credit, and rolling buy and maintain credit portfolios are two areas that are proving to be "very attractive" for pension schemes as they can offer some protection against potential negative returns on government bonds if interest rates rise on the back of increased inflation expectations.

BMO Global Asset Management director and portfolio manager, LDI, Jan Willemsen, adds that while equity valuations have been viewed as high, increasing policy rates have resulted in some analysts starting to doubt these valuations and they are now predicting a correction.

"Although expected equity returns are not necessarily low – and surprisingly, considering that investors have already benefitted from a prolonged bull market since the end of the global financial crisis, even long-term capital market for equities, assumptions are still quite optimistic – they are seen by investors as very uncertain," he continues. "One way to protect the portfolio against adverse shocks is to use protection strategies such as equity put options or variations thereof.

"Generally, we still see a high-risk appetite. Most investors are still looking to enhance yield and returns, albeit mostly via alternative investments, such as property. Some are also actively selling out of return assets, such as equities and higher yielding spread products, but we don't see that across the board."

Mercer senior investment consultant, UK, Hemal Popat, predicts that the growth of private market investment will be a significant trend in 2022, alongside a rotation from passive to active, or more diversified equity strategies, as investors recognise concentration risks within developed market equities.

"We see a continuation of the volatility in fixed-income markets that we saw in 2021 as central banks gradually tighten monetary policy in response to the post-pandemic recovery and inflationary pressures," Popat states.

Finding an alternative

Low bond yields and the lack of 'safe harbour' asset allocations could push pension investors to seek out alternative asset classes.

Mulrooney says he expects assets such as unlisted infrastructure to continue to see large inflows as investors see the relative attractiveness of their high income to total return ratio. Furthermore, he notes that the visibility of investors' cashflows, which are often government-backed and inflation-linked, provide an element of certainty and protection.

"Whilst this is the case for institutional and defined benefit (DB) schemes, the majority of defined contribution (DC) schemes will continue to have difficulty in accessing the illiquid universe," he adds. "As DC-style arrangements are the future of pension savings in Ireland and globally, this is very disappointing. Regulations aren't the roadblock to allowing access for savers, it is a lack of creativity and a collective desire to change that is holding back the industry."

Willemsen says diversification and the move to alternatives is being driven by the low expected returns on traditional bond assets and spread products in a rising yield environment. Investors are also seeking alternative investments to help diversify and complement traditional portfolios by seeking returns that are independent from equity and bond markets and reducing overall sensitivity to traditional markets, he adds.

"We see European property, private equity and infrastructure, investments, which also align well with pension funds' social and environmental goals, and catastrophe bonds and private debt as good examples of alternatives where allocations will be increased," says Willemsen.

Their alignment with ESG targets is another reason that investors are expected to increase their investments in alternatives in the coming year, as Octopus Group co-founder, Chris Hullatt, explains: "In my view, renewables infrastructure and healthcare real estate present compelling pension fund opportunities for 2022, with both offering income opportunities and ticking all of the E, S and G boxes when structured in the right way by an experienced manager."

Hitting the ESG target

In the Netherlands, most investors are not significantly changing their portfolios due to the new 'Pension Agreement', according to Aon head of investment NL, Maarten Thomassen, which is set to be introduced in January 2023 and will result in a shake-up of the Dutch pensions industry. However, there is "one exception, and that is ESG", says Thomassen.

"ESG is an important development everywhere, but particularly so in the Netherlands," he continues. "Culturally, there is a lot of consensus that pension funds should help with the energy transition. You see a lot of movement in equity portfolios at different benchmarks, for example, climate transition benchmarks that target a 30 per cent reduction in carbon emissions, and Paris-aligned benchmarks that target a 50 per cent reduction."

Popat agrees, stating: "The biggest trend will be the evolution of ESG from integration and defining long-term target, which has been the focus so far. Investors will increasingly position their portfolios to actively reduce climate risk and take advantage of the opportunities the energy transition will create. We also expect greater focus to be placed on biodiversity and the stewardship of natural resources."

Hullatt notes that the pandemic has accelerated the flow of pension scheme capital into purpose-led investments, such as the transition to renewable energy or 'building back better' through infrastructure.

"Everyone is now aware of the importance of demonstrating the tangible impact pension funds are generating through their sustainable asset allocation," he adds.

Willemsen concludes: "ESG and legislation around it is on top of the agenda for many European pension schemes. We see a move to further integration within our portfolios, the adaption of net-zero portfolios, sustainability bonds, and ESG benchmarking. For pension schemes, there are increasing opportunities to manage the portfolio in accordance with their specific ESG goals." ■

INTERVIEW

Banking on DC success

GM Pensiones chair of the pension fund board, Noelia Cuadrado, **tells** Francesca Fabrizi **how a change in approach led to dramatic improvements in the risk/return performance of the defined contribution fund**

Please give a short introduction to GM Pensiones

GM Pensiones is the defined contribution (DC) pension fund of the employees of Banco Sabadell, which, established in 1881, is now the fourth largest bank in Spain by volume of assets. Over the years, it has acquired several other Spanish banks and, in 2015, bought TSB in the UK and created BS Mexico. Alongside the DC scheme, there is also a fully insured defined benefit (DB) fund, Multifondo 2000.

GM Pensiones has more than 18,000 participants and over €660 million in assets under management (AUM). The fund is managed by a board of trustees who delegate the asset management to SABAM-Amundi and use Mercer as the investment consultant. BanSabadell Vida and Pensiones (Sabadell group) is responsible for the administration of the plan and gives the members all the pension options at retirement, either as a lump sum or annuity.

GM Pensiones has one single investment strategy for all members, so it shares most of the characteristics of a collective defined contribution (CDC) plan.

What are your aims/priorities for the scheme going forward?

Our main priority is to ensure that our investment strategy is robust and resilient enough to achieve the best risk/return ratio possible, as opposed to the maximum return or minimum risk.

Our long-term performance target is CPI +1.5 per cent but with a clear focus on risk control. The strategy has demonstrated its resilience and its capability to achieve the output growth targets and the board of trustees has demonstrated that it is possible to implement a diversified investment strategy with a clear purpose in an efficient manner.

Governance is our other priority. The whole scheme design is underpinned by strong governance and socially responsible investing (SRI) components. For example, both the sponsor and unions are represented on the board of trustees; GM Pensiones has been a signatory of the United Nations' Principles for Responsible Investment (UN PRI) since 2020; and all the other companies involved in the management and administration of the fund are signatories (Amundi, BanSabadell Pensiones and Mercer).

How has Covid-19 affected the running of the scheme?

Aside from the health implications for the participants, from a strictly financial point of view, the pandemic has had a controlled impact on the fund's results.

The fund suffered a negative return in the first quarter of 2020, but less negative than other funds thanks to its defensive positions. Since then, the recovery has been V-shaped, with a return in 2021 of +8.2 per cent.

The situation with the banking sector in Europe, and in Spain in particular, has arguably been a bigger challenge for the company and for the pension fund. There have been different restructuring processes during the past two years that have led to a significant number of plan members leaving the company. This is a challenge for the pension fund – we need to convince these people to maintain their assets within GM Pensiones and not invest elsewhere.

Since 2019 in particular, participants' engagement has also been a priority. The board is continually measuring ratios such as the volume of voluntary contributions, the volume of turnover (participants moving their assets to other schemes) and participants getting their pension as an annuity in comparison to those taking a lump sum. The current indicators are in line with our targets and we are able to maintain and grow our AUM.

What other challenges have you overcome in recent years?

About 10 years ago, the performance of the fund was not satisfactory. It was significantly underperforming its peers, incurring higher risk and achieving lower returns.

In 2014, the board of trustees began a process to review all of its governance procedures and undergo a thorough review of its long-term investment strategy. Soon after, the performance started improving significantly, in particular reducing the return gap versus its peers and, at the same time, reducing the risk thanks to a robust and diversified strategy.

As a result, GM Pensiones has managed to significantly improve its performance, moving from the lower quartile 10 years ago, to now boasting one of the best risk/return ratios (over five years) among the top corporate pension funds in Spain.

The other challenge recently has been the development and implementation of our SRI targets and policies. The fund's responsible investment policy and decarbonisation plans are now in place. This includes three governance and three implementation objectives:

Governance:

- To align with the Paris Agreement and reduce 50 per cent of emissions by 2030.
- To promote and engage with Sustainable Development Goal 13.
- To participate in UN PRI collaboration initiatives regarding climate transition.

Implementation:

- To enhance sustainability bias in growth assets.
- To promote active management versus passive in infrastructure investments.
- To better communicate to plan participants and stakeholders.

What are the main characteristics of the investment strategy?

This can be divided into our long-term objectives, our investment beliefs and our strategic asset allocation.

Our long-term objectives are:

- Current long term performance target: CPI+1.5 per cent.
- Risk budget: 6.5-8.5 per cent target volatility range.

Our investment beliefs are:

- Diversification per asset class to diversify risk and return factors.
- Long-term vision: The fund must be managed with a long-term vision and assume liquidity and volatility risks to fully capture the risk premium of each asset class.
- Management style: Active and passive management can play significant roles within a balanced portfolio. The board defines an investment style for each asset class (active/passive and direct investing/mutual funds investing).
- Responsible investing policy and UN PRI commitment.
- In terms of our strategic asset allocation, the long-term investment strategy is split into three main blocks:
- Equities: 25 per cent, between 20-30 per cent.
- Fixed income: 47 per cent, between 35-60 per cent.
- Alternatives: 28 per cent, between 20-34 per cent.
- The alternatives bucket includes different asset classes: Real estate (including some real estate direct holdings), private equity, infrastructure and hedge funds. It is important to mention the existence of an overlay currency hedging policy and an equity hedging policy. Both of them use futures or options to implement the hedging, depending on the objective of the hedge and the situation of the markets.

In recent years, the board has been developing specific policies and plans for several asset classes, to include:

- Private equity and non-listed infrastructure.
- Responsible investing principles and voting policy.
- Hedge fund investment plan and policy.
- Derivatives (futures and options).
- Direct real estate.
- Procedure for selecting and monitoring specialised investment managers and products.
- Currency and equity hedging strategies.

Finally, I would reiterate, since evidence from most countries demonstrates that the preferred option for DC plan members is the default option, it is crucial that the main objective of the CDC/default fund is to achieve the best risk/return ratio, not the maximum return nor the minimum risk.

Today, the performance of the fund is beating its target: the annual return is beating Spanish CPI by +3.8 per cent a year since 2014.

As of December 2021, the fund is reporting a return higher than the market median with a lower risk than the market median; and our five years risk/return ratio is in the top fifth percentile compared to all Spanish corporate pension funds.

All in all, the risk/return position of the fund versus other Spanish corporate pension funds is where we want it to be. ■

COUNTRY SPOTLIGHT UK

UK pensions: Branching out

Two new pension offerings, CDCs and superfunds, are about to launch onto the UK pensions scene, but what will be their impact? Tom Dunstan **reports**

WRITTEN BY TOM DUNSTAN

For years, two types of pension schemes have dominated the UK pensions landscape – defined benefit (DB) and defined contribution (DC) pension schemes.

DB schemes, often referred to as 'gold-plated' pensions, see the employer make a promise to the member to pay them a set payment for the rest of their life upon retirement. This type of scheme has largely disappeared for new employees, due to the financial pressures it places on companies already dealing with huge liabilities needed to pay pensions to existing scheme members.

These were replaced with DC schemes – which became even more common after the UK's auto-enrolment policy was introduced. Under this type of scheme, the employee and employer both contribute a percentage of the employee's pay into a pension. Upon reaching retirement, the employee is free to do whatever they want with the money – with the aim to provide an income for the rest of their life. The key difference between the two types of schemes is risk; under DB schemes all of the risk sits with the employer, whereas with DC schemes the risk sits fully with the member.

However, with DC schemes having a minimum default contribution of just 8 per cent, and most experts agreeing 12 per cent is needed to secure an adequate retirement, the UK may be heading for a pensions crisis. On the other hand, generous DB schemes have their endgame in sight and, with members that are living longer than previously, employers are looking to unburden themselves from huge pension liabilities.

With both types of schemes facing their own challenges, new solutions are needed. Enter, collective DC (CDC) schemes and DB pension superfunds – two new pension offerings that are set to launch on the UK market imminently, but are they going to answer the prayers of those in the industry?

CDCs

CDCs are an alternative to the traditional DC and DB schemes, acting as a halfway point. It is hoped that CDC schemes will rebalance the risk between employers and members, as the risk taken on by both parties is more equal. CDC schemes aim to provide greater stability and consistency for members in retirement, while employers will have less responsibility than DB schemes but CDCs allow them to provide more security for employees than DC schemes. CDCs, like DC schemes, require employees to pay into a pot. The employer guarantees to pay a pension for all of retirement but, unlike DB schemes, doesn't guarantee a specific amount. The biggest difference between DCs and CDCs is the collective aspect of the scheme with investments, risk and benefits pooled.

CDCs offer many benefits over traditional DC schemes, as LCP partner, Steve Webb, points out: "If things go badly then the scheme members may have their benefits squeezed, but the employer doesn't suddenly have a big bill."

The benefits of CDCs are not just limited to the employer, as Webb explains: "From the members' point of view, they have less risk as well. The pooling means the risk of living too long is taken out and if the fund does badly the impact is smoothed across all the working members and all the retired members."

Webb points to modelling that suggests CDCs could offer "30 per cent more pension, per member, potentially," although he adds: "That's not guaranteed but it's more likely than not".

However, CDC schemes are not without their drawbacks, with Webb stating that they can be complicated to understand so "communication is key". He cites the Netherlands as an example of communication that has gone wrong. The country's general occupational pension system runs on a collective basis and has similarities to how the UK plans on running CDC schemes.

In the Netherlands, if funding levels are not sufficient then indexation can be frozen, or in extreme circumstances, benefits can be cut. As a result of unclear communication, members believed they were being paid 'final salary' benefits instead of being told that the benefits were contingent on the funding levels of the scheme – this caused outrage in 2013 when occupational pensions had to be cut for the first time under the system.

CDC in the UK

Like most developments to the UK pension system, CDC schemes have been talked about for several years; not least because the government has oscillated back and forth over their introduction.

As far back as 2009, following a consultation on risk sharing, the Department for Work and Pensions (DWP) revealed that it would not be taking CDCs forward. Five years later, talk of CDCs had built up again, and plans for CDC legislation were announced. These plans, however, were dropped in October 2015 before the idea of CDC was picked up again by the DWP in 2018 following lobbying from Royal Mail – which is set to become the first UK company to launch such a scheme.

More recently, the government confirmed that draft legislation for such schemes will come into force from 1 August 2022, subject to parliamentary approval. Last month, The Pensions Regulator launched a consultation on the code of practice for the authorisation and supervision of CDC schemes.

To operate in the UK, CDC schemes will need to be authorised by TPR through meeting all the authorisation criteria and will be continually supervised against the criteria once they are operating. These criteria consist of fitness and propriety, systems and processes, member communications, continuity strategy, financial sustainability, and sound scheme design.

Royal Mail

Royal Mail is set to be the first company in the UK to launch a CDC scheme. After being locked in a battle with its union, the Communication Workers Union, over the closure of its DB scheme, proposals were drawn up in 2018 to introduce a CDC scheme.

There was just one problem, UK legislation did not allow for such schemes. Royal Mail head of corporate pensions, Angela Gough, says: "When the scheme was designed back in 2018 the UK pensions legislation didn't allow for CDC schemes, so we're really glad the government recognised the value of CDC and created the legislation."

Another challenge, she says, has been the planning of the scheme: "Back when we first started talking about CDC, everyone had their own idea of what CDC might mean and often that was quite different from how we designed our scheme so we spent a lot of time explaining how our scheme design worked and how it was different from other CDC designs people might have seen elsewhere."

Gough is also acutely aware of the need for clear communication with members: "We've been putting a lot of effort into getting our communications really strong and engaging members so that they understand the nature of benefits and the specific ways those benefits are calculated, from the available assets of the scheme, and how the risk is shared between members of the scheme."

Superfunds

Innovation is also being seen in the DB space with the first superfund provider recently being given approval by TPR to operate in the UK. This new type of scheme expands the range of de-risking options available to DB schemes.

Traditionally, de-risking has been done through either a series of buy-ins, longevity swaps or buyouts

– with a full buyout with an insurer being the end goal. Other schemes on the road to endgame may aim for self-sufficiency, meaning they will no longer be dependent on contributions from the scheme sponsor, but avoid having to go down the route of a costly insurance deal.

Superfunds will bring another option to schemes working towards their endgame. Currently, just one superfund, Clara Pensions, has received regulatory approval but another, The Pension SuperFund, is waiting for the green light from TPR.

The two schemes work in quite different ways, Webb says: "One of the superfund models – the Clara superfund model – is what they call a bridge to buyout. You, as a scheme, hand over all your assets to Clara, and possibly pay a top-up, and then Clara will manage that pension up to buyout. They can do it to scale as a big pension company and will have access to resources such as high-quality investment advice.

"The Pension Superfund has a slightly different model – consolidators could combine small and large schemes to make one 'super' fund, which is potentially more efficient, but they envisage rolling on."

Pension experts state that the biggest advantage for employers joining a superfund is the ability to focus only on their business concerns and not having to think about providing pensions for employees, as the responsibility is transferred to the superfund. Members also benefit from superfunds, as the larger scale allows for better funding and higher quality investments than would have been

previously available.

However, there are some requirements for superfunds that might be off-putting for smaller DB schemes, such as certain fixed costs to the transactions, as well as a need to make sure all transfer data is clean, so "it would be surprising if the smallest DB schemes were the first to move," Webb says. Experts have also raised concerns that potential take up may be limited as the financial requirements of joining a superfund are akin to a full buyout.

Superfunds, much like CDC schemes, have greater investment opportunities as they pool together the investment potential of all their members. This allows them to invest in higher risk-return investments, but Webb warns: "If they're investing with greater risk something may go badly, however, they will have to have substantial capital backing to make sure member benefits are covered if investments underperform."

This risk is one of the reasons why TPR has spent such a long time vetting potential superfunds. Clara director of policy and communications, Richard Williams, describes the strength of the regulatory process: "Trustees who are passing their members to us and entrusting us to deliver their pension promises rightly want the comfort that we're more secure than their members currently are."

After completing regulatory assessment in November 2021, Clara hopes to announce its first transaction in the second qurter of 2022.

Looking ahead

With both products set to enter the market this year, just how popular will they become? Pensions and Lifetime Savings Association deputy director of policy, Joe Dabrowski, says: "We'll probably see over the next three to five years a number of funds indicate that they are committed to going down the route of CDCs.

"If that happens CDC may become more of a considertion for other sectors like the public sector too. We'll know in three to five years but there's definitely interest in how it might work and funds actively looking at it as a choice."

Gough was similarly optimistic, expressing her belief that "CDCs will become a valuable addition to the UK pensions landscape."

There seems to be similar potential for superfunds due to the large number of smaller DB schemes in the UK right now, optimism that is shared amongst several different people.

Dabrowski says: "Once we see more transfers into superfunds, I'd expect to see superfunds become an established fixture of the UK pension landscape. One of the things we've seen in developments, historically, is that once there are one or two successful players then a big contingent of other interested providers will also emerge."

Webb echoes this sentiment: "It could be very large; it could be tens of billions of pounds". ■

European Pensions AWARDS 2021

European Pensions AWARDS 2021












European Pensions AWARDS 2021

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OVERVIEW

The European Pensions Awards are always an exceptional event in the European pensions calendar, bringing together European pensions funds big and small, consultants, providers and leading figures from Europe's pensions regulators and associations to celebrate the industry's successes over the past year. This year's event was no different. Taking place at the stunning Marriott Hotel on London's famous Grosvenor Square, it was smiles all round as people delighted in being able to network with their peers and chat with their friends once again.

The last year in European pensions has certainly been eventful. As the Covid-19 challenges rage on, the industry has needed to maintain its resilience as well as work hard to rise above the challenges associated with market unpredictability and rising inflation. Each individual country has also had its own hurdles, with many having experienced national pension reform; while major events such as COP26 reminded the industry that sustainability should be well and truly on pension funds' and providers' agendas.

As always, this year's awards night was proof that excellence continues to thrive in the industry, with all entries displaying exceptional endurance and impressive innovation. It was truly an honour to see so many winners receive their trophies after a period of such incredible unpredictability. Congratulations to all the winners and many thanks also to our sponsors and judges.

Francesca Fabrizi, Editor-in-Chief

2021 JUDGING PANEL

Jana Bour
EU Policy Manager
EPRA (European Public Real Estate Association)

Francesco Briganti
Secretary General
CBBA-Europe

Evalinde Eelens
Supervisory Board Member, Delta Lloyd Corporate Pension Scheme; Executive Board Member, BPF Particuliere Beveiliging; Board Member, BPF Schilders; Board Member, PostNL Corporate Pension Scheme

Snædís Ögn Flosadóttir
Managing Director
Pension Funds EFIA and LSBI

Chetan Ghosh
Chief Investment Officer
Centrica Pension Scheme

Jerry Moriarty
CEO
Irish Association of Pension Funds (IAPF)

Richard Poole
Legal Director, Pensions & Employee Benefits
Royal Mail Group

Tim Reay
Treasurer
International Employee Benefits Association (IEBA)

Mike Smaje
Trustee Executive
BESTrustees

European Pensions AWARDS 2021

WINNERS 2021

EUROPEAN PENSIONS CONSULTANCY OF THE YEAR
PwC

INVESTMENT MANAGER OF THE YEAR
Legal & General Investment Management

EQUITIES MANAGER OF THE YEAR
Columbia Threadneedle Investments

FIXED INCOME MANAGER OF THE YEAR
Insight Investment

ALTERNATIVES INVESTMENT MANAGER OF THE YEAR
Aurum Fund Management

PROPERTY MANAGER OF THE YEAR
Cheyne Capital - Cheyne Impact Real Estate

INFRASTRUCTURE MANAGER OF THE YEAR
KGAL

PRIVATE EQUITY MANAGER OF THE YEAR
Unigestion

ETF PROVIDER OF THE YEAR
BNP Paribas Asset Management

EMERGING MARKETS MANAGER OF THE YEAR
Coronation Fund Managers

RISK MANAGEMENT FIRM OF THE YEAR
Cardano Advisory

CURRENCY MANAGER OF THE YEAR
HSBC
Highly commended: Mesirow Currency Management

LDI MANAGER OF THE YEAR
Legal & General Investment Management

PASSIVE MANAGER OF THE YEAR
Amundi

MULTI-ASSET MANAGER/PROVIDER OF THE YEAR
TOBAM

INDEX PROVIDER OF THE YEAR
MSCI

ESG/SRI PROVIDER OF THE YEAR
AXA IM Alts

FIDUCIARY MANAGEMENT AWARD
Aon

European Pensions AWARDS 2021

WINNERS 2021

EUROPEAN PENSIONS LAW FIRM OF THE YEAR
CMS UK

CUSTODIAN OR TRANSITION MANAGEMENT FIRM OF THE YEAR
BlackRock

PENSIONS INSURANCE FIRM OF THE YEAR
Pension Insurance Corporation

PENSION SCHEME ADMINISTRATOR OF THE YEAR
EQ Paymaster

PENSIONS TECHNOLOGY PROVIDER OF THE YEAR
MBWL International

EUROPEAN PENSIONS INNOVATION AWARD
Allianz Global Investors GmbH
(Technology): Cosan Consulting

MASTER TRUST OFFERING OF THE YEAR
Stoneport Pensions Management

FACTOR INVESTING OFFERING OF THE YEAR
BNP Paribas Asset Management

EUROPEAN PENSION FUND OF THE YEAR
AG2R LA MONDIALE

BEST INVESTMENT STRATEGY AWARD
Nest

PENSION FUND COMMUNICATION AWARD
Greater Manchester Pension Fund

PENSION FUND INNOVATION AWARD
Deloitte Pensions Master Plan

DIVERSITY AWARD
Capital Dynamics

MARKETING CAMPAIGN OF THE YEAR
Legal & General

THOUGHT-LEADERSHIP AWARD
Aviva Workplace Savings & Retirement
Highly commended: NOW Pensions
(Investment): Fidelity International

European Pensions
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EUROPEAN PENSIONS CONSULTANCY OF THE YEAR

PWC

The European Pensions Consultancy of the Year award went to PwC. Receiving the award was Jeremy May, PwC (centre), Phil Dawes, BNP Paribas Asset Management (right) and host, Hal Cruttenden (left) presented the award.

Consultancies play a vital role in the running of pension schemes, so this award is always highly coveted.

The European Pensions Consultancy of the Year accolade only goes to those consultancy firms that the judges believe have delivered outstanding service to its pension fund clients in the last year, has shown a dedication to the delivery of pension scheme consultancy in its respective market, has demonstrated a superior understanding of the market's needs and has shown a commitment to helping clients through the pensions maze.

This year, excelling in all the above criteria is PwC. The judges awarded PwC the title of European Pensions Consultancy of the Year 2021 due to the firm putting together an "outstanding" entry that showed "a commitment to improving the pensions scene with a range of quality services across Europe".

One ground-breaking service that PwC undertook in April last year was a 'first of its kind' capital-backed journey plan transaction completed by a UK scheme.

On the journey to buyout, mature, well-funded schemes tend to either reduce risk too soon and take a long time to reach buyout or run risk for too long, whereby a market shock can put buyout out of sight.

Therefore, this new capital-backed journey plan instead secures defined benefit members' benefits through an underwritten asset return that enables a buyout of benefits with an insurer at a future date. The link to the scheme sponsor is retained and scheme governance remains in place.

> *"PwC is also dedicated to improving pensions on a national and international level. For instance, at the start of the Covid-19 pandemic, PwC quickly engaged scheme administrators and clients to assess operational changes required and shared its findings to ensure service continuity in the market"*

PwC also understands its clients' needs in each European market in which it operates. For instance, it worked with a multinational business in late 2020 to provide vendor assistance on the sale of a $5 billion part of the business, of which pensions were a material issue to address.

In the UK, Germany and Switzerland, PwC helped the business to de-risk its pension schemes to improve member security and achieve favourable deal pricing.

PwC is also dedicated to improving pensions on a national and international level. For instance, at the start of the Covid-19 pandemic, PwC quickly engaged scheme administrators and clients to assess operational changes required and shared its findings to ensure service continuity in the market. It also produced content for a website on Dutch pension reforms and held multiple seminars and roundtables in Sweden on the topic of financial wellness of employees.

Congratulations to PwC, an outstanding winner.

European Pensions AWARDS 2021

Environmental, Social and Governance ('ESG') in pensions - how can we make a difference?

The current challenge

ESG legislation is becoming more ambitious. Industry commentators are crying out for the pensions industry to do more to support societal issues, and our stakeholders are rallying behind them. The industry knows that it needs to do more.

The sustainable investment market is larger than ever. ESG factors are making their way towards the top of pension investors' priority lists for a variety of reasons, including protecting savings from climate risks, and to capitalise on the financial benefits of early adoption.

And with high profile schemes moving billions of pounds into ESG funds, there is clear demand for more sustainable investments. What is less clear is the true impact these changes may have.

What are the risks?

Many companies have released eco-friendly fund ranges or have tried to make business practices more sustainable. This is great for spreading awareness, but it's hard to judge when a company is genuine. 'Greenwashing', the promotion of vague or false claims about environmental credentials, poses a real danger for compliance with climate legislation.

So what can we do about it?

In June 2020, the European Council and the European Parliament attempted to address this with a taxonomy regulation[1] to establish a classification system to identify the degree economic activities can be considered to be environmentally sustainable. Under this framework, an investment product is considered sustainable if it makes a significant contribution to one of six environmental objectives whilst doing no major harm to the others. It includes areas such as greenhouse gas emissions, pollution prevention and biodiversity protection.

However, adoption has been slow. PwC recently carried out some market research[2] on more than 200 ESG related funds across the EU and found the majority of products offered only a vague description of their ESG characteristics. This highlights the progress still to be made.

Not forgetting the 'S' and 'G' in ESG

With the significant public interest in COP26, we're seeing a greater focus on climate issues, and it can be easy to forget that ESG is about more than the Environment. There is a long list of issues that could fall under the heading of 'ESG', including preventing modern slavery, but some of these can be hard to track. Investments in exploitative companies will end up being poor choices and reflect badly on the investors, but it's not always clear which companies are exploitative, or what data needs to be captured to monitor this.

On the other hand, some 'Social' and 'Governance' factors are easier to measure, thanks to increasing reporting requirements. For example, the female and ethnic minority representation in a company's boardroom and wider workforce can generally be easily monitored now given diversity reporting regulations. This is just one example where legislation is helping investors to make sustainable investment choices.

Making a difference

Legislation is making it easier for pension investors to take positive action in support of ESG. There are simple things we can all do, such as promoting the use of the EU taxonomy and monitoring board diversity when investing pension assets. As these steps get more accessible there is bound to be less understanding if they are not taken, risking reputational damage as well as posing a threat to the long term sustainability of your investments. The weight of legislation and public opinion around ESG can only grow. As it does, the pensions industry has an opportunity to show how we can lead the way.

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[1] The Sustainable finance taxonomy (Regulation (EU) 2020/852)
[2] https://www.pwc.ch/en/insights/fs/greening-your-financial-products.html

pwc

European Pensions AWARDS 2021

INVESTMENT MANAGER OF THE YEAR

LGIM

European Pensions AWARDS 2021

WINNER

Investment Manager of the Year

The European Pensions Investment Manager of the Year award is one of the most coveted awards of the event. Extremely competitive, this category always receives a high number of entries, as investment managers from across Europe strive to demonstrate how their investment offerings stand out from their peers.

This year was no exception – at a time when managing the uncertainties of the global economy, and striking the right balance between risk and reward, is more challenging than ever, the judges were truly impressed with the plethora of quality submissions in this category. Legal & General Investment Management (LGIM), however, proved itself a cut above the rest by demonstrating innovation, strong investment performance and a focus on delivering outstanding service. Additionally, LGIM showcased expertise in both the DB and the DC pensions arena and, importantly, proved itself a clear leader in the area of responsible investment.

Turning first to innovation, in the last 12-18 months, LGIM has worked hard to innovate across both the DB and DC space. On the DB side, it launched its Secure Income Assets fund in the UK for DB schemes looking for stable long-term cashflows, while the launch of NavGuide, an investment service for smaller DB schemes, confirmed LGIM's commitment to helping DB schemes of all sizes improve their offerings.

On the DC side, LGIM's investment in innovative technology has achieved impressive engagement results – its work with fintech platform Tumelo yielded outstanding member engagement results. LGIM's entry also highlighted its passion for assisting DC members not just at the accumulation phase of their journeys but also the all-important decumulation stage.

Developing innovative investment strategies that meet the specific needs of European pension funds was also something that impressed this year's judges. In recent months, LGIM has launched several new funds aimed at serving the risk and return needs of institutional investors, always with a robust focus on environmental, social and governance (ESG). LGIM also launched several exciting new thematic strategies as part of its ETF business, alongside new ranges of core ETFs across both fixed income and equities.

"A founding signatory of the Net Zero Asset Managers Initiative, its default pension funds have set interim targets to support their net-zero ambitions, while its parent group L&G is also aligning its balance sheet to net-zero emissions"

Many investment houses today claim to be committed to ESG, but LGIM truly is a leader in this space. A founding signatory of the Net Zero Asset Managers Initiative, its default pension funds have set interim targets to support their 2050 net-zero ambitions, while its parent group L&G is also aligning its balance sheet to net-zero emissions. Additionally, LGIM's Climate Impact Pledge today involves over 1,000 companies; and in 2020.

Finally, alongside its focus on innovation and true passion for responsible investing, this winning firm demonstrated consistent performance throughout the pandemic, making it, in the words of the judges, "a clear and worthy winner that continues to evolve to meet the changing needs of the pensions investment space". Huge congratulations to an outstanding firm.

LGIM

For investment professionals only. Capital at risk. Past performance is not a guide to the future.


Quiet enough to listen, loud enough to be heard
At LGIM, we use our influence to act on the issues that matter most to our clients.
lgim.com
For investment professionals only. Capital at risk.

European Pensions
AWARDS 2021

LDI MANAGER OF THE YEAR

LGIM

European Pensions
AWARDS 2021
WINNER
LDI Manager of the Year

As longevity increases and markets continue to be unpredictable, liability driven investment (LDI) has become one of the most popular buzzwords in pension scheme investment in today's market.

This award celebrates those players who have excelled in their LDI offerings to assist European pension funds to better match their assets with their liabilities going forward. The judges applauded this year's winner, Legal & General Investment Management (LGIM), for truly understanding LDI and the role it plays in pension fund investing today. Congratulations, LGIM, the LDI Manager of the Year!

As the UK's largest LDI manager, LGIM is well-established within the area of LDI, and was the first investment manager to implement a true LDI mandate for a UK pension scheme, using bonds and swaps in 2001. The fact that it still manages this mandate today, makes it clear to see why its entry stood high above the rest.

Since its first mandate 20 years ago, it has developed its LDI offering to provide for clients of all types and sizes. It offers clients the full spectrum of LDI and derivative solutions and can offer a range of investment routes, be it segregated, bespoke or pooled, to accommodate the requirements of each of its clients.

Demonstrating its success at innovating, 2020 saw the launch of its Secure Income Asset Fund, available to DB schemes, and designed to be integrated into clients' LDI portfolios. In addition, for clients looking to protect their equities, this year LGIM has designed a protected equity pooled fund to provide clients with global equity exposure, combined with a systematic hedging overlay.

Recognising the importance of being a responsible investor, LGIM always integrates environmental, social and governance (ESG) into both LDI and buy and maintain, a core component of LDI and cash-flow driven investment (CDI) strategies at LGIM. Clients can also choose to further align their portfolios to support their environmental, social and governance/climate risk objectives.

"As the UK's largest LDI manager, LGIM is well-established within the area of LDI, and was the first investment manager to implement a true LDI mandate for a UK pension scheme, using bonds and swaps in 2001"

This is because LGIM places clients' needs at the heart of everything it does. For example, in recent years LGIM has conducted a number of exercises to hedge consumer price index (CPI) risk. Since retail price index (RPI) reform became a material risk in 2019, it has hedged more than £3 million IE01. Subsequent market movements mean this trading has increased portfolio valuations by over £50 million, hedging the associated CPI liability risk.

It also offers a discretionary switching service for clients within their LDI mandates and is able to switch between similar bonds or swaps in order to improve yield net of costs without impacting shape, or improve shape without reducing yield and to release case and reduce leverage. LGIM also seeks to proactively engage with its clients and hosts a number of virtual events each year to enable regular communication with clients and consultants.

Well done to LGIM for submitting a fantastic entry that demonstrates true excellence in the field of LDI. An outstanding achievement!

European Pensions
AWARDS 2021

EQUITIES MANAGER OF THE YEAR

COLUMBIA THREADNEEDLE INVESTMENTS

The Equities Manager of the Year award went to Columbia Threadneedle Investments. Receiving the awards was Moira Gorman, Columbia Threadneedle. Presenting the award was Laura Blows, Pensions Age (right) and host, Hal Cruttenden (left).

Managing equities can play a key role in achieving strong outcomes for pension schemes through positive risk-adjusted returns, with this award celebrating those managers that have led the way in this space over the past 12 months. This year's winner proved itself to be the most exceptional player in the industry, demonstrating excellence in managing equities.

Many congratulations to the worthy winner – Columbia Threadneedle Investments. The judges said that the firm impressed with its clear philosophy and consistency in delivering excellent results, describing it as a strong player in the equities space.

Columbia Threadneedle Investments offers a broad range of actively managed investment strategies and solutions covering global, regional and domestic equities across the market cap spectrum and with various risk and return objectives. Its scale is demonstrated by its management of €265 billion* in equities, or 57 per cent of assets under management, which allows it to conduct meetings with over 3,000 companies annually and conduct research to identify the most compelling opportunities.

As at 31 December 2020, 90 per cent of Columbia Threadneedle Investments' equity funds outperformed their benchmark over one year, 96 per cent over three years, 87 per cent over five years and 98 per cent over 10 years, demonstrating the company's ability to deliver strong returns.

Columbia Threadneedle Investments showed it delivers consistent and superior risk-adjusted returns. Its expertise in selecting the best opportunities is demonstrated by its process of selecting high-quality companies that are able to generate high or rising returns on capital and compound earnings over time, which make for superior long-term investments.

Its research found that the market tends to assume that high returns mean-revert, underestimating the ability of companies with durable competitive advantages to sustain them over time thereby causing them to be undervalued. Taking a longer-term view and focusing on the sustainability of a high-quality company's competitive edge, Columbia Threadneedle Investments is able to exploit this inefficiency and construct a diversified portfolio to deliver strong returns.

The judges were impressed by the firm's approach of investing in companies that create sustainable long-term value and its effective engagement with those companies.

They are also impressed by Columbia Threadneedle Investments' research framework, which focuses as much on qualitative elements, such as the source of the competitive advantage and the industry structure as the fundamentals of the business. This opens its opportunity set to a broader range of companies when compared to some of its peers. This avoids the concentration sometimes found in comparable strategies and creates the potential for more diversifying return streams.

Huge congratulations once more to deserved winners, Columbia Threadneedle Investments!

**All data as at 31 December 2020.*

COLUMBIA THREADNEEDLE INVESTMENTS


Our most consistent priority: **your success**
Success is more closely connected to consistency than ever. Our global investment team is built on a genuine culture of collaboration, where experts challenge and debate their best ideas to make better decisions, leading to better outcomes for you. Find out how partnering with us can help deliver the consistent success you demand.

European Pensions
AWARDS 2021

ALTERNATIVES INVESTMENT MANAGER OF THE YEAR

AURUM FUND MANAGEMENT

The Alternatives Investment Manager of the Year award went to Aurum Fund Management Ltd.. The award was presented by host, Hal Cruttenden.

As alternatives play an ever-greater role in the majority of European pension fund portfolios, this category aims to reward the leaders in the provision/management of alternative assets; particularly those that have shown a commitment to the European pensions market with its product offerings.

Standing above the rest this year is Aurum Fund Management (Aurum), which, for 27 years, has been a specialist investment manager focused on fund of hedge fund portfolios.

Aurum has honed repeatable alpha generation by allocating to hedge fund managers that focus on liquid, trading-orientated investment styles.

What Aurum does not invest in is as important as what it does, to avoid 'beta masquerading as alpha' strategies and to steer clear of managers that have increased exposure to generic factors.

It showcased the success of its ethos over this past, challenging year. For instance, one of its bespoke portfolios, for a pension fund client, has a record of 81 per cent positive months since its inception nine years ago. It has achieved 11.10 per cent net return for the year to October. Also of note was Aurum's $1.1 billion flagship fund, which is available to a broader section of professional investors and which has achieved 77 per cent positive months over its 23-year history, with a 6.65 per cent cumulative annual net return since inception.

"Proximity's features include portfolio transparency, analyst's updates on underlying funds, performance estimates as soon as they are input into its systems, manager newsletters, statistical and risk analysis, customisable data and portfolio modelling tools, and direct access to Aurum's analysts"

Across 2020 and 2021, not only did Aurum continue to do well with its existing offerings, but it also expanded its range of solutions with the launch of a number of single manager funds. These new funds give investors the opportunity to gain an exposure to some of the world's leading multi-strategy hedge funds, with much lower minimum investment amounts.

It also further improved its communication with clients last year, as in 2020 Aurum continued to roll out upgrades to Proximity®, its client-facing reporting and transparency software, which is also available as an app.

Proximity's features include portfolio transparency, analysts' updates on underlying funds, performance estimates as soon as they are input into its systems, manager newsletters, statistical and risk analysis, customisable data and portfolio modelling tools, and direct access to Aurum's analysts.

The judges described Aurum as putting forward an impressive entry that "showcased excellence and a true understanding of how well-thought out solutions can meet investors' needs".

Congratulations to Aurum, a worthy winner.

AURUM

This article is a an extract of a larger article which was originally published with AIMA written by Emily Forsyth-Davies of Aurum Research Limited, Aurum Research Limited is a wholly owned subsidiary of Aurum Fund Management Ltd.

Time to open your eyes to an environmental emergency (or get *stung by a jellyfish!)*

The Covid-19 pandemic has brought into focus the interlinked nature of our planet and the devastating social cost of climate change. This article explores this and the compelling argument to shift to a sustainable economy.

Over the last two years, we've seen irrefutable evidence[1] that climate change and the extinction crisis are real and are causing significant social turmoil. There has been both direct disruption, such as the increase in extreme weather events, and indirect, such as the rise in more dramatic events driven by biodiversity loss which increase the likelihood of zoonotic diseases which pass from animals to humans, such as COVID-19.

Western thinking often separates human health from the health of our environment. However, in the absence of healthy ecosystems, we no longer have access to critical resources for a healthy functioning society, such as breathable air, drinkable water and hospitable weather. The environmental crisis is also a social crisis, a fact that is often overlooked.

Around the 2008 global financial crisis, the term "Black Swan" was popularised in Nassim Taleb's book of the same name. A Black Swan is a rare and unpredictable outlier event that is high impact. In the mid-2010s, this thinking evolved to speaking about Black Elephants, which was developed by Vinay Gupta and Dougald Hine[2]. These are a cross between a Black Swan event and the proverbial "elephant in the room". A Black Elephant is a problem which is well known and understood and yet no-one wants to address.

More recently, the Black Jellyfish has become another favoured term. A Black Jellyfish event becomes more prevalent by positive feedback and has the potential to escalate rapidly. For example, the continuing rise in ocean temperatures, and acidity levels, create conditions for jellyfish blooms to become more common. These blooms have forced shut downs at coastal power plants around the world, including Oskarshamn[3] plant in Sweden (the site of one of the world's largest nuclear reactors, in 2013).

A jellyfish is a particularly apt animal to represent climate change in this context, given the painful sting caused by their long tentacles, alongside their dramatic effect on the world's water systems.

Against the enormity of the problem described above, taking action can often feel meaningless and futile. The most important, and arguably most difficult, thing to do is to shift behaviours and mindsets from the current unsustainable system of over-consumption of planetary resources. We can't focus on the mistakes of the past; we need to focus our efforts on acting now if we are to avert environmental and human catastrophe.

And we need to recognise that environmental and social aspects, are intrinsically linked. To solve one you have to solve the other.

A similar relationship applies between investment choices and their associated environmental and social impact. This means investors have the power to make positive change in both environmental and social areas simultaneously.

We believe the investments sector's resources, knowledge and lobbying power mean it has a critical role to play in contributing to and enabling public discourse that supports the case for systemic change. As a first step, this is about promoting awareness of carbon emissions and carbon intensity of business activities, and encouraging action to reduce this where possible. We then need to address how to mitigate the impact of carbon emissions and how to help local communities build climate resilience.

Once businesses have made the decision to adapt to a sustainable economy it will be critical to create a compelling business case. But that shouldn't be too difficult, because without a swift and significant change in mindset there will be no planet on which to do business.

AURUM

[1] *https://iopscience.iop.org/article/10.1088/1748-9326/ac2966*
[2] *https://dougald.nu/black-elephants-skull-jackets-a-conversation-with-vinay-gupta/*
[3] *https://www.theguardian.com/world/2013/oct/01/jellyfish-clog-swedish-nuclear-reactor-shutdown*

European Pensions
AWARDS 2021

PROPERTY MANAGER OF THE YEAR

CHEYNE

The Property Manager of the Year award went to Cheyne Capital. Receiving the award was Nicole von Westenholz, Cheyne Capital (right). Presenting the award was the host, Hal Cruttenden (left).

Property has gained true recognition as an essential asset class for pension funds across Europe seeking to diversify their portfolios, with managers seeking out returns from both the traditional and less accessible property market across the world. This award was designed to recognise those managers that have proved themselves in this field, have shown innovation in their strategies, and have displayed an excellence and consistency in their management of this diverse and exciting asset class.

The judges praised this year's winner for their exceptional presentation that showcased the possibility of achieving impact investing without having to sacrifice returns. A very worthy winner, congratulations to all at Cheyne Capital - Cheyne Impact Real Estate!

Having launched its first UK affordable housing fund in 2014, 2020 saw Cheyne expand its impact real estate management with a successor strategy. Projects which are already in progress include: a £32 million purchase of homes for young adults with a learning disability with a long-lease to Thera Trust, and a £38 million new-build of three state-of-the-art care homes, with 35 per cent allocated to publicly funded residents.

The firm has already built up a significant pipeline for future projects and is ready to commit to investments which would create an additional 1,500 homes in 2022 alone. All of the group's impact real estate investments are tenure blind and all must be additional, either through the development of new homes or by buying homes that were not previously available for affordable housing.

> *"Using a portfolio mix across affordable housing, supporting living and care investments, the group has been able to develop a strategy that offers a higher stabilised yield than traditional build to rent (BTR) investing, also benefitting from a lower cost of capital than the BTR sector"*

Using a portfolio mix across affordable housing, supported living and care investments, the group has been able to develop a strategy that offers a higher stabilised yield than traditional build to rent (BTR) investing, also benefitting from a lower cost of capital than the BTR sector.

The group has proven its concept by bidding against BTR funds and successfully securing an attractive city centre site for a £34 million development in central Manchester. Cheyne Capital has again used this project to support the broader community, with 35 per cent of this development to be allocated to local keyworkers at discounted rents, which ensures that, based on average keyworker salaries, the rent does not exceed 30 per cent of net income.

An independent third party conducts an annual social audit to effectively evaluate the impact of the investments and ensure that they are truly achieving the strategy's goal of increasing the provision of high-quality affordable and specialist housing to improve the quality of lives of people with a range of housing needs.

Congrats again to the team at Cheyne Capital for all their work over the past year!

Cheyne
CAPITAL

European Pensions
AWARDS 2021

INFRASTRUCTURE MANAGER OF THE YEAR

KGAL

The Infrastructure Manager of the Year award went to KGAL. Receiving the award was Jonathan May, KGAL (centre). Presenting the award was John Woods, European Pensions (right) and host, Hal Cruttenden (left).

At one of the most challenging times in pension fund investment, the role of infrastructure is now being taken seriously as an asset class among European pension investors, and pension schemes are facing increasing pressure to support infrastructure amid a post-Covid-19 recovery. Amid this challenging backdrop, this award aims to recognise those players that understand this complex asset class and are working hard to help pension funds reap the potential rewards and returns.

The judges praised the winning firm for its passion and true understanding of the nuances of the asset class that can help Europe's pension funds achieve their goals. Congratulations to all at KGAL!

Having been working with European pension schemes since 2009, KGAL has been a pioneer in the investment market for renewable energies, supporting pension schemes in their effort to address climate change, whilst also accessing attractive risk-adjusted returns and benefitting from asset diversification.

The group has adapted its focus as the asset class has shifted in recent years, with diversification now a key driving factor behind the push towards renewable investing, providing portfolio diversification across three dimensions. Investing at different stages in an asset's life cycle, for instance, is one approach used by the group to provide growth opportunities for schemes.

"A very worthy winner, congratulations again to all at KGAL on their win"

Its approach to renewable energy assets proved resilient in the past year, as the group blended different pricing mechanisms whilst also minimising embedded volatility, as it looked to meet client needs, acknowledging that, pension fund investors, accessing a blend of offtake solutions provides a stable and long-term income stream.

The group has been able to maintain and add value through its active asset management approach; half of its 60-strong renewables team of asset management specialists work with local partners to manage and devise ways of maintaining or boosting the investment returns for every asset in their care.

This translated into a number of key successes over the past year, particularly in photovoltaic (PV) and wind, with solar plants in Spain, Italy, Germany, France, the UK and most recently Bulgaria representing a total capacity of around 384 megawatts. Its onshore and offshore wind farms in Germany, France, Sweden, Finland and Poland, meanwhile, provided over a total capacity 627 megawatts and a total investment volume of €1.1 billion.

In August 2021, the group started fundraising for its SFDR Article 9 impact fund KGAL ESPF 5. This pan-European renewable energy fund, further building on the ESPF series of diversified and resilient portfolios, already secured €260 million of equity by year-end, more than half of its target volume.

A very worthy winner, congratulations again to all at KGAL on their win!

KGAL
REAL INVESTMENTS

KGAL windpark Bäckhammar, Sweden

European Pensions AWARDS 2021

PRIVATE EQUITY MANAGER OF THE YEAR

UNIGESTION

The Private Equity Manager of the Year award went to Unigestion. Receiving the award was Andrew Blackman, Unigestion (right). Presenting the award was host, Hal Cruttenden (left).

With all eyes on both risk and return in an exceptionally challenging landscape, this category aims to acknowledge those private equity experts who have displayed a true understanding of the private equity space and are passionate about helping Europe's pension funds get the most from this complex area of the market.

This year's winning entry was praised by the judges for showcasing a high-quality investment strategy leading to the enhancement of risk-adjusted returns, and for incorporating an added focus on environmental, social and governance (ESG) considerations. Congratulations to the team at Unigestion!

Whilst the past year proved challenging for many, this provider was able to take quick action as the impact of the pandemic became clear, undertaking a review of every portfolio company (in direct portfolios) and of each fund (in primary/secondaries), reviewing over 750 portfolio companies in total.

In fact, the pandemic actually presented opportunities for the group, which was able to commit to new investments totalling €621 million during 2020, and raised assets for two funds: Unigestion Direct II (UD II) and Unigestion Secondary V (USEC V). In total, over €600 million was raised for UDII from public pension funds, corporate pension funds, insurance companies and other financial institutions, with 33 per cent of the fund invested across 15 separate deals. USEC V is now on track to close at over €800m and the fund's investments are already bearing fruit.

"This year's winner was praised by the judges for showcasing a high-quality investment strategy leading to the enhancement of risk-adjusted returns, and for incorporating an added focus on ESG considerations"

Alongside the challenges of the pandemic, the group, which is a signatory to the UN Principles for Responsible Investment, has taken the increasing focus on ESG and climate issues in its stride, integrating ESG into its Private Equity Investment approach through a number of criteria, including the alignment of investment themes with UN Sustainable Development Goals (SDG) and an exclusion criterion based on the UN Principles of Responsible Investment.

The company's 50-strong private equity team also allows it to benefit from broad experience as well as local knowledge, combining the experience of global investments from Europe, North America and Asia with the knowledge of local politics and culture.

Never resting on its laurels, Unigestion is already developing its next private equity fund launch, including a climate impact fund, which will comply with SFDR Article 9, and will act as natural evolution of the integration of ESG into its Private Equity processes.

Congratulations again to a very worthy winner!


UNIGESTION
A FLEXIBLE AND DYNAMIC APPROACH TO PRIVATE EQUITY
Unigestion is delighted to have won the award for Private Equity Manager of the Year at the European Pensions Awards 2021
We are proud to have been recognised for our expertise in private equity, which is built upon:
A track record of delivering robust performance to our investors over three decades
Exceptional access to innovative companies whose growth is underpinned by investment themes
ESG embedded into our investment process
Find out more at www.unigestion.com
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European Pensions
AWARDS 2021

EMERGING MARKETS MANAGER OF THE YEAR

CORONATION FUND MANAGERS

The Emerging Markets Manager of the Year award went to Coronation Fund Managers (Coronation). Receiving the award was Louis Stassen, a portfolio manager at Coronation (right). Presenting the award was host, Hal Cruttenden (left).

Identifying and investing in emerging markets is a vital way in which firms can deliver superior long-term investment outcomes for their pension scheme clients. Seeking out potential in these markets is a challenging role at which only the best can succeed; yet for those that do, the rewards can be great. This award recognises those managers that have shown a dedication to the emerging markets space with a view to achieving performance in areas where information flow is often in short supply.

Therefore, a massive congratulations is in order for this year's winner of the Emerging Markets Manager of the Year Award – Coronation Fund Managers!

The judges were particularly impressed by the firm's excellent entry, which demonstrated a strong performance and a clear dedication to the emerging markets space.

A long-term investor and partner to European pension funds, Coronation showed that it consistently delivers industry-leading performance alongside a world-class client experience. Its leverage of its emerging market background to navigate the uncertainty of investing in these markets and to access the most compelling opportunities were key factors in the judges' decision that Coronation was the well-deserved winner of this year's award.

Coronation's long-term performance track record and dedication to service excellence showcased its commitment to placing its clients at the centre of everything it does.

The judges were impressed by the firm's long-term, bottom-up investment approach. Coronation allocates capital on a benchmark agnostic basis to individual securities using its assessment of each security's long-term fair value, with portfolios constructed based on risk-adjusted upside to fair value.

The judges were also impressed by Coronation's integration of ESG factors into its investment process, which leads to more informed investment decisions and better long-term outcomes.

The firm demonstrated its role in strengthening the local financial services and pensions industry through its Covid-19 relief response, whereby it helped mitigate the terrible impact of the pandemic on the local economy, its sponsorship of education initiatives, and its dedication to driving diverse and inclusive workforces, both at Coronation and within its investee companies.

Coronation's Global Emerging Markets (GEM) equity strategy demonstrated the firm's ability to deliver superior long-term outcomes to its clients, with the strategy outperforming its benchmark MSCI Emerging Markets total return index by 4.4 per cent per annum. Coronation's GEM strategy stood out from the crowd having delivered this long-term outperformance through concentrated 40 to 60 stock portfolios of its highest conviction investment ideas.

The firm's long-term focus enabled it to exploit short-term opportunities to deliver this long-term outperformance to its clients.

Huge congratulations to Coronation!

European Pensions AWARDS 2021

CURRENCY MANAGER OF THE YEAR

HSBC

The Currency Manager of the Year award went to HSBC. Receiving the award was Marc Tuehl, HSBC (centre) who was joined by colleagues. Host Hal Cruttenden presented the award.

Currency plays an increasingly important and diverse role in pension fund portfolios today. Therefore, this award highlights those currency managers who have displayed excellent capability and expertise in this challenging sector.

This year, the firm that impressed the judges with its clear skill and inherent understanding of how currency plays a vital part in a modern pension fund portfolio was HSBC. Congratulations to a worthy winner!

Since inception in 2004, HSBC's FX Overlay business provides bespoke services and guidance, as well as access to HSBC's global network, to help clients achieve their FX objectives. Being part of HSBC Global Intermediary Services (GIS), it delivers solutions across every stage of the FX trade lifecycle: pre-trade, risk management, execution and post-trade services.

Constructed around three pillars – transparency, automation and added value – GIS helps clients identify, understand and manage their currency risk effectively. HSBC recognises that clients can be exposed to currency risk through various activities. It, therefore, actively helps to identify risk, explore client's motivations and constraints in managing this risk, by analysing the current risk framework and infrastructure requirement to best design a bespoke FX solution.

HSBC offers pension funds a range of innovative solutions, such as passive currency overlay, which can be fine-tuned through various flexible parameters to match the client's internal processes, and dynamic currency overlay, which enables pension funds to access both HSBC proprietary as well as external provider dynamic strategies through HSBC's platform. It also provides currency hedged indices, which allow investors to either access the total return of the currency hedged benchmark index itself, via a total return swap, or just the currency component of the benchmark's hedge.

"HSBC recognises that clients can be exposed to currency risk through various activities"

Putting this into practice, HSBC recognises that pension funds usually require a dedicated process and information infrastructure around FX hedging solutions.

Pension funds often aim at implementing a centralised FX hedge across their portfolio that will allow them to realise significant cost benefits. In some cases, a centralised hedge may mean not capturing the information on which investments generate negative or positive hedging impacts. By removing the hedge from the investment level, the respective fund admin reports will lack the market value of the now centralised hedges.

Therefore, HSBC has built an extensive reporting framework to address this. By collecting raw data at the investment level, it is able to provide clients with the applicable hedging impact and market value effects at the investment level and thereby close an information gap that would otherwise prevent pension funds from being able to efficiently steer their asset allocation.

Congratulations again to HSBC for its excellent work recognising clients' needs.

Efficiency and Oversight – Key Trends in FX Risk Management

A dynamic market environment and greater regulatory framework have led to a renewed focus on foreign exchange. With asset managers and owners increasingly looking for greater efficiency and oversight, Marc Tuehl, Global Head of FX Overlay at HSBC, explores FX trends and solutions.

Foreign exchange matters – it plays out across nearly all investments and nearly all funds have FX touchpoints. However, in the context of achieving the best performance, many clients are not optimising the opportunities that FX can offer or mitigating the risk it can present.

One of the challenges many pension funds face is the inherent tension between achieving the best possible portfolio returns & cost-efficient strategy implementation. Outsourcing to enable access to specialist providers that can deliver state-of-the-art technology, reporting and operational workflow, as well as investment and risk management strategies, is therefore growing in importance.

It is essential that such outsourcing is underpinned by a deep understanding of the markets and a deep dive into client needs and fund objectives. Considering the investors' goals, their risk appetite, exposure levels and their liquidity position, for example, are key to creating a successful relationship. Alongside a clearly defined mandate that outlines how FX risk is managed within a pre-agreed, non-discretionary framework, outsourcing FX risk management can support strong governance through extensive and rigorous reporting, as well as transparency around cost and framework parameters.

It's a significant part of a trend towards more outsourcing that can not only drive efficiencies but support strategies that shift FX from a potential risk to an opportunity – a source of potential return and better performance. Increasingly pension funds are looking for analytics around the impact of FX on overall volatility and returns within their portfolio, enabling them to better understand correlation impacts between asset class and currency.

This is allowing more strategic management of FX, which can support broader fund allocation. Strategies, such as dynamic hedging, are helping many clients manage the liquidity constraints associated with investing in alternative assets. As clients are allocating more funds into alternative assets, such as real estate and private debt, the divergence between a typical FX hedge of three to six months and the long-term nature of the asset creates liquidity challenges. Working with an FX expert with access to specialist tools and analytics can make a real difference.

"Outsourcing to enable access to specialist providers that can deliver state-of-the-art technology, reporting and operational workflow, as well as investment and risk management strategies, is therefore growing in importance"

From an efficiency perspective, the benefits of outsourcing are clear. Instead of having many asset managers all conducting foreign exchange trades in different portfolios but for the same beneficiary, providing a mandate to one specialist FX overlay manager allows you to harmonise the process. They can net positions, manage risk more systematically, and provide access to liquidity. With many clients concerned about transaction cost, ensuring transparency, and certainty over workflow, appointing a specialist FX overlay manager could be the optimal solution.

To discuss whether working with an FX specialist could support your strategic aims and help you unlock greater efficiency, please contact our team at fxoverlay.hbeu@hsbc.com

HSBC

European Pensions
AWARDS 2021

ESG/SRI PROVIDER OF THE YEAR

AXA IM ALTS

The ESG/SRI Provider of the Year award went to AXA IM Alts. Receiving the award was Manisha Patel, AXA IM Alts (centre). Presenting the award was Natalie Tuck, European Pensions (right) and host, Hal Cruttenden (left).

Environmental, social and governance (ESG) factors and socially responsible investing (SRI) have grown significantly in importance in the European pensions space as the world looks to combat climate change and invest in a more socially responsible way. European pension funds are becoming increasingly aware of the impact ESG and SRI can have on their portfolio returns, and this award recognises the leaders in this significant and increasingly sophisticated market.

This year's deserved winner is AXA IM Alts, with judges praising the firm for demonstrating a continued effort to integrate ESG into the entire investment process as well as showcasing innovation. AXA IM Alts continued to consolidate its position as a leader in responsible investing, especially in the real assets space, with sustainability initiatives now standard in its asset management projects.

AXA IM Alts impressed with a 56 per cent increase in the number of internally-related ESG-rated real assets, as well as a 38 per cent increase in independent third-party environmental certifications to €29 billion worth of real assets. Furthermore, 67 per cent of the firm's CRE debt platform's rated loans in scope have underlying assets with achieved or targeting environmental certifications, demonstrating its commitment to ESG and SRI.

The firm also made continued efforts to pioneer ESG integration in the corporate and leveraged loans space,

"The AXA Climate Resilience Tool, which measures the climate risk of real assets, showed the judges that AXA IM Alts was the worthy winner of this year's ESG/SRI Provider of the Year award"

with 65 per cent of the AXA IM European Loan Fund and 68 per cent of the AXA IM Loan Fund having an ESG rating.

AXA IM Alts showcased its innovation in the ESG and SRI space with the launch of new products and overall platform growth. Its impact investing AUM rose to US$900 million in Q1 2021, with a 40 per cent AUM growth in 2020 alone. The launch of its fourth impact investing fund, which focuses on financial inclusion and global health impressed the judges, as did the raising of US$240 million from investors in 2020 to address a range of impact themes, including climate and biodiversity, financial inclusion, and access to healthcare.

Further demonstrating its ability to innovate in the ESG and SRI space, AXA IM Alts developed and integrated a cutting-edge, ESG-focused proprietary real assets risk management tool. The AXA Climate Resilience Tool, which measures the climate risks of real assets, showed the judges that AXA IM Alts was the worthy winner of this year's ESG/SRI Provider of the Year Award. The tool's innovation was demonstrated by its approach of producing a rate and the use of a simple percentage score to communicate the rating efficiently and effectively. It provides a great resource for everyday asset management, and identifies and solves issues that teams may come across. Many congratulations to the deserved winners – AXA IM Alts!

AXA Investment Managers

European Pensions AWARDS 2021

PENSION SCHEME ADMINISTRATOR OF THE YEAR

EQ PAYMASTER

The Pension Scheme Administrator of the Year award went to EQ Paymaster. Receiving the award was Nigel Pearce, EQ Paymaster (centre). Presenting the award was John Woods, European Pensions (right) and host, Hal Cruttenden (left).

The key role the pensions administrator plays in delivering pension provision has often been overlooked in the past, but the last two years have highlighted how important it is to have an administrator that is able to adapt to changing circumstances, maintain continuity of service and keep communication channels open. These factors, coupled with the fact that it is also at the forefront of technological advances, meant that EQ Paymaster was this year's winner of the coveted European Pension Scheme Administrator of the Year award.

A technology and administration specialist, EQ Paymaster works with the UK's public and private sector schemes to manage complex administration and payments. Its solution-based approach, which provides an interactive experience throughout the lifetime of millions of employees and scheme members, truly impressed this year's judges and demonstrated how this firm is clearly driven by a desire to achieve excellence in the administration space.

2020 and 2021 were clearly a challenge for all pension schemes, yet this firm navigated the stormy waters with determination and resolve. Firstly, it put communication at the top of its agenda, ensuring regular communication was maintained with its clients to ensure they were fully supported throughout the most turbulent months. This helped the firm maintain its SLAs during the pandemic.

Second, it continued to win new business, including being appointed to administrator one of the UK's largest

"Congratulations to EQ Paymaster, European Pension Scheme Administrator of the Year"

DB schemes, as well as extend its key relationships with workplace schemes for several large employers.

Meanwhile it has not stood still on the technology front, continuing to invest and develop its software solution, Compendia, to improve member, employers' and trustees' journeys. It also considerably increased member online functionality, with the development of helpful, easy-to-use retirement benefit and wealth modelling tools. Additionally, in order to further support employers and trustees in providing better scheme oversight and governance, it developed its Management Information and Data Management offerings, again highlighting how it is a firm that is continually evolving to meet the needs of its clients.

Finally, EQ Paymaster strives to add value to the overall pensions space, in a whole host of ways. It is playing a key role in the delivery of pension dashboards, with its involvement in PASA's Pension Dashboard Working Group and The Money and Pensions Service (MaPS); is proactive in the fight against fraud and pension scams; recently launched a LinkedIn GMP Equalisation knowledge hub to share advice and help support schemes in preparing for GMP equalisation; and regularly participates in webinars on key pensions and administration topics.

It also received strong client testimonals backing up its entry submission. Congratulations to EQ Paymaster, European Pension Scheme Administrator of the Year!

European Pensions AWARDS 2021

PENSIONS TECHNOLOGY PROVIDER OF THE YEAR

MBWL INTERNATIONAL

The Pensions Technology of the Year Provide went to MBWL International. Receiving the award was Georgie Gifford (right). Presenting the award was host, Hal Cruttenden (left).

Effective and reliable pensions technology is essential for the successful running of any pension fund. That is why this award recognises those firms that are leaders in the field of pensions technology, and ultimately rewards those who are the best of the best.

This year, the judges gave this award to the company that showcased excellence and a clear knowledge and understanding of how the right use of technology can meet pension market needs. Congratulations to MBWL International.

MBWL is a leading independent global retirement and benefits consulting firm, offering innovative and strategic retirement and benefits consulting of the highest quality for multinationals of all sizes, everywhere they do business. MWBL serves its clients through a personal approach, led by very senior experts worldwide, and always focused on clients' specific needs.

It is also one of the market leader of digitized pension solutions in Europe. This is achieved through its P·LIVE web-based solution, which administers company pension and benefit plans in a fully digitised and highly automated way.

As all related parties (employees, HR departments, treasury, trustees, actuary) are fully digitally connected via interfaces and all investment processes are automated, P·LIVE allows simple, fast and error-free administration and communication.

P·LIVE also reduces pension administration expenses and error incidence. The administration becomes automated, quick, efficient, transparent and cost-effective. P·LIVE consists of three modules. The data management module stores all data in a central database, so it is available in real time. Changes to pension contracts and data, as well as new assignments, are carried out online through the portal, directly validated and stored in a cloud solution. Status reports, statistics and ongoing reporting are available at a high quality with a single click.

The employer portal is the administrative platform for employers, treasury, controlling, accounting, trustees and any investors. All inputs and processes are stored and accessible in real time. The process participants are centrally coordinated via an administration system and integrated in a comprehensive communication workflow.

Finally, using the employee portal, employees can access comprehensive information about their retirement plans, including plan documentation and key contacts. They can also sign up for new benefits through the platform.

Highlighting the benefits MBWL International's technology can provide, last year it developed a totally new plan design and financing approach to modernise the German pension scheme of Krones, a leading engineering company in Europe.

Its new pension portal allows employees to create their pension entitlement as easily as in an online shopping basket. For Krones, this significantly reduced costs and minimised their administrative efforts. All pension entitlements are concluded in a legally secure, digital and completely paperless manner – a new and extraordinary approach for managing pensions in Continental Europe.

Well done MBWL International for leading the way.

mbwl international

European Pensions
AWARDS 2021

EUROPEAN PENSIONS INNOVATION AWARD

ALLIANZ GLOBAL INVESTORS GMBH (ALLIANZ)

The European Pensions Innovation Award went to Allianz Global Investors GmbH (Allianz). Receiving the award was Jason Allan, Allianz (centre). Presenting the award was Laura Blows, Pensions Age (right) and host, Hal Cruttenden (left).

This award recognises those firms that have brought innovation to the pensions marketplace, be it through a particular product, service offering or overall business approach.

The winner must demonstrate that it has responded to market pressures with originality and creativity. That is exactly what the judges' chosen winner has done, as they praised the firm for displaying innovation in leaps and bounds, noting that it is clearly passionate about what it does. Congratulations to Allianz Global Investors GmbH (Allianz Global Investors).

Allianz Global Investors focused its submission on the AllianzGI Personalised Lifecycle product (AllianzGI), a modern workplace pension solution that provides an individually customised investment offering for each member. Flexibility is the key word for this product; the solution can be offered as a pure DC, or a DC-like plan for countries where employers offer employees a direct pension promise, such as Germany. As the product's name suggests, each individual's portfolio is de-risked as they approach their chosen retirement age, with asset allocation rebalanced at each birth anniversary. This is different to the standard Target Date Funds, which offer a one-size-fits-all approach. The AllianzGI product stands out from the crowd by offering a diversified portfolio with an asset allocation geared to the year in which each individual is expecting to retire.

Displaying a truly innovative approach, the lifecycle solution leverages the AllianzGI/risklab capital market modelling intelligence that is used for optimisation of large institutional portfolios. Individuals also benefit from institutional pricing of utilised mutual funds. Essentially, the investment strategy is an 'auto-pilot' solution for employees, as well as employers and provides a sophisticated remedy to a very challenging market environment for pensions.

The product can meet varying market challenges, allowing employees to offer a 'fit-for-purpose' workplace pension solution. Such challenges vary from country to country, but include a widening retirement savings gap, low interest rates/expensive guarantees, a lack of advice within workplace pensions and a lack of proper employee information /digital solutions.

Demonstrating that it is a solution fit for the modern day, employees receive access to a 24/7 digital portal, where they can see detailed information on the portfolio, performance, rebalancing and contributions etc. This is where they can also set their specific retirement age and manage beneficiaries.

For the employer, AllianzGI provides a dedicated portal to manage the pension plan data, such as uploading contributions, manage joiners and leavers, and create reports. This helps the employer to effectively connect the pension plan to its inhouse HR/payroll systems.

Allianz Global Investors has excelled at creating one of the most innovative pension products on the market. It has thoroughly demonstrated that it understands the needs of both employers and scheme members by creating a product that is flexible to their needs. A remarkable achievement, well done Allianz Global Investors!

Allianz
Global Investors

European Pensions AWARDS 2021

EUROPEAN PENSIONS INNOVATION AWARD (TECHNOLOGY)

COSAN CONSULTING

The European Pensions Innovation Award (Technology) went to Cosan Consulting. Receiving the award was Philip Dickinson, Cosan Consulting (right). Presenting the award was host, Hal Cruttenden (left).

This award recognises those firms that have brought innovation to the pensions marketplace, be that through a particular product, service offering or overall business approach.

With a particular focus on technology, this category is designed in response to market volatility and to recognise those firms that have responded to market pressures with originality and creativity. The judges praised this year's winner, Cosan Consulting (Cosan), for its excellent entry.

Cosan was described by the judges as a pensions administration specialist that has thought hard about what the pensions market needs to address its challenges. For their entry, Cosan focused on ARM, a pioneering pension solution launched in 2021 that has been described by one administrator as a "really innovative solution".

ARM was designed after industry professionals told Cosan about risks that were becoming increasingly concerning. These include sponsor failure, the need to change administrator quickly and potentially catastrophic cyberattacks. The solution provides a consulting service combined with an independent data and information back-up service that can be accessed within 24 hours if needed. Responding to feedback that delays in data provision could hamper transition times when changing administration providers, the data function was included and as a result, ARM puts trustees ahead of any exit queue for data extraction,

"ARM was designed after industry professionals told Cosan about risks that were becoming increasingly concerning"

potentially saving several months in transition timelines.

ARM is able to identify key information that a new provider would need to rapidly set up a new administration service using Cosan Datastore©, the UK's first cloud-hosted 'escrow-type' service for pension arrangements. It ensures that, should trustees need to access their data, and other scheme information for any reason, they can rapidly do so.

The benefits of ARM are clear for all to see; not only does it offer a dedicated consultancy to guide clients to the right solution in times of emergency, it also retains core information, such as membership and payroll data plus scheme documents to enable a rapid transition if needed.

Providing independent access to the entire UK administration provider network, users can access data within 24 hours, have access to a pre-selected panel of leading payroll providers, so that pensioners can continue to be paid. The solution is cloud-hosted so that it is always accessible and built to industry leading standards for data security. For example, data storage is entirely independent of Cosan and there are reporting and control checks every time data is refreshed.

Since the Awards there has been a huge positive reaction to ARM from the industry, and Cosan is excited by the prospects for helping more schemes improve their resilience in 2022 and beyond.

COSAN CONSULTING

European Pensions
AWARDS 2021

FACTOR INVESTING OFFERING OF THE YEAR

BNP PARIBAS ASSET MANAGEMENT

The Factor Investing Offering of the Year award went to BNP Paribas Asset Management (BNPP AM). Receiving the award was Phil Dawes, BNPP AM (right). Presenting the award was host, Hal Cruttenden (left).

This award aims to recognise those firms that have a true understanding of the role factor investing can play in pension portfolios today and have demonstrated expertise in implementing this dynamic strategy. This year's winner was praised for its innovative, unique and client-orientated entry, with judges highlighting the entry as an "excellent submission". Congratulations to BNP Paribas Asset Management (BNPP AM)!

Over the past year, the firm demonstrated the remarkable breadth of its factor investing expertise, and further extended its services to include a wider range of clients, such as insurance, pension funds, sovereign wealth funds and private banks. Their Solutions & Client Advisory team, alongside the Multi-Asset, Quantitative and Solutions (MAQS) group, worked with pension schemes to help them meet a range of strategic goals, including advising on an optimal asset allocation.

The firm has also supported the implementation of environmental, social and governance (ESG) policies and strategies for clients. Placing sustainability at the core of all investment processes, BNPP AM was able to use the consideration of ESG factors to help identify areas of risk or opportunity, which may not be fully discounted by all market participants and would provide a relative advantage.

Within the MAQS group multi-factor strategies, ESG and carbon-related integration has gone beyond the exclusion of companies, with the full integration of ESG criteria allowing the firm to benefit from ESG and carbon specific criteria within portfolio construction. And this is already translating into results, with the carbon footprint now 50 per cent lower than that of its benchmark, while the ESG score is significantly higher than the benchmark score.

"The group has also supported the implementation of environmental, social and governance (ESG) policies and strategies for clients"

And whilst 2020 proved a particularly challenging year for factor investing, the team was able to push forward in terms of thought leadership and education, publishing regular articles, blogs, and academic papers to promote this investment strategy. It also made the most of remote communication tools, introducing educational webcasts and conferences, as well as specific client training that provides insight into the factor investing market.

Despite having been leaders in the factor investing sector since 2009, BNPP AM has not rested on its laurels, actively promoting its factor investing expertise in the UK and across Europe through 2021, in an effort to increase awareness of the investment process.

Development plans are in place for the coming months to increase their multi-factor capabilities, allowing BNPP AM to offer a complete range of multi-factor strategies to investors. Congratulations again to BNP Paribas Asset Management!

BNP PARIBAS
ASSET MANAGEMENT

For professional investors only

Equity factor investing – An ever-evolving journey

The multi-faceted nature of equity factor investing means it can play a dynamic and highly useful role in equity portfolios, especially for investors looking for a diversified exposure that can perform in the medium to long-term.

Investment performance of quantitative factor-based strategies has been varied recently for a number of reasons:

- The styles that make up multi-factor investing – value, quality, momentum, low-risk and small caps – do not all have the same performance across time.
- Performance also differs depending on the choice of the factors that go in each style as well as choices such as whether you diversify more or less or whether you neutralise sectors.
- Investors who can take more tracking error can get better performance in good times.

Our experience with sector neutral value investing has been positive with good performance from 2000 through 2021, except blips in 2009 and in 2020. Although we control for sectors, occasional poor performances can still be expected.

Irrespective of whether we use the price-to-book ratio as a value factor, all value factors did poorly from late 2019 through 2020. Only in 2021 did they perform well again.

Value stocks – a favourable stretch

It is important to recognise that the value style seeks to benefit from cheap stocks converging to their fundamental values; for expensive stocks, performance has to be poorer for valuations to converge with those of cheaper stocks. That did not happen from late 2019 and through 2020, causing value spreads to widen to levels last seen in 2000.

Given the premise of value investing, we now continue to expect a favourable period for value stocks because it remains likely that we see a continuation of the value spread compression, which started in late 2020. This trend explains the strong performances of value stocks and multifactor strategies in 2021.

Low-volatility stocks – hedge your interest rate exposure

Following years of positive alpha, the low-volatility premium disappeared in 2020. However, in 2021 the alpha was back in Europe while in the US, alpha returned but required a careful hedging against the increase in interest rates. In terms of performance relative to market capitalisation benchmarks, the low beta of low-volatility stock strategies does not help in strong bull markets despite the positive alpha, as the low beta makes it difficult for low-volatility strategies to outperform the index.

"Given the premise of value investing, we now continue to expect a favourable period for value stocks because it remains likely that we see a continuation of the value spread compression, which started in late 2020"

It is about performance over the medium to long-term

We believe that the performance of value and low-volatility, as well as quality and momentum, in well-diversified multi-factor strategies should be assessed over the long run.

Adding in an environmental, social and governance perspective to balanced portfolios does not detract from their ability to perform, much to the contrary, especially when it comes to quality and low-risk, which fit well with a sustainability-based approach.

BNP PARIBAS
ASSET MANAGEMENT

European Pensions AWARDS 2021

THOUGHT-LEADERSHIP AWARD

AVIVA WORKPLACE SAVINGS & RETIREMENT

The Thought-Leadership Award went to Aviva Workplace Savings & Retirement. Receiving the award was Saffron Lovell, Aviva (centre-right), who was joined by colleagues.

The European Pensions Thought-Leadership Award celebrates the firms, pension funds or associations that lead the field with their thought leadership and industry research in the European pensions and institutional investment space.

In a time when innovation and insight is needed more than ever to meet the challenges facing European pension funds today, this firm showed its class with innovative research about financial, physical, and mental wellbeing to help re-invigorate the workforce in a rapidly changing world.

Huge congratulations to Aviva Workplace Savings & Retirement on its richly deserved win. The judges were particularly impressed with Aviva's excellent entry, which demonstrated that the firm is setting the bar high in the area of thought leadership by addressing topical, relevant issues.

Aviva's insight-led thought-leadership campaign, the Age of Ambiguity, is a cutting-edge look at the blurring of boundaries in multiple areas of life and how the absence of definition and clarity is shaping the future of work. The firm's work demonstrates its commitment to understand the ever-evolving work landscape, and support both employers and employees with recommendations and solutions to adapt with the times.

The findings led to Aviva creating a thought-leadership report that drove conversations between employers and employees, and introduced a series of recommendations for employers. Its first report, *Embracing the Age of Ambiguity*, was published in November 2020. The success of this first report solidified Aviva's intent to a series of reports, demonstrating the firm's intent on helping drive innovation in the thought-leadership space.

Its second report, *Thriving in the Age of Ambiguity*, was published in June 2021 following further research. It explored the possibilities of what the so-called 'new normal' will mean beyond the pandemic, by telling a story that resonates with employees and employers, with a particular focus on older and younger workers. The research produced four key themes: how the pandemic changed our relationship with money; the influence of personality on behaviour, mindset and outcomes; employees' shifting attitudes of their employers' duty of care; and what employees need from their employers to support their later life plans.

The report showed Aviva's ability to produce innovative, relevant and engaging analysis with real-world benefits. It demonstrated that, now more than ever, there is a fundamental need for employers to provide tailored support for employees to ensure they can genuinely thrive in the *'Age of Ambiguity'*. Aviva's campaign successfully delivered practical solutions that allow employers to support employees with their financial wellbeing and retirement.

To help communicate its messages, Aviva produced a range of content, including articles, infographics and an updated campaign page to allow others to take advantage of their good work and innovation. Many congratulations to worthy winners – Aviva!

AVIVA


AVIVA

European Pensions
AWARDS 2021

MASTER TRUST OFFERING OF THE YEAR

STONEPORT PENSIONS MANAGEMENT

The Master Trust Offering of the Year award went to Stoneport Pensions Management. Pictured Alba Lleshi holding the award along with other members of the Stoneport team.

Master trusts have taken the market by storm, as pension funds continue to look for ways to control their costs without compromising on quality and governance.

This award recognises those firms that are ahead of the game in this space. Congratulations to this year's winner, Stoneport Pensions Management (Stoneport). Its entry was praised by the judges for displaying innovation coupled with a very clear purpose. Stoneport, which started life as Punter Southall's (PS) own small DB scheme, converted into a master trust for other small DB schemes after PS realised the extent of the cost of running a small DB scheme. The new master trust was launched in October 2020.

The solution pools together assets, liabilities, and covenants of employers whose schemes join it so its trustees can run it like one large scheme. It does this through a novel set of structures, whilst still respecting the different funding levels and benefit structures of the individual employers.

One of Stoneport's biggest draws is the security it offers to DB schemes. Typically over a DB scheme's lifetime, there is a 20-40 per cent chance of sponsor insolvency; existing DB master trusts only reduce this risk modestly by 1-2 per cent, according to the Pensions and Lifetime Savings Association research. With Stoneport, however, members have a 99 per cent chance of receiving their benefits in full. This means that schemes that can't afford buyout today, still have the opportunity to secure their members' benefits.

"Stoneport is run by independent, professional trustees, ensuring the highest standards of knowledge underpin its operation, with scale and resources to consider all issues appropriately and ensure members make the right choices"

Not only that, but Stoneport's unique pooled structure allows for running costs to be much lower than other master trusts – under £200 per member, per year. Stoneport's saves schemes up to 80 per cent, compared to more run-of-the-mill savings of 30 per cent for other DB master trusts. The pooled structure will also reduce schemes' risk-based Pension Protection Fund levies by some 95 per cent.

Stoneport is run by independent, professional trustees, ensuring the highest standards of knowledge underpin its operation, with the scale and resources to consider all issues appropriately and ensure members make the right choices. Its independent advisers, Barnett Waddingham – a long-standing and well-respected name in the industry – provides the day-to-day administration, actuarial and investment advice.

Stoneport's mission is to deliver the highest standards of governance, previously only achieved by the largest schemes, to the smallest (those with under 1,000 members). It is clear to see that it has more than achieved this. Richly deserved!

STONEPORT
PENSIONS

European Pensions
AWARDS 2021

BEST INVESTMENT STRATEGY AWARD

NEST

The Best Investment Strategy Award went to Nest. Receiving the award was Mark Fawcett (right), Nest. Presenting the award was host, Hal Cruttenden (left).

Getting the investment strategy right is one of the biggest challenges any pension fund needs to overcome, particularly given the ever-changing economic environment we are currently experiencing. This is why the Best Investment Strategy Award is such a crucial accolade, and one that can only be won by a team with a true understanding of the dynamics of pensions investment.

This year's winner, Nest, was hailed by the judges as a "real leader in the investment strategy arena, which has demonstrated excellent financial returns and achieved great sustainable environmental, social and governance (ESG) goals".

Nest, despite being only 10 years old, has a significantly large portfolio to manage. One in three UK workers have a pension with Nest, and its current £22.3 billion AUM is continually growing. Yet, as noted by the judges, Nest doesn't rest on its laurels, and continues to challenge the boundaries of DC – striving to offer strong performance whilst managing risk, never shying away from potential new opportunities and, all the while, keeping costs low.

Nest's portfolio is diversified across 14 asset classes in a range of active, passive and alternative index strategies. This means that members have a wealth of opportunities they can benefit from.

The judges were particularly impressed with Nest's recent move into infrastructure, and for being the first UK DC scheme to invest directly into private infrastructure equity.

"Nest, despite being only 10 years old, has a significantly large portfolio to manage. One in three UK workers have a pension with Nest and its current £22.3 billion AUM is continually growing"

Significantly, Nest has managed to introduce this illiquid asset class to the DC space in a ground-breaking way that, commented one judge, makes it a true "trailblazer" in the UK pensions investment space.

Responsible investment has also been a key component of Nest's investment and risk management strategy since launch and, again, the judges were impressed with Nest's commitment in this area, as well as its dedication to evolving its sustainability approach to meet changing demands. In 2020, for example, Nest published its new Climate Change Policy, and was one of the first pension providers to commit to transitioning to a net-zero carbon strategy. It set out an ambitious policy yet one that, by taking the right steps, can be achieved. For example, it plans to divest from thermal coal, oil sands and arctic drilling by 2030, and transition all of its £8 billion worth of equities to climate-aware strategies. Evidence again, noted the judges, that Nest continues to lead the way, setting the bar high for other pension providers that have, indeed, started to follow suit.

All in all, this entry showcased a sophisticated, evolving investment strategy that has delivered strong returns while effectively managing risk, and also scores extremely highly on the sustainability front. Congratulations to a true winner, Nest.

nest

European Pensions AWARDS 2021

FIDUCIARY MANAGEMENT AWARD

AON

The Fiduciary Management Award went to Aon. Receiving the award was Tim Giles, Aon's Head of Investment for UK and EMEA. Presenting the award was host, Hal Cruttenden.

The European Pensions Fiduciary Management Award aims to give recognition to those firms that are leading the way in this space. This year's deserving winner was Aon, for putting forward a submission that showcased a true passion for fiduciary management and a whole host of impressive achievements in the last 12 months, despite the challenging global environment.

Firstly, Aon shone with its performance, with 98 per cent of clients with a five-year track-record having met or exceeded their investment objectives; while the firm's client funding levels were also 30 per cent higher than the market average. Additionally, a timely and nimble approach meant that the firm was able to capitalise on market opportunities, for the benefit of its clients, in an effective yet risk controlled manner. Aon's submission also demonstrated how its investment approach meant it was able to take two clients to buyout quicker than expected with less risk.

Environmental, social and governance (ESG) was another key area in which Aon's submission shone. Its ongoing work in this arena continues to help clients develop more sustainable portfolios. For example, by adding a carbon overlay to its multi-factor equity fund in July 2020, it reduced CO_2 emissions and carbon fossil fuel exposure while also improving performance. Additionally, Aon launched its Global Impact Fund in September 2020, supporting clients to generate capital growth over the long term while generating a positive impact on society and the environment; and also a new ESG dashboard, to help clients better understand the ESG risks and opportunities within their portfolios.

The judges were also impressed that Aon is not just focused on bigger clients, but is also working hard to meet smaller pension funds' needs and in turn is making a real difference there. Fruition, Aon's solution that enables schemes as small as £5 million to access fiduciary management, supports smaller pension funds in meeting their funding objectives more quickly and efficiently, and again in a risk controlled manner.

In fact, risk management firmly underpins Aon's fiduciary management offering – the firm's experts use their understanding of the pensions and investment sphere to continually develop innovative products and approaches that assist schemes in reducing their risk when the time is right to do so, but without sacrificing returns.

Aon also works hard to engage with its clients, their members and the wider marketplace in so many ways. This passion to engage stood out even more during the pandemic, with Aon producing a multitude of useful resources, updates and webinars to make sure its clients could navigate the unfolding crisis.

Finally, despite a challenging marketplace, Aon's growth and client retention rates in the fiduciary management arena continue to impress. All in all, over the last 12-18 months Aon's fiduciary business truly exceeded clients' expectations, as shown by numerous client testimonials in its entry and, in the words of the judges, is a firm that "truly understands the needs of the market and how fiduciary management can help schemes best achieve their goals". Well done Aon.

AON

European Pensions
AWARDS 2021

PENSION INSURANCE FIRM OF THE YEAR

PIC

The Pension Insurance Firm of the Year award went to Pension Insurance Corporation (PIC). Receiving the award was Jamie Funnell, PIC (right). Presenting the award was host, Hal Cruttenden (left).

Derisking is a key consideration for many DB schemes across Europe and this award is designed to recognise performance in providing bulk annuities, longevity insurance and other pension insurance structures.

Winning for the second consecutive year, the judges said the winner has celebrated success and displayed variety in its entry, as well as a focus on social investment. Congratulations to Pension Insurance Corporation plc (PIC), the Pension Insurance Firm of the Year.

During what has been a difficult and uncertain year for the pensions industry, PIC's early and proactive business response meant that its policyholders were still provided with the outstanding service PIC is known for.

This includes the industry-first Policyholder Hour, which saw senior management engage directly with policyholders. The online event has been such a success that 82 per cent of those that attended say they would attend future events. Overall, for 2020, 98.7 per cent of PIC's policyholders expressed satisfaction with its service.

During 2020, PIC insured more than £5.6 billion of new DB scheme liabilities, providing security in retirement to c.53,000 UK pensioners. This includes members of the Old British Steel Pension Scheme, the Merchant Navy Officers Pension Fund and the Co-operative Pension Scheme.

In the case of the Old British Steel Pension Scheme, PIC concluded a pension insurance buyout with the trustee, insuring £2 billion of liabilities covering 30,000 members. The scheme had entered Pension Protection Fund (PPF) assessment in 2018 following the restructuring of Tata Steel UK Limited but the deal will enhance members' benefits above those payable by the PPF for any members who lost out due to entering PPF assessment.

Furthermore, PIC is very prudent when it comes to risk management and with a solvency ratio of 157 per cent at the end of 2020, demonstrating careful capital management in a period of significant new business flows and market volatility. Not only that, it has also continued to focus on longevity reinsurance to third party, investment grade, insurance counterparties. To date, 84 per cent of its longevity exposure has been reinsured.

At what is a crucial time for the world in tackling climate change, PIC has shown itself to be a responsible investor. During 2020, PIC invested £587 million in Spanish Solar Bonds covering 42 solar plants across three transactions. Having made its first renewable energy investment back in 2012, it has since invested a total of £1.5 billion in the sector to date.

It also has more than £11 billion invested in socially beneficial assets, such as its £130 million build to rent project in Manchester. The project will create 40 jobs and employ 650 people during the construction phase, with completion due in 2024.

PIC's outstanding customer service, prudent risk management and carefully chosen investments has clearly delivered excellent results. Congratulations again to PIC!

PENSION INSURANCE
CORPORATION

European Pensions AWARDS 2021

EUROPEAN PENSION FUND OF THE YEAR

AG2R LA MONDIALE

European Pensions AWARDS 2021

WINNER

European Pension Fund of the Year

The European Pension Fund of the Year award is undoubtedly one of the most prestigious awards of the event. Pension provision across Europe has never been more challenging, and this category is designed to truly champion those pension funds that lead the way when it comes to innovation and serving the member.

This year's winner, AG2R LA MONDIALE, was hailed by the judges as a standout entry for demonstrating impressive efforts in the areas of sustainability, equality and, most importantly, member provision – this pension fund, said the judges, "is at the forefront of environmental, social and governance (ESG) but, all the while, doesn't lose sight of the member".

AG2R LA MONDIALE, by its very nature, is unique in that it closely links performance and social commitment. Ranking number two among complementary and supplementary pensions in France, it has, for the last 20 years, been extending the scope of its responsible investment approach to all asset classes and investment strategies.

Proving itself as an institution that refuses to stand still and is continually evolving, whatever challenges it faces, AG2R LA MONDIALE's submission showcased a whole range of accomplishments over the last 12-18 turbulent months.

This included, firstly, in response to the Covid-19 pandemic, a €500 million effort to help its clients overcome the crisis as well as contribute to national solidarity. This involved a contribution to the Solidarity Fund set up by the public authorities in favour of small businesses and the self-employed, as well as participation in the investment programme to support the recovery of the French economy.

Highlighting how the pension fund is also in touch with other social issues such as equality, AG2R LA MONDIALE has been committed for several years to an inclusion and diversity policy. The board of directors of the group's summit association earlier in 2021 appointed two women as president and vice-president; while, for the third consecutive year, the group's gender equality indices are above 90/100. The group also reinforced its commitment to addressing disability and gender equality, while also signing the LGBT+ Charter of the association "L'autre cercle" in January 2021.

"Ranking number two among complementary and supplementary pensions in France, it has, for the last 20 years, been extending the scope of its responsible investment approach to all asset classes and investment strategies"

On the sustainability front, last year AG2R LA MONDIALE reinforced its ESG commitment by tightening its climate policy around a coal exit programme by 2030, widening the scope of issuers concerned via a progressive lowering of the fossil fuel threshold above which a company is excluded from the investable universe.

Reinforcing its position as a promoter of sustainable and inclusive finance, a significant number of interactive events and videos were organised by the group in the last year, which had strong engagement from members and employees while, in the wider industry, it was heavily involved in conferences, roundtables and public debates – all further evidence that this pension fund is passionate about what it does, is keen to stay relevant and up-to-date, making it a clear winner in the eyes of the judges. Congratulations AG2R LA MONDIALE.

AG2R LA MONDIALE


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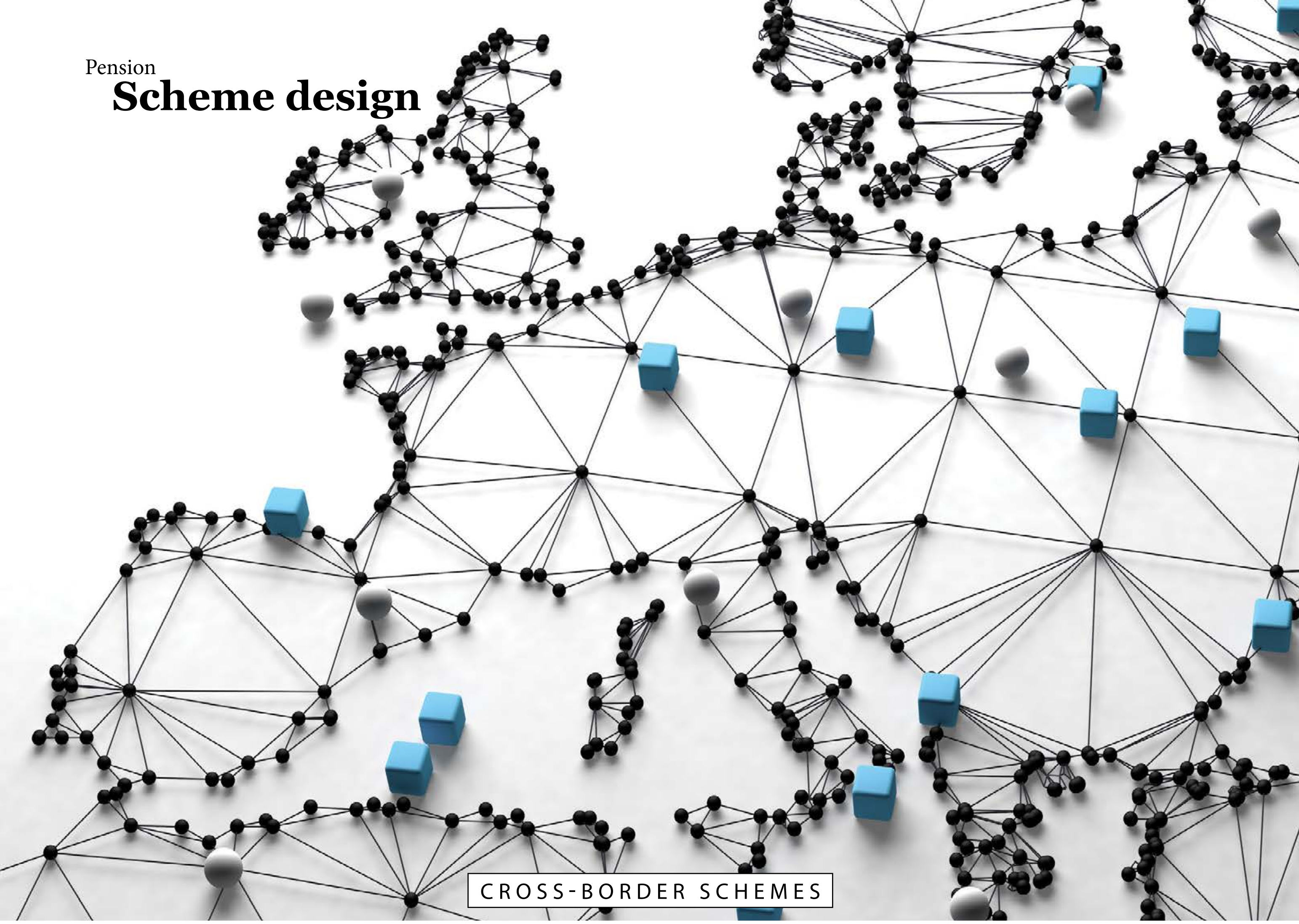

CROSS-BORDER SCHEMES

In need of a helping hand

The IORP II Directive was supposed to boost cross-border pensions in Europe, but has so far failed to do so, with Brexit also reducing their number. Amid uncertainty over new regulation and the forthcoming launch of the PEPP, David Adams **considers the future of cross-border pensions in Europe**

WRITTEN BY DAVID ADAMS, A FREELANCE JOURNALIST

Visit the European Insurance and Occupational Pensions Authority's (EIOPA) webpage on occupational pensions and you will find an explanation of how the Institutions for Occupational Retirement Provision (IORP) II Directive was supposed to facilitate cross-border pensions, "in different European Union (EU) member states in a single IORP subject to respecting the social and labour law of each member state".

The text goes on to list benefits that should result: more efficient, standardised governance and administration, plus improved financial performance "through the consolidation of scheme assets".

The directive was published in late 2016 and should have been transposed into member states' laws during or before 2019 (it has taken longer in some countries). But since 2017 the number of cross-border pensions arrangements has fallen; a study published by EIOPA in December 2021 showed that while there had been 73 active cross-border IORPs in 2017, by late 2021 there were only 33.

The obvious culprit is Brexit; and almost all the pensions arrangements that no longer met the definition of cross-border IORPs in December 2021 do indeed involve the UK.

But there were also activations of new cross-border schemes in Belgium, Ireland and Cyprus; while use of multi-employer cross-border IORPs seems to be increasing.

So, what is happening in this mixed picture? And how much does this really matter anyway?

According to EIOPA, cross-border arrangements within the European Economic Area (EEA) have only 70,000 members or beneficiaries and manage assets worth about €11.3 billion. That is just 0.2 per cent of all pension scheme members/beneficiaries and only 0.4 per cent of total IORPs' assets in the European Economic Area (EEA).

It is the potential that such arrangements offer to help many more employers and workers that is of huge importance in the context of the EU, says Cross Border Benefits Alliance-Europe (CBBA) secretary general, Francesco Briganti.

"If a worker has been working in Ireland, then moves to Germany they will not be able to transfer accrued rights but must open a new pension, so a person who moves around Europe during their career could have five or six pension pots in different member states," he explains. "This is completely in contradiction with all the other economic freedoms."

Aon partner, Thierry Verkest, leads United Pensions, Aon's multi-employer, pan-European pension fund. He also emphasises the advantages of cross-border IORPs, and wants to dispel the myth that creating such arrangements is a Herculean endeavour.

"Whenever I read articles in the press about cross-border pensions, it's always so negative: 'It's difficult… there are obstacles'," he says. "But since 2007 we have set up pan-European funds – although we are usually just talking about a couple of countries [*Belgium and the Netherlands*] – and all of them are running perfectly well. People need to understand that. It works – I know there are problems – but you can solve them."

Defective directive

Utrecht University European Pension Law professor, Hans van Meerten, a member of the EIOPA Occupational Pensions Stakeholder Group (OPSG), says the IORP II Directive was "a step back" in relation to these schemes and "contradictory to free movement".

"HE ALSO EMPHASISES THE ADVANTAGES OF CROSS-BORDER IORPS; AND WANTS TO DISPEL THE MYTH THAT CREATING SUCH ARRANGMENTS IS A HERCULEAN ENDEAVOUR"

He, Verkest and Briganti all see the fact that the directive says cross-border arrangements can be created only "subject to respecting the social and labour law of each member state" as a source of difficulties.

"The directive leaves too much discretionary power to the national jurisdictions," says Briganti. This has led to conflict. In November 2020 the European Commission took the Netherlands to the European Court of Justice over aspects of the Dutch approach to cross-border IORPs, including stipulations that guarantee requirements and tax should be imposed on service providers based in other member states, and on individuals whose pension savings are being transferred to a foreign service provider, or who decide to work in other member states.

The commission suggested these conditions amounted to restrictions on free movement of citizens and workers, freedom of establishment, freedom to provide services, and free movement of capital. At the time of writing, the Court of Justice of the European Union has yet to issue a ruling in response.

In 2019, Aon's United Pensions stopped offering its cross-border solutions to clients in the Netherlands, in part because its government has taken a requirement within the IORP II Directive for a majority of individual scheme members to approve of the transfer of their pension into a cross-border arrangement to an extreme; in the Netherlands a two-thirds majority is needed.

Verkest suggests this imposes unreasonable limitations on any employer or pension scheme seeking to set up cross-border arrangements, because it requires a level of understanding of proposed scheme arrangements that most scheme members are unlikely to possess.

He claims this rule is preventing the launch of some new cross-border schemes. "Today I have at least €6 billion of assets blocked because companies do not want to go ahead with such a communications exercise, with the risk that it might end up not going through," he says. "We have just had a big company having the intention to set up what probably would have been the biggest pan-European fund in Europe; and the whole project has been cancelled, because of that. So for me, that's the biggest obstacle.

"But I am suggesting that without having to change the directive you could consider more common practice like accepting implicit consent: You tell members: 'We have the intention to do this, because

"THE PEPP WILL BE A THIRD PILLAR PRODUCT, BUT SOME EMPLOYERS AND EMPLOYEES MAY SEE IT AS AN ALTERNATIVE TO CROSS-BORDER SECOND PILLAR PENSION PROVISION"

it's to your benefit' and it is assumed they agree if they do not object."

There are also other problems within the directive, such as a requirement for double reporting in both the home and host countries. This is problematic because solvency rules differ in different countries. Another problem is the requirement for cross-border defined benefit schemes to be fully funded. "In some countries pension plans are hugely underfunded," Verkest points out. "The fully funded principle could still be there, but it could be [*combined*] with a recovery plan."

PEPP up?

The situation may also be changed by the launch – at some stage in the near to medium term – of the Pan-European Personal Pension Product (PEPP), the regulatory regime which was set out by EIOPA in 2020. At the time of writing, with the PEPP yet to launch, EIOPA is seeking further information and views from the pensions industry and employers, to try to assess how widely the product might be used.

The PEPP will be a third pillar product, but some employers and employees may see it as an alternative to cross-border second pillar pension provision. "Some employers could say: 'Why don't we start offering PEPPs instead of occupational pensions?' to get the economies of scale, access to investment and financial expertise," Briganti explains.

But he also advocates the creation of an alternative second pillar DC arrangement: a Pan-European Occupational Pensions Product (PEOP), which could be set up by a single employer, by multiple employers, or by insurance companies or other pensions providers – and could be used by small- or medium-sized businesses.

Briganti wonders if it might appeal to some employers and policymakers in part because there would be disquiet in some member states about the possibility of the third pillar PEPP possibly replacing occupational/second pillar provision.

Whatever happens, says Briganti, "the appetite for pan-European pensions will grow".

"The European Union (EU) and the European Commission will be aware that there is an appetite for cross-border pensions … [*among*] consumers and many organisations. Decision makers are realising that we have to act." He also hopes to see some clarity from the European Court of Justice on what EU member states can and cannot do to impede use of cross-border pensions.

Indeed, while the pensions industry, employers and schemes will all be able to influence what happens, ultimately it is the EU institutions that will determine the future of cross-border pensions in Europe.

"I expect the commission will come back with some guidelines in relation to the existing IORP II Directive," says Verkest. "I can only hope they will listen to what we are saying… so we can facilitate further cross-border pensions. I'm still seeing interest among multinational companies in setting up these kinds of arrangements, especially when it comes to DC, but also for legacy DB plans," he continues. "I really believe in the future of cross-border plans – it just needs to be facilitated by European legislation." ■

Romanian Pension Funds' Association

When pensions go online: A Romanian case study

ROMANIAN PENSION FUNDS' ASSOCIATION ADVISER TO THE BOARD AND SPOKESPERSON, MIHAI BOBOCEA, DETAILS THE ASSOCIATION'S LATEST CAMPAIGN TO INCREASE PENSION ENGAGEMENT

A young couple prepares to host a cosy dinner party, setting the table. "What about the cake?," he asks. She glances at her smartphone and replies: "On its way, to be delivered in 10 minutes". Narrator's voice: "You are already using the internet to do almost everything, even ordering dessert. How about going online right now to also check your private pension account? It's easier than you think, anytime, anywhere."

One would guess that it shouldn't be too difficult to get people interested in their own money, but our experience says otherwise. The TV commercial described above – the centrepiece of a national communications campaign – is just the latest pebble in the pile of bricks we at the Romanian Pension Funds' Association (APAPR) have put together to try to build awareness of private pensions and the importance of saving from a young age.

"HOW ABOUT GOING ONLINE RIGHT NOW TO ALSO CHECK YOUR PRIVATE PENSION ACCOUNT"

It's been 15 years since the debut of private pension funds in Romania and already the fifth consecutive year of nationwide awareness campaigns (TV and online) by our association, following up on years of PR and public affairs efforts with the same purpose. Like for many other industries, the only good coming out of the current pandemic is that the link between pension funds and their numerous plan members turned more and more digital and moved almost entirely online – hence the focus of our most recent awareness campaign. Currently, only one in 10 plan members go online to keep up to date with their pension pot.

So, what's the pensions landscape in Romania? The voluntary third pillar was launched in 2007 and currently serves 564,000 Romanians, managing net assets worth €690 million on their behalf. In 2008 the mandatory second pillar was also introduced, which now serves 7.8 million plan members and manages €18 billion in assets.

All funds are in fact very low risk, heavily invested in government and other bonds (up to 70-75 per cent) while the remaining is divided among money market, mutual funds, and most notably listed equity (>26 per cent of assets at the end of 2021). The past 15 years have seen several critical moments for the markets; however, both the second and third pillar funds came out on top of the situation, mostly due to this conservative asset allocation. Since their inception and up until the end of 2021, second pillar funds returned an annual average of 8 per cent (against an average annual inflation rate of 3.3 per cent for the same period) while the third pillar funds posted an annual average return of 6.3 per cent (average annual inflation: 3.7 per cent).

We pride ourselves in being one of the very few such systems in Central and Eastern Europe that has survived repeated attempts of several governments to tap into the savings pot of millions of Romanians, following the negative example of Poland and Hungary, where de facto nationalisations of the second pillar took place and left citizens without the prospect of a better tomorrow. Recently, the National Plan for Recovery and Resilience – a policy document where the current Romanian government promises to keep the course and consolidate rather than affect the private pensions system architecture – gives us reasons to remain moderately optimistic for the near future. ■

"CURRENTLY ONLY ONE IN 10 PLAN MEMBERS GO ONLINE TO KEEP UP TO DATE WITH THEIR PENSION POT"

Written by Romanian Pension Funds' Association adviser to the board and spokesperson, Mihai Bobocea

PODCAST

The benefits of private equity in pension fund portfolios

The outbreak of the Covid-19 pandemic, in which stock markets have seen increased volatility, combined with global low interest rates has led to alternative asset classes rising in popularity. Private equity is one of the top runners in this category, and for good reason.

In this podcast, Munich Private Equity Partners Managing Director, Christopher Bär, **chats to European Pensions Editor,** Natalie Tuck, **about the benefits private equity investments can bring to pension fund portfolios and the best approach to take**

How has the private equity industry evolved in recent years, particularly during the Covid-19 pandemic?

Alternative asset classes have become more attractive in recent years due to persistently low interest rates; private equity has been one of the top runners because it has delivered attractive returns for investors. Private equity funds have historically yielded, on average, better long-term returns than public equities and other asset classes within the alternative space.

At the beginning of the Covid-19 pandemic, private equity finance companies were just as affected by contact restrictions, supply shortages and other constraints like their listed counterparts. However, the advantage for private equity-backed companies is that operationally strong private equity fund managers can play to their strengths in such a situation and provide their portfolio companies with support and liquidity. There is a crucial difference between public and private equity that allows for private equity to contribute significantly to reducing overall portfolio volatility. Private equity funds value and report only quarterly and that leads to smoother valuations and less short-term volatility. In terms of performance, the private equity asset class has been very attractive. I can only speak for our own private equity programmes, which have weathered the Covid-19 storm extremely well and have been a stabilising factor in our investors' portfolios.

Why should pension funds invest in private equity?

There are many good reasons but first, pension funds often target annual returns of 3-5 per cent, roughly. Low-interest rates and volatility in traditional asset classes have led to a shift to alternatives, such as private equity, infrastructure, and private debt. Private equity has an attractive risk/return profile, and, in our opinion, it is therefore a suitable addition to the portfolio. With a thoughtfully constructed private equity portfolio, diversified across a variety of fund managers, investments regions, vintages and sectors, the asset class fits the profile sought by many pension funds.

How can pension funds access private equity?

There are several ways to invest in private equity, the most important avenues being: Direct investment in private companies, co-investments, secondaries, single fund investments and fund of funds. If we set adequate diversification as the goal, there are then only three main ways to add private equity to your portfolio. The first one being creating your own private equity portfolio with an in-house team, secondly investing in a fund of fund programme of a specialised fund of fund manager and, lastly, to cooperate with a specialist manager to establish a managed account for your organisation.

Creating your own portfolio is often considered the ideal method of investing in private equity. Doing so at least promises the most attractive returns while also limiting costs since additional fees from outsourcing are avoided. But to successfully execute this a pension fund needs specific capacities and the specific know-how and network in-house to access the most promising funds.

With regards to fund of funds, they give pension funds access to a diversified portfolio with a single capital commitment. The money is then pooled with the capital of other investors and is invested in multiple private equity funds. Then, depending on the strategy, the capital will be deployed across various geographical regions, over several vintage years and in different industry sectors. Experienced fund of fund managers provide access to the best-in-class and most sought-after private equity funds because they have already proven themselves to be experts and reliable partners by successfully cooperating with those managers in previous fund generations and they are capable of building strong long-term relationships over many years. This is one of the crucial advantages for partnering with an experienced fund of fund manager.

Lastly, managed accounts are kind of an individually designed investment programme. They are typically set up for a single investor and often combine an individualised concept with some advantage of a fund of fund as well, like diversification, access to excellent funds and outsourced portfolio management. The difference to a fund of fund is that the investor can quickly set or influence investment strategy decisions, fund selection and some other aspects if they wish to do so. Both fund of funds and managed accounts create an additional layer of fees for investors, and this has led many to believe that returns with those avenues generally are lower than returns from one's own implementation of a portfolio. However, this calculation should not ignore the significant costs of highly qualified internal personnel when private equity fund investments and the whole administration are conducted entirely in house.

What is crucial for success in private equity investments?

We believe that identifying the proper private equity funds only constitutes half of the battle. Access to the best funds is crucial for success; there are huge differences in returns between successful and average funds and even below average private equity fund managers. Those are significantly larger return differences than you would see in public market stock funds. Unfortunately, the best private equity funds are often almost completely inaccessible to new investors and this trend should continue given that the amount of capital allocated to the private equity market further increases. Fund managers who can master the field of valuation and quickly set their portfolio companies' business models for success are in extreme demand. Those fund managers have a virtually unlimited demand given their successes but finite fund sizes.

What should schemes look for when selecting a fund of funds manager?

What they should look at is the access to outstanding fund managers and this, in my opinion, is the most important selection criteria. Pension funds should focus on this as the access to outstanding fund managers ultimately determines the performance of the programme. If you can identify such a fund of fund manager, you gain access to fund generations of exceptional managers. You benefit from the expertise and capacities of the fund of fund manager who also takes care of the key areas such as professional due diligence, portfolio management and the often underestimated and quite frankly burdensome, administration. Of course, track record and the respected investment strategies of the fund of funds are very relevant when you select a fund of fund manager. At Munich Private Equity Partners, we focus on best-in-class and those most sought after fund managers in the mid-cap buyout segment but only within the established markets of Europe and North America.

Why do you think this segment is attractive?

Firstly, we at Munich Private Equity Partners are pursuing a conservative investment approach as we're committed to building thoughtfully diversified portfolios of high-quality buyout funds. In addition, we only partner with established and proven fund management teams that are targeting only mature companies with proven business models and then only mature economies, such as North America and Europe. In our opinion, the mid-market buyout offers the most attractive risk/reward profile, and the four main characteristics that would support this are: first, there is a favourable ratio of private equity capital to potential target companies; secondly in the mid-market compared to the large and mega cap markets you have relatively low entry prices and prudent leverage and that adds to an attractive risk / reward profile. Most importantly, mid-market companies offer a very broad spectrum of value creation opportunities investors can ultimately benefit from. Finally, the mid-cap buyout segment offers multiple attributes for those companies due to a large universe of strategic and financial buyers and then possibly the opportunity to potentially initial public offering (IPO) a company as well. ■

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PENSION TRENDS

Admin e-volution

Pensions administration is on an upward trajectory as it embraces the new digital age, writes Francesca Fabrizi

WRITTEN BY FRANCESCA FABRIZI

The administrator has always been regarded as the poor relation in the pensions world – having to work within the tightest budgets in record times, and often for little recognition. The crucial role the administrator plays, however, truly came to light when the pandemic hit, and the essential yet challenging task of getting the right payment to the right member at the right time was finally recognised.

The general impression today is that pensions administrators truly stepped up to the plate in response to the Covid-19 crisis, argues PensionsEurope director and Irish Association of Pension Funds CEO, Jerry Moriarty: "Generally, pensions administration seems to have held up really well both from an Irish and European perspective – comments from regulators have been positive. Administrators coped remarkably well with the transition to working from home in 2020 and, most importantly, pensions continued to be paid and contributions collected and invested."

Success was experienced particularly by those that were already up-to-speed technology-wise. Previnet Outsourcing Solutions for example, which provides services for pension funds across Europe, was already ahead of the game on the technology front pre-Covid, which assisted them in managing the new world more effectively.

Senior manager, Martino Braico, comments: "The impression is that the majority of pension administrators survived the pandemic. This of course applies to those already taking advantage of technology to run back-office administration tasks, interfacing members and sponsoring employers through web portals and dedicated secure channels.These administrators have been coping well with the hybrid-working environment of the past two years."

That's not to underestimate the mammoth task that faced administrators – even those with strong technology skills – over the last 24 months. Previnet senior manager, Dejan Malesic, emphasises the dual challenges that all administrators faced between meeting business needs, while ensuring staff safety: "In such challenging years as 2020 and 2021, business priorities went along with human priorities. It was vital to guarantee to local and pan-European plans the continuance of good servicing, with no disruptions, while keeping the staff as safe as possible. Luckily, we were capable of both."

Where the right technology was lacking, however, argues Momentum Pensions managing director, Susan Brooks, it caused understandable delays. As a pensions solution provider that administers over £2.5 billion in assets in the international retirement landscape, for Momentum technology was "of the essence in ensuring business continuity in pensions administration during the pandemic and therefore the speed of adopting online services and electronic signatures was the industry's bottleneck".

Notwithstanding the benefits of technology, she adds, this still needed to be combined with high standards of personal service to ensure ease of business, as well as creating an opportunity for pension providers to demonstrate the value of specialist and transparent services.

Crisis management

To some extent, in addition to technology, pre-existing pressure from regulators to be prepared for a crisis helped ensure administrators were able to cope with the sudden change in working patterns. MN executive committee member for pensions management, Ralf Rikze, explains how their long-standing crisis preparations assisted them in ensuring uninterrupted service.

"We have a general crisis protocol that ensures continued company-wide operations and client services. This crisis plan, which gets tested on a regular basis, is mandatory from our regulation authorities and is designed to cope with the most common and predictable crisis situations that could cause operational disruption or result in financial hazards."

Following these protocols meant they were able to swiftly respond to the Covid outbreak with regard to their pensions management operations. "We coped with the vast majority of our people having to work from home instantly, starting in March 2020 and in fact still today. A small number of critical roles have of course continued to work from the office, compliant with governmental Covid regulations."

A changing perspective

Member demand for better online access was already starting to build pre-Covid, with increasing pressure on the pensions industry to come up-to-speed in comparison to other parts of the financial services space. But, importantly, where there have been shortcomings and a lack of e-admin implementation, the pandemic has acted like a catalyst for improvement, while a change has also been seen in consumer attitudes.

Braico comments: "In the last year, we have all learned that a lot, even pensions, can be done remotely, with a self-service approach. The pandemic is pushing pension administrators to leave behind any manual activity. Administrators have consistently reinforced automation and straight-through-processing capabilities. Also, members have been somehow forced to change their habits. They are more and more experiencing that their pension journey has a digital future."

Brooks agrees that client demand for accessing products and services online is transforming the pension admin sector and, she says, there is no doubt that the pandemic has played a key role in speeding up the digital transformation.

"By embracing remote working, the industry continued to develop and adapt – from bringing forward technological automations and online services, to finding new ways of working and focusing more than ever on the importance of wellbeing and mental health in the workplace."

Looking ahead, the emphasis on technology and e-admin will continue to dominate Europe's pensions landscape, as the realisation sets in that there is no longer an excuse to not offer as seamless a service as possible.

"Pensions and technology have long been discussed as separate topics," says Brooks, "however it is the digital transformation of the pensions administration sector that will provide increased efficiency, transparency and diversification in the retirement landscape. Online servicing, including the use of technology to enable online applications and 24/7 access to member data and reports, will be shaping the pensions sector in the year to come. In addition, the continued focus on increased industry standards and regulatory requirements will continue to play a key role in 2022."

Regulation

Regulatory change is indeed likely to be an additional influential factor in pensions administration across the continent. Many administrators are continually having to manage their day-to-day operations with an over-arching eye on both European and local pension reform.

The pension system in the Netherlands, for example, is experiencing significant change, with administrators therefore having to meet their day-to-day demands, whilst also having to meet the requirements of Dutch regulatory reform. Rikze comments: "Last year, our top priorities were of course to maintain the stability of our administration systems, continue to deliver client services to PMT, PME and Bpf Koopvaardij, secure the timely transition of PME administration data per the 1st of January 2022 deadline, monitor and support the vitality of our professionals, continue to build our new admin system NPS MAP (working together with PGGM), as well as start to prepare for the implementation of the new future pension system in the Netherlands."

Similarly in the UK, where the development of the new pensions dashboards is under way, as well as a significant move towards consolidation and buyout, there are two big themes which will influence UK pensions administration in 2022 – data and the digital age. Capita Pension Solutions business development director, Colin Hamilton, comments: "The first big theme in the coming year is for schemes to ensure their data is clean and accurate as this underpins everything – whether this is getting dashboard ready, schemes looking to buyout or ensuring a fantastic modern end-to-end user experience, having the right data will be crucial."

The second, he argues, is about providers "really embracing the digital age – implementing and enabling transformational technology to meet current and future member needs. This will inevitably mean new delivery models that will better serve the demands of members and trustees."

From a European-wide perspective, the future landscape in pension admin will also include the PEPP initiative, explains Malesic, as well as "a different and improved way to support members, such as virtual assistants, chatbots, and automated advice being some of the new features on the agenda". ■

VIDEO Q&A

A overview of growth investing

***European Pensions* Editor, Natalie Tuck, speaks to American Century Investments (ACI), Vice President, Senior Client Portfolio Manager, Kevin Lewis on growth investing. They discuss how it has performed in 2021, and its outlook, going forward. They also cover ACI's differentiated growth approach to the investment universe, and how this capitalises on market inefficiencies, as well as how ACI's team is equipped to invest in this manner**

Can you tell me how growth investing has performed in 2021 and what market segments were successful?

While the growth style represented by the Russell 1000 benchmark has had strong performance this year, there's several nuances to the return. Using the Barra factor data that we utilise in our investment process, there's several areas that need to be understood. Firstly, the highest growth cohort of stocks within the benchmark significantly lagged the more modest growth cohorts in 2021. So, a higher orientation to growth has caused a headwind this year to performance.

In addition to that, within the benchmark, our data indicates that performance has been very clustered around the largest size companies, so we are seeing a clustering around size that is creating asymmetric returns not evenly distributed through the benchmark. We have, of course, seen the performance of the technology companies that have been some of the leaders in the market. The real nuances to performance have been within the more moderate growth companies outperforming in 2021 and the larger size companies outperforming.

Looking forward into 2022, what areas of the market are positioned for sustained above-average returns?

I'm going to answer that question through the lens of what we see are the secular shifts that are creating sustained above-average growth for the next several years. First is in healthcare, and that sector stands at the intersection of two large impacts. First is global ageing where projections show that a significant part of the world will be turning age 65 and older. That is important because at that age people tend to spend two to three times the amount on healthcare as they do in younger populations.

The other large impact on that group is the significant amount of innovation that is occurring through a better understanding of human biology and increased use of technology. We see opportunities for innovative companies to not only sustain high growth but also to create a positive impact on society through better solutions to large unmet medical needs.

Another area that is poised for sustained above-average growth are companies involved in the digitisation of payments. We see data that estimates that the digital non-cash transaction volume grew to over 10 per cent a year between 2016 and 2020. But that non-cash transaction volume is estimated to grow at almost a 20 per cent annualised rate between 2020 and 2025. That acceleration is being led by non-US areas.[1] Companies that are enabling non-cash transactions should also continue to grow because of this disruption and that's the way we think – what's going to happen over the next several years and what's fuelling that growth.

Tell us about your differentiated growth approach to the investment universe?

We look at the investment universe through a framework of a company's stages of growth and that's quite different from many conventional approaches that look at the universe through small, mid and large orientations. What frequently is a challenge to investors is they may have an excellent high-growth company that progresses from a small-cap, it moves into mid-cap but because of constraints they then need to sell it because it's progressed fundamentality but also in its capitalisation.

We look at the investment universe through the stages of investment growth. Companies typically start in the early phase of growth, and that's where the growth is most rapid and if successful progresses to the rapid stage, and then the steady stage and then face the mature stage where they are challenged to maintain their growth; if they don't sustain that growth then they could face the market headwinds. Evaluating companies not only where they are today but where they will go in the future creates a differentiated insightful analysis in terms of how we think about the company's opportunities for growth and also in terms of valuation.

What market inefficiencies does this capitalise on?

Our rigorous fundamental research, that includes meeting with companies and projecting their growth beyond the next five years, leads us to areas where the market is less efficient. Many investors don't have the time, the access or the capability to meet with companies and then develop this long-term forward-looking analysis. In fact, many published consensus assessments only go out every couple of years. So having the training and the mindset to not only look at where they are today but where they will be going in the future and develop insightful analysis around that leads us to where the market that may be more short-term orientated, or not have the capacity to look over the next five years, maybe not seeing the opportunity set we see in the market.

"WE HAVE, OF COURSE, SEEN THE PERFORMANCE OF THE TECHNOLOGY COMPANIES THAT HAVE BEEN SOME OF THE LEADERS IN THE MARKET"

So how is your team and process equipped to invest in this manner?

Many people may say they want to look over the next five years but are they truly equipped to do that. It really starts with our team, which is composed of many former industry practitioners in the fields that they're researching. For example, one of my colleagues Michael Li has a PhD in Chemistry and is a former drug research scientist. That background and expertise enables him to be very well-equipped as we meet with companies.

Our team meets with them not only at the executive sweep but layers deep into the organisation to discern what projects are in the pipeline that may be commercialised over the next three, five and seven years that could have an impact on the growth financials of the company. This leads us to having a capability that many others may not have in their toolkit.

We are also able to debate that forward-looking analysis as a team through multiple vectors with a technology lens, or other insights, and then forge a consensus on whether or not a particular company is worthy of an investment in our portfolio. We think that we are very well equipped with a skillset of former practitioner backgrounds who have been involved in these companies, which enables us to develop a long-term view on the outlook of a company. ■

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[1]*Source: Capgemini World Payments Report 2021 https://worldpaymentsreport.com/wp-content/uploads/sites/5/2021/10/World-Payments-Report_2021_Web.pdf*

EIOPA

Getting the foundations right, better informing and engaging people and fostering sustainable pensions

EUROPEAN INSURANCE AND OCCUPATIONAL PENSIONS AUTHORITY (EIOPA) CHAIRPERSON, PETRA HIELKEMA, SETS OUT THE AUTHORITY'S PRIORITIES FOR 2022

"IN 2022, EIOPA EXPECTS TO ANALYSE IORPS' DUTIES IN LIGHT OF SUSTAINABILITY CONSIDERATIONS"

Europe faces a substantial challenge in providing its citizens with an adequate and sustainable retirement income with 18 per cent of European Union (EU) citizens at risk of poverty or social exclusion in older age. Pension's adequacy and coverage is therefore an important priority and Europe can play an important role in helping member states tackle the issue while recognising that pension systems differ per member state.

A large number of people across Europe find pensions very complex, confusing and difficult to understand and not many invest in long-term savings products, also because of the current low-yield environment. The main challenge for the near future is how to overcome at least some of these barriers and to stimulate interest and most importantly to move towards closing pensions gaps, by taking into account the longitudinal nature of retirement savings. How can we tackle these challenges?

It is important that we get the foundations right. This year EIOPA expects to receive a call for advice for the revision of the IORP II Directive, a minimum harmonisation directive. The review of the legislation should, in particular, consider the adequacy of the directive from a prudential and governance point of view, cross-border activity, the experience of member states in applying this directive and its impact on the stability of IORPs, and on the information pension scheme members receive. EIOPA also aims to develop a blueprint for occupational defined contribution (DC) pensions that would provide principles and proposals on good occupational DC pensions that member states could tailor to their situation and national specificities.

There is a need for clear and transparent information. We need to better inform and engage people in saving for the future. Last year, we advised the European Commission on the development of pension dashboards and pension tracking systems. These will help governments strengthen the monitoring of pension developments in their member states and individuals track their pensions savings in one place, helping people to make better decisions on their retirement savings. Finally, European citizens need simpler products, like PEPP. 2022 will be the year when the first PEPPs can be offered on the market and this should enable consumers to save for their future retirement throughout their career across Europe, with a safe, transparent and high-quality pension product.

Fostering sustainable pensions and ensuring that people can retire with the lifestyle that they were expecting. In 2022, EIOPA expects to analyse IORPs' duties to their members in light of sustainability considerations. The analysis will cover the integration of double materiality in the investment decision, having regard to both the short-term impact of sustainability risks on investments and the opportunities that long-term investments can bring to broader societal and environmental goals. Furthermore, the focus will be on the inclusion of members' and beneficiaries' sustainability preferences. EIOPA will assess the prudent person rule vis-à-vis the approach for sustainable investment for insurance and for IORPs. The role of stewardship as a tool to actively engage with investee companies to pursue net-zero plans will also be analysed. Finally, 2022 will also be characterised by an IORP stress test and EIOPA's further work on digitalisation. ■

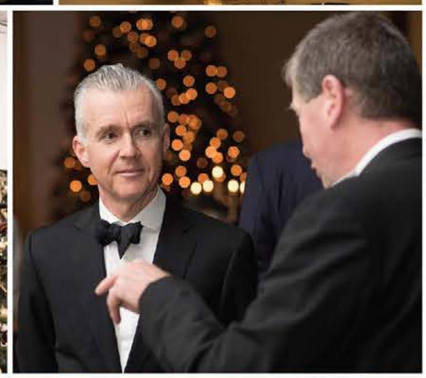
Written by European Insurance and Occupational Pensions Authority chairperson, Petra Hielkema

Irish Pensions **AWARDS** 2021












Irish Pensions AWARDS 2021











Irish Pensions AWARDS 2021

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Irish Pensions AWARDS 2021

OVERVIEW

The Irish Pensions Awards at Dublin's Shelbourne hotel always feel like a double celebration – the kick-off to Christmas coupled with a celebration of excellence in the Irish pensions space. This year's event, while a little different given the necessary Covid-19 measures in place, was still truly special, perhaps even more so in that we were able to see our Irish industry friends once again after two long years.

Irish pensions certainly haven't stood still over those two years. While the pandemic continued to force people to work from home, innovation still dominated the Irish pension scene, particularly on the technology and investment front, as evidenced by our many entries, while regulation helped by moving things in the right direction, not least with the IORP II Directive finally being transposed into Irish law.

All in all, the evening represented a recognition of success, not just for the winners but for the Irish industry as a whole for not just surviving the pandemic, but going above and beyond to exceed all expectations in the interests of members.

Many thanks as always to all our sponsors and judges and congratulations to all those who went home with deserving trophies.

Francesca Fabrizi, Editor-in-Chief

2021 JUDGING PANEL

Charles Coase
Trustee Chairman
The Ulster Bank Ireland Pension Schemes

Andy Dixon
Head of Business Development
Harvest Financial Services

Deirdre Horan
Head of Reward and Benefits
Tesco Ireland

Emer Kirk
CEO
Financial Planning Standards Board Ireland DAC

Rickard Mills
Corporate Affairs Consultant and pension fund trustee

John O'Connell
Owner
Trident Consulting

Frank O'Riordan
Independent Director & Investment Consultant

Fionán O'Sullivan
Corporate Sales Director, Employee Benefits
Acumen & Trust

Irish Pensions AWARDS 2021






WINNERS 2021:

COMMUNICATION AWARD
Winner: Centric

EXCELLENCE IN DC AWARD
Winner: Irish Life Corporate Business

INVESTMENT MANAGER OF THE YEAR
Winner: Legal & General Investment Management

IRISH PENSION SCHEME OF THE YEAR
Winner: Mercer Master Trust

EQUITIES MANAGER OF THE YEAR
Winner: Morgan Stanley Investment Management

FIXED INCOME MANAGER OF THE YEAR
Winner: Insight Investment

PROPERTY MANAGER OF THE YEAR
Winner: IPUT

ALTERNATIVES INVESTMENT MANAGER OF THE YEAR
Winner: Muzinich & Co

LAW FIRM OF THE YEAR
Winner: Mason Hayes & Curran LLP

PENSION SCHEME ADMINISTRATOR OF THE YEAR
Winner: New Ireland

INNOVATION AWARD
Winner: Amundi

RISK MANAGEMENT PROVIDER OF THE YEAR
Winner: Irish Life Investment Managers





Irish Pensions AWARDS 2021






PENSION BROKER OR FINANCIAL ADVISER OF THE YEAR
Winner: Harvest Financial Services

PENSIONS CONSULTANCY OF THE YEAR
Winner: LCP Ireland

PASSIVE MANAGER OF THE YEAR
Winner: Legal & General Investment Management

EMERGING MARKETS MANAGER OF THE YEAR
Winner: Artisan Partners

PENSIONS TECHNOLOGY PROVIDER OF THE YEAR
Winner: Financial Risk Solutions

INDEPENDENT TRUSTEE FIRM OF THE YEAR
Winner: ITC Group

ESG OR SRI PROVIDER OF THE YEAR
Winner: Aviva

DIVERSITY AWARD
Winner: Morgan Stanley Investment Management

CASH-DRIVEN INVESTMENT MANAGER OF THE YEAR
Winner: BCP

PENSIONS ORGANISATION OF THE YEAR
Winner: Irish Institute of Pensions Management

MARKETING CAMPAIGN OF THE YEAR
Winner: Moneycube





Irish Pensions AWARDS 2021

INVESTMENT MANAGER OF THE YEAR

LGIM

The Investment Manager of the Year award went to Legal & General Investment Management (LGIM). Receiving the award was Tom O'Gorman, LGIM (centre). Presenting the award was Rickard Mills (right) and host, Kevin McGahern (left).

This year's winner of the Investment Manager of the Year Award displayed innovation, dedication, sophistication and foresight at one of the most challenging times in Irish pensions history. Congratulations to Legal & General Investment Management (LGIM) for showcasing these skills in what has been a turbulent year for the industry.

The judges described LGIM as a world class player in the investment management space with an understanding of the local Irish market. They commended the firm for working hard to meet the investment demands of a changing environment with a dynamic approach demonstrating pure excellence.

LGIM displayed innovation through the launch of its UCTIS ICAV platform, specifically designed for the Irish defined contribution (DC) market. It ensures its DC clients can build bespoke solutions while using UCTIS building blocks and it has already secured over €1.5 billion of Irish DC assets under management, as at the end of 2020.

LGIM's DC business surpassed €111 billion in DC assets under management during the year, with its investment in technology playing a key role in its success.

Innovation was also showcased in LGIM's investment strategies. The firm developed a number of funds that have incorporated environmental, social and governance strategies within them. For example, one uses a Paris-Aligned Benchmark (PAB) to create an environmentally sustainable portfolio. Another, is designed to balance minimising tracking error in emerging market equities with maximising ESG impact. The latter was developed with LGIM's pension client, AP1, with the scheme praising LGIM for its ability to find an innovative solution when others could not.

LGIM continued to show why it is a deserved winner of the Investment Manager of the Year Award with the launch of two innovative new thematic strategies in its ETF business; one centres on clean energy while the other focuses on hydrogen. The ETFs show forward-thinking in rapidly changing times, aiming to help the world meet its net-zero ambitions. The hydrogen launch was the first of its kind in Europe, again displaying LGIM's ability to innovate. It was particularly successful, having exceeded its net inflows target for the year within four weeks of launch.

Key to LGIM's win in this category was its continued robust investment performance.

The judges were also impressed by LGIM's commitment to responsible investment. The firm is a founding signatory of the Net Zero Asset Managers Initiative, and its default pension funds have set interim targets to support their 2050 net-zero ambitions.

Congratulations again to LGIM, worthy winners of this year's Investment Manager of the Year!

LGIM

Irish Pensions AWARDS 2021

PASSIVE MANAGER OF THE YEAR

LGIM

The Passive Manager of the Year award went to Legal & General Investment Management (LGIM). Receiving the award was Richard Kelly, LGIM (centre). Presenting the award was John Woods, European Pensions (right) and host, Kevin McGahern (left).

Amid a challenging backdrop, this award aims to celebrate the manager that demonstrated strong returns, provides excellent customer service and shows a true understanding of the needs of their clients amid an exceptionally challenging environment.

The judges praised this year's winner for its very strong entry that showcased excellent examples of new passive products, describing the winning firm as an important player in passive investment strategies, with a continuing focus on delivering an excellent service and responding to client demands. Congratulations to the team at Legal & General Investment Management (LGIM)!

Bringing over 30 years of experience in managing index investments, LGIM was able to demonstrate its expertise in innovation, performance and client service, highlighting a number of solutions that it has introduced to support its pension scheme clients.

This included adapting to the increasing focus on environmental, social and governance (ESG) considerations, as LGIM's factor investing capabilities enabled it to turn ESG aims into reality for its clients, with the launch of a factor-based investment fund. The index fund responds to climate change by shifting away from companies that hold high carbon reserves or produce high carbon emissions, whilst also rewarding companies that support the future by producing more from greener sources.

Alongside this, LGIM has launched several other funds that incorporate an ESG strategy. One uses a Paris-Aligned Benchmark (PAB) to create a portfolio that, based on ISS ESG climate analysis, is in line with a 2°C scenario through 2050. Another fund, designed with Sweden's AP1, focuses on minimises tracking error in emerging-market equities whilst maximising ESG impact.

When it comes to diversification, LGIM believes investors should go further than factor level as diversification across regions and currencies can help reinforce the foundations for long-term growth. Therefore, LGIM assesses a broad range of regions, currencies and factors to the asset classes it holds and has launched a fund that emcompasses these principles.

Despite the challenges of the pandemic, LGIM has also led on developing greater research and education around factor investing, acknowledging that this can be an area that raises many questions for clients, both on technical aspects and broader portfolio construction considerations. To meet this need, the group has worked continuously to provide clients with educational resources across a range of media, to improve the effectiveness of their engagement and how it can add value to their portfolio.

Amid the shift to remote working, the group was able to keep supporting clients by hosting virtual events, including its inaugural sustainability summit.

Congratulations again to the team at LGIM!

Irish Pensions AWARDS 2021
WINNER
Investment Manager of the Year
Irish Pensions AWARDS 2021
WINNER
Passive Manager
Quiet enough to listen, loud enough to be heard
We use our influence to act on the issues that matter most to our clients.
lgim.com
For investment professionals only
Capital at risk
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Irish Pensions AWARDS 2021

IRISH PENSION SCHEME OF THE YEAR

MERCER MASTER TRUST

The Irish Pension Scheme of the Year award went to the Mercer Master Trust. Receiving the award was Caitriona MacGuinness, Mercer (right). Presenting the award was host, Kevin McGahern (left).

The Irish Pension Scheme of the Year accolade is awarded to the Irish pension scheme that has proved itself to be a leader in the challenging world of pension provision, be it a DB, DC or hybrid scheme.

Congratulations to this year's winner, the Mercer Master Trust! Our judges said its entry demonstrated a thought-leading offering aimed at truly meeting the needs of the Irish market, and is in tune with the demands of the current environment.

The Mercer Master Trust is the largest and longest-established master trust of its kind in Ireland, with over €1 billion in assets and around 130 clients. It has demonstrated that it is a best-in-class pension scheme with member outcomes at its core. This is evident in the opportunity it gives to members who can leverage the benefit of Mercer's scale in a cost-efficient manner.

Governance is of huge importance in the running of a successful pension and the Mercer Master Trust has set the bar high for others to follow, providing additional layers of oversight than that of a traditional pension scheme. As well as two professional trustees, the scheme also has a governance committee, dedicated master trust specialists and professional client servicing teams, ensuring comprehensive oversight of the scheme.

With a wide range of employers of varying sectors and size, the Mercer Master Trust is able to offer each employer a dedicated consulting team and access to an online portal. This provides a real-time snapshot of membership, switching, contributions and investment profile. Employers also benefit from regular communications and reports from both the trustees and Mercer.

Being a part of the Mercer Master Trust opens up the door to Mercer Aspire, the consultant's DC platform, which offers a broad investment fund range. Mercer Master Trust members can choose from asset classes, investment strategies and global investment managers that would typically be restricted to larger DB schemes, with the peace of mind that environmental, social and governance (ESG) factors are incorporated into investment decisions.

Its sophisticated investment approach is simplified for members to help them make informed decisions based on their individual needs and preferences. Its investment portfolio inherent within the default (the Aspire Moderate Growth Portfolio) has grown by 8.9 per cent[1] per annum since its inception in 2012, exceeding its long-term performance target.

Clients and members of the Mercer Master Trust benefit from enhanced governance and member support to target strong outcomes at retirement as well as, improved member engagement and access to a broad range of investment managers.

It is clear to see that the Mercer Master Trust combines market-leading investment performance with the expertise and due diligence of the largest third-party administrator in Ireland. Congratulations to such a worthy winner!

Mercer

[1.] *As at December 2021*

Irish Pensions AWARDS 2021

RISK MANAGEMENT PROVIDER OF THE YEAR

IRISH LIFE INVESTMENT MANAGERS

The Risk Management Provider of the Year award went to Irish Life Investment Managers. Receiving the award was Lucie Fisher, European Pensions (right). Presenting the award was host, Kevin McGahern (left).

The important role risk management plays in pension fund management today cannot be underestimated, which is why the Risk Management Provider of the Year award is so key to the Irish pensions market. This year's winner, Irish Life Investment Managers (ILIM), impressed the judges with its commitment to truly understanding the evolving needs of its DB and DC clients in this area, and to working closely with them on their risk management journey.

Additionally, ILIM stood out from its peers for its sheer breadth of offerings in the risk management space coupled with its ability to design effective and innovative risk managed solutions to meet client demands.

On the DB side, ILIM is a clear leader in asset liability management (ALM) and, noted the judges, the firm understands how to assist pension funds in taking advantage of what is happening in the market. By ensuring its pension fund clients have a robust risk management framework and a clear journey plan in place, they are able to act when opportunities present themselves, thus reducing or even eliminating risk altogether. ILIM also continues to build and enhance its ALM skillset with the hiring of key staff.

The judges were also impressed by ILIM shining the spotlight on value-added reporting, which led to the development of enhanced reporting templates for its DB clients. This, commented one judge, is further evidence that ILIM is "setting the bar high and leading by example".

ILIM also showcased several ways in which it is leading the way in its work with matching asset portfolios – be that with its clients increasing their allocation to Liability Driven Investing (LDI) funds, or increasing allocations to credit.

Additionally, on the growth portfolio side, ILIM understands the big themes that are, and will continue to be, key for its clients, from responsible investing to the importance of diversification, as asset classes like infrastructure and secure assets move further into the spotlight.

Another key topic dominating the pension space is the increasingly important role that buy-in and buyouts can play in a pension fund's risk management strategy. The bulk annuity market in Ireland continues to grow significantly and ILIM is at the forefront of discussions in this arena – helping its clients to understand the opportunities this growing market can offer, and engaging with trustees and sponsors to raise awareness of how a bulk annuity transaction works.

Finally, ILIM has continued to dominate the LDI market in recent years with the launch of innovative, relevant and successful products; by expanding its already market-leading team; and also by educating trustees in this area.

All in all, this is a firm that doesn't rest on its laurels, but continues to evolve according to the changing needs of its clients and has its finger on the pulse of all aspects of pension fund risk management. A true leader in this space.

Irish Life

EXCELLENCE IN DC AWARD

IRISH LIFE CORPORATE BUSINESS

The Excellence in DC Award went to Irish Life Corporate Business. Receiving the award was Lucie Fisher, European Pensions (right). Presenting the award was host, Kevin McGahern (left).

With so much change occurring within the field of DC pensions, this category recognises those firms that stand out among the rest in the provision of DC services, be that with the use of innovation, dynamic investment solutions, effective communication or otherwise.

The winner of this award, for the second year in a row, is Irish Life Corporate Business.

Since winning the Excellence in DC Award in 2020, the world has changed in ways that no one could have foreseen. Irish Life has not only adapted to these changes, but has thrived in supporting trustees, brokers and clients to build better financial futures for DC members.

Throughout the pandemic, Irish Life Corporate Business continued to support clients and members in a number of ways, including live broadcast presentations with Q&As, recorded videos on a range of topics, virtual drop-in and one-to-one sessions, and a new Covid-19 landing page.

March 2021 saw Irish Life Corporate Business completely revamp its online member portal, including features such as the facility to process fund switches and contribution changes online.

2021 also saw the rollout of extensive environmental, social and governance (ESG) characteristics within Irish Life Corporate Business' flagship range of EMPOWER funds, a number of which are now rated as Article 8 standard under the Sustainable Finance Disclosure Regulation (SFDR).

Meanwhile, the company's Personal Lifestyle Strategy is a best-in-class solution that treats each member individually and, through the use of artificial intelligence, builds a personalised investment solution for them as their retirement approaches.

Last year, Irish Life Corporate Business introduced a new feature within this strategy, investing members' retirement savings into higher risk/ return investments while they are far away from retiring. As members get closer to retirement, their savings will automatically be moved to medium- and lower-risk investments.

Once members are within six years of retirement, their money is switched into funds that will best match their likely retirement benefits. The strategy also automatically adjusts each month to take account of salary changes, single premium AVCs paid in, or transfer values received, ensuring that members are always invested in the right mix of funds.

According to the awards judges, the company has demonstrated how it continued to improve its DC offering throughout the pandemic, with a clear emphasis on putting the scheme member at the core of their DC proposition.

They awarded Irish Life Corporate Business this accolade due to "an impressive submission that highlights significant technology investment, and enhancements in risk management strategies, including an emphasis on climate risk", the judges said.

Congratulations once again to the worthy winner.

Irish Life

ESG OR SRI PROVIDER OF THE YEAR

AVIVA IRELAND

The ESG or SRI Provider of the Year award went to Aviva Ireland. Receiving the award was Stephen Rice, Aviva Ireland (centre). Presenting the award was Natalie Tuck, European Pensions (right) and host, Kevin McGahern (left).

Irish pension funds are becoming increasingly aware of the impact environmental, social and governance (ESG) factors and socially responsible investing (SRI) can have on their portfolio returns, with the landscape ever evolving. This award recognises the leaders in this significant and increasingly sophisticated market. Many congratulations to this year's worthy winner – Aviva Ireland!

The judges described Aviva's entry as almost flawless and excellent, and said it showcased a deep commitment to and understanding of ESG. They were impressed by Aviva's dedication to bring more products to its Irish customers every year and the firm's continued evolution in this area.

Aviva showcased its commitment to cutting carbon emissions with the announcement of the most demanding net-zero target of any major insurance company in the world. The firm plans to become a net-zero carbon emissions company by 2040, displaying why it is the well-deserved winner of this year's award.

Aviva has also set interim targets of cutting carbon emissions by 30 per cent by 2025 and by 60 per cent by 2030, including the assets it invests in directly and the full range of investment funds provided by fund managers, including ESG and green funds.

The judges were also impressed by Aviva's commitment to influence the companies it invests in to encourage them

"The firm plans to become a net-zero carbon emissions company by 2040"

to build for a more sustainable future. The firm's position as an active shareholder was also praised, with this more likely to drive real change than pure divestment. Aviva Investors demonstrated its ability in this area by being one of only five investment management firms globally to receive an A rating in the *ShareAction Voting Matters Report*. It has a dedicated team of 30 investment experts whose single focus is to push for change.

One of the key factors in Aviva being awarded the ESG or SRI Provider of the Year Award was its new climate engagement escalation programme. The programme targets the 30 largest carbon emitting companies in the world, which account for around 30 per cent of the world's carbon emissions. Aviva displayed passion and drive for improvements in the ESG space by making specific asks of these companies, including to set a net-zero target, to develop a strategy for achieving this, and to ensure management incentives are aligned to that goal. The firm's commitment was emphasised by its warning that it would divest assets in these companies if it does not see serious engagement in delivering these goals.

Aviva's wide commitment to sustainability was also highlighted by its products, including its sustainable impact funds and net-zero aligned funds, which it is aiming for 20 per cent of new savings to be put into by the end of 2022.

Many congratulations to Aviva!

AVIVA

DIVERSITY AWARD

MORGAN STANLEY INVESTMENT MANAGEMENT

The Diversity Award went to Morgan Stanley Investment Management (MSIM). Receiving the award was Caroline McLaughlin from the European Client Relationship Management team at MSIM (right). Presenting the award was host, Kevin McGahern (left).

The Diversity Award goes to the pension provider that has shown it truly recognises the importance of diversity in today's climate, either in the way it has shaped its business, its product offering or otherwise.

The judges described this year's winner as a firm that put forward an entry that displayed a genuine understanding of the importance diversity plays in today's world and is setting the bar high for its peers. Congratulations to Morgan Stanley Investment Management (MSIM), winner of the Diversity Award!

In 2020, Morgan Stanley, MSIM's parent company, added a fifth core value to those it already has, and which underpin everything it does – Commit to Diversity & Inclusion. This is because it recognises that the diverse backgrounds, talents, perspectives, cultural identities, and the experiences of its employees are what help it achieve its full potential.

Morgan Stanley's diversity efforts are led by its Chairman and CEO, James P. Gorman, and supported across the organisation by a dedicated Diversity and Inclusion team of more than 35 professionals, led by Morgan Stanley's Global Head of Diversity and Inclusion. Furthermore, MSIM has its own Diversity Council comprised of senior executives from across the business. The Diversity Council is committed to leading efforts and championing a culture of diversity globally and focuses on awareness, culture, tools and talent.

Taking a proactive approach, MSIM has launched several initiatives to foster a workplace that encourages new ideas from all employees. Lockdown also served to accelerate its diversity hiring, as MSIM recruited its first summer analyst through #100blackinterns, its first intern with White Hat and its first Investment20/20 intern.

One of those initiatives was the launch of the 'Women in Portfolio Management' campaign. This began with a fireside chat with MSIM's Seema Hingorani, senior leader focused on strategic client relationships, investment talent development and diversity initiatives and founder of Girls Who Invest, and Sandra Robertson, CIO of Oxford University Endowment Management. Despite the virtual nature, the event attracted more than 100 external female investors, some of which directly pipelined into MSIM's open investment roles.

In January 2021, the firm launched its latest annual MSIM EMEA Mentoring Programme, which included 21 mentoring partnerships with an exclusive focus on a mentee cohort of female officers. Mentees have provided overwhelmingly positive feedback, with 85 per cent responding that the programme has met or exceeded their expectations and 100 per cent noting that the mentoring relationship has added value or helped improve their roles.

MSIM also has affinity networks for its employees. According to its 2021 annual diversity and inclusion employee survey, over 80 per cent of its employees consider MSIM's efforts as very important to their personal experience in the workplace. MSIM has truly demonstrated its commitment to diversity, taking a proactive approach that has paid off. Congratulations on such a worthy win!

Morgan Stanley

INVESTMENT MANAGEMENT

Irish Pensions AWARDS 2021

EMERGING MARKETS MANAGER OF THE YEAR

ARTISAN PARTNERS

The Emerging Markets Manager of the Year award went to Artisan Partners. Receiving the award was Steve Kelly, Artisan Partners (right). Presenting the award was host, Kevin McGahern (left).

Seeking out potential in the less developed markets is a challenging role at which only the best can succeed; yet for those that do, the rewards for pension funds investing in this area can be great.

This award recognises those managers that have shown a dedication to the emerging markets space with a view to achieving performance often in areas where information flow is in short supply. The judges praised this year's winner for adapting extremely well to the challenges posed by the Covid-19 pandemic. It also boasts a long-established winning culture of investment, with a true understanding of the emerging markets arena and how it can help meet pension fund investment demands. Congratulations to Artisan Partners (Artisan), the Emerging Markets Manager of the Year!

One of the biggest factors in Artisan's success is its innovative business model; a decentralised boutique structure where each team operates independently. This model allows individual portfolio managers to focus exclusively on their alpha maximisation responsibilities, free from any administrative concerns.

While Artisan's strategies are highly differentiated, they share an unconstrained approach to investing in their specific universe, thus offering clients high-value added opportunities across asset classes. Its model not only works for clients but colleagues too. Other than via retirement, no founding investment team members have left the firm since inception, with Artisan fostering a long-term approach to investments and its portfolio managers.

Artisan focuses solely on active, high value-added strategies where investment professionals can differentiate themselves from their peers and benchmarks through fundamental research and a disciplined investment process. Always looking to up its game, last year, Artisan launched the Select Equity Strategy managed by the Global Value team, and the International Small Cap Value Strategy, and the Artisan China Post-Venture Strategy.

Demonstrating its commitment to Irish pension funds, Artisan opened a dedicated office in Dublin in 2019 with the aim to better serve its Irish pensions clients. The firm increased its assets under management (AUM) from Irish pension funds by 562.5 per cent between H1 2020 and May 2021.

Artisan's excellent client service offers portfolio manager viewpoints and education. This includes hosting a series of webcasts aimed to educate end users on both macro issues and investment themes.

This approach has led to Artisan achieving strong results. It registered a phenomenal 71 per cent increase in AUM, taking its total AUM to a record high by year-end. A large part of this success can be attributed to the continued growth of Artisan Partners' European business, with non-US AUM jumping 88 per cent, from US$18.7 billion as at 31 March 2020 to US$35.3 billion as at 31 March 2021. All this makes it clear to see why Artisan is our worthy winner. Richly deserved!

ARTISAN PARTNERS

Growth Team

Global Equity Team

U.S. Value Team

International Value Team

Global Value Team

Sustainable Emerging Markets Team

Credit Team

Developing World Team

Antero Peak Group

High Value-Added Investment Firm

Artisan Partners is a global investment management firm that provides a broad range of high value-added investment strategies to sophisticated clients around the world.

Autonomous Investment Teams

We have a strong philosophical belief in the autonomy of our investment teams. We believe autonomy promotes original research and amplifies the creative perspectives that are likely to lead to value creation.

Global Business Leaders

We manage relationships with a focus on investments, yet cater to the specific operational needs of our diverse client base.

Investment Options

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ARTISAN PARTNERS

Visit: www.artisanpartners.com | Call: +44 (0) 20 7766 7110 | Email: londondistributionteam@artisanpartners.com

1/3/22–A22502L-vXUS

PENSIONS CONSULTANCY FIRM OF THE YEAR

LCP IRELAND

The Pensions Consultancy Firm of the Year award went to LCP Ireland. Receiving the award was Odhrán Mulrooney, LCP Ireland (right). Presenting the award was host, Kevin McGahern (left).

The quality of the relationship between a pension trustee board and its consultants can make all the difference to the effective well-running of the scheme.

That is why this award is given to the pensions/investment/actuarial consultancy firm that the judges believe has delivered outstanding service to its pension fund clients in the last year; has shown a dedication to the delivery of pension scheme consultancy; and has demonstrated a superior understanding of the market's needs.

For 2021, the judges have decided that standing out from the crowd in this competitive category was LCP Ireland – congratulations to a worthy winner.

LCP Ireland (LCP), a firm of actuarial, financial and business consultants, describes its goal as ensuring its advice is always clear and jargon free, even when issues may be technically complex.

One such complex issue is IORP II, which was transposed into Irish law during April 2021, bringing with it a raft of new responsibilities on pension scheme trustees. For this, LCP produced a user-friendly *IORP II Handbook* for clients, which focuses on the main areas of IORP II for trustees – governance, risk management and investments.

As IORP II has made the pensions environment even more challenging, LCP's integrated risk overview function helps trustees and sponsors to work together to understand how investment risk can impact on the scheme's ability to meet its commitments.

Also, over 2020 and into 2021, LCP further developed the functionality of LCP Visualise to allow the finance director to access up-to-date information on the pension scheme at any chosen date. LCP Visualise is now used by pension schemes across Ireland and the UK with combined assets of over €300 billion.

LCP also helps trustees and scheme sponsors to deliver optimal solutions for their pension arrangements, maximising the use of limited resources. For instance, LCP's online tool, LCP Horizon, allows faster decision-making as detailed reports answering important questions are instantly available, with their membership information efficiently segmented and analysed.

LCP also produced its annual *Pensions Accounting Briefing* in November 2020, the only report of its kind to analyse the impact of pension schemes on the company accounts of the largest public and semi-state organisations.

On a monthly basis, LCP publishes the *LCP Monthly Brief*, tracking the funding position of a typical DB scheme and the performance of a typical DC scheme, along with the monthly *LCP Radar*, providing information of pension-related developments in both Ireland and overseas.

In awarding this accolade, the judges stated that LCP Ireland has "a true passion for serving the Irish pensions space, moves with the times and understands what's needed in order to meet changing member needs".

Well done to a deserving firm.

LCP INSIGHT CLARITY ADVICE

PENSIONS ORGANISATION OF THE YEAR

IRISH INSTITUTE OF PENSIONS MANAGEMENT

The Pensions Organisation of the Year award went to the Irish Institute of Pensions Management (IIPM). Receiving the award was Elma Fox, IIPM (right). Presenting the award was host, Kevin McGahern (left).

The Pensions Organisation of the Year Award was designed to give due recognition to the associations and bodies that play an invaluable role in the Irish pension space, that continue to evolve to meet the industry's needs, and without whom the Irish pensions landscape would be a lesser place.

This year's winner, the Irish Institute of Pensions Management (IIPM), ticks all of those boxes and more as a body that is, in the words of the judges, "deeply committed to the pensions arena", having demonstrated this with a whole host of initiatives that make it an essential part of the fabric of the Irish pensions scene.

Well-known today to anyone involved in Irish pensions, the IIPM was founded in 1990, with the primary objective of promoting professional standards amongst those working in the field of pensions, with education being central to the achievement of this objective.

The education programmes offered by the IIPM are developed in collaboration with those working in the industry, which ensures that they are not only profoundly relevant, but they continually meet the evolving needs of those working in the Irish pensions space.

This year's judges stressed how important the IIPM is to the market, given the constant changes in the Irish pensions arena year in year out. The value it adds to those working in the sector who need educational support and are looking to learn and progress is significant. One judge commented: "Keeping on top of the ever-changing regulatory environment is challenging for anyone, yet the numerous courses on offer by the IIPM help make it achievable."

Specific to 2020, the Institute partnered with Griffith College Dublin to deliver an updated Level 8 educational programme to pension practitioners. The updated programme offers participants more informed staff with sound accurate technical knowledge; minimum competency for Central Bank purposes; and people who are familiar with the Pensions Authority practices and expectations.

The Higher Diploma in Pensions Management, aimed at those who work closely with pension schemes and retirement planning, was designed to incorporate the changes that the Irish pensions landscape has experienced. The IIPM also carried out a detailed review of the structure, content and teaching methods to be adopted, involving feedback from students, employers, sponsors and the pensions regulator. This is one of the Institute's greatest strengths.

The judges were also impressed by how well the IIPM adapted its offering quickly and efficiently when the Covid-19 pandemic hit, moving online so it was still able to assist Irish pension practitioners with their educational needs, and help industry members to meet their CPD obligations.

Throughout 2020 and into 2021, the IIPM delivered a significant number of high quality, free online CPD seminars, featuring a range of key speakers from across the industry, which saw strong attendance from across the board. Attendee satisfaction scores were also in excess of 98 per cent, again proving how invaluable the IIPM sessions are. Congratulations to IIPM!

IIPM
Irish Institute of Pensions Management

Irish Pensions AWARDS 2021

PENSION SCHEME ADMINISTRATOR OF THE YEAR

NEW IRELAND

The Pension Scheme Administrator of the Year award went to New Ireland. Receiving the award was Paul Kirwan, New Ireland (right). Presenting the award was host, Kevin McGahern (left).

Whilst the key role of the administrator may be often overlooked, without an excellent administration service the pension fund member could not receive the level of service they deserve. This award recognises those administration teams that have gone above and beyond to deliver a truly value-added service to their clients, particularly amid the challenges of the past year.

This year's winner was praised by the judges for its outstanding presentation, demonstrating a comprehensive series of initiatives including staff wellbeing, learning and development to customer service.

Congratulations to a very worthy winner, New Ireland!

Although the pandemic has presented challenges for all businesses, New Ireland has maintained a strong service offering through its corporate pensions department, adapting quickly to protect the safety and wellbeing of its colleagues and customers. This was achieved through a variety of methods, including the use of a full suite of editable application forms to support end-to-end digital advice, iPort digital financial advice at the point of retirement, and broker connectivity to allow digital journeys with clients.

The business has also spent the past 12 months looking to the future, investing a significant amount of money into transforming and future proofing its administration business. This saw New Ireland's pension administration business model streamlined to focus on two distinct objectives: getting the work done quickly and getting this work done to a high-quality standard.

New Ireland has also worked to grow its MyPension365 platform, which is changing the way that employers and members interact with pension providers. The MyPension365 platform is a people-led service powered by leading edge digital technology that provides an easy and efficient way to manage a company pension plan.

Employees are empowered to take control of their retirement savings, with the ability to request contribution changes and fund switches online, as well as having access to their pension correspondence at any time.

Alongside this, the business has made a significant shift in the way that its corporate pensions department communicates with customers and important stakeholders. This was achieved thanks to a bespoke Corporate Pensions Contact Model, which includes dedicated telephony teams that respond on an inbound basis to specific queries, bespoke team email addresses, and the creation of an escalations unit.

New Ireland's own staff were not forgotten though, as the business introduced the New Ireland Wellbeing programme, which includes a wellbeing app and desktop portal, featuring fitness and nutrition trackers, and workout plans, an online GP service, and financial wellbeing consultations with an adviser.

Congratulations to New Ireland!

NEW IRELAND
Securing your future

DB SCHEMES

Protected from the storm

How are DB schemes across Europe coping with rising inflation? Lynn Strongin-Dodds **investigates**

WRITTEN BY LYNN STRONGIN-DODDS, A FREELANCE JOURNALIST

Throughout last year there was an ongoing debate as to whether the inflation comeback was transitory in nature or a more permanent phenomenon. Today, the discussion revolves around how high the levels could climb.

Rising rates is never a good scenario for defined benefit (DB) schemes but European schemes are in better shape than they have been in years, although they must not become complacent about reaching the endgame, whether it be buyout, self-sufficiency, or some form of consolidation.

Currently, inflation is rising faster than expected, with the European Central Bank surprising markets with a 5.1 per cent jump, fuelling bets it could hike interest rates earlier than anticipated. In the meantime, the UK Bank of England recently raised rates by 0.25 percentage points to 0.5 per cent and industry experts are now betting that they will hit 1 per cent in May and 1.5 per cent in November – a level that was not predicted until March 2023.

Although it is difficult to predict the future as current events highlight, analysts expect inflation to remain at lofty levels this year before gradually easing on the back of falling industrial and agricultural commodity price drops.

> **"AS A GENERALISATION, INFLATION IS ALWAYS A RISK TO BE MANAGED, BUT IT IS NOT AS CONCERNING AS IT WOULD HAVE BEEN FIVE TO 10 YEARS AGO"**

This may explain why industry experts are not unduly worried about the impact of inflation on DB schemes. "As a generalisation, inflation is always a risk to be managed, but it is not as concerning as it would have been five to 10 years ago," Hymans Robertson partner and head of the corporate DB endgame strategy, Leonard Bowman, says. "Schemes have made huge progress over the past five to 10 years and are in a much better place to weather this. They took some protection early on and although it was not in full, this will dampen the impact of inflation."

This is particularly true of the Netherlands where a report from Aon, citing DNB figures, shows that the picture improved significantly over the past 12 months with the funding ratio rising 15 per cent to 114.3 per cent. Rising levels is not a particular concern for pension funds if interest rates rise in tandem because the discount rate will also increase, which in turn pushes their coverage ratios higher, according to Natixis Investment Management country head and managing director, Robert Koopdonk.

Aon EMEA, CCO and head of Nordics, Colin Haines, agrees, adding inflation has not been a main concern in the Netherlands because funding ratios are based on guaranteed increases and not indexation. "The country saw a big recovery due to strong asset performance and smoothing of the discount rates," he adds. "Contributions were paid, and we have also seen a shift to liability driven investing (LDI) over the years although there is a wide range of hedges from 20-100 per cent."

LDI has also been a saving grace for UK and Irish DB schemes in terms of improving funding levels, reducing volatility, and providing a buffer against inflation. Aon research shows that Irish pension schemes are in relatively good shape, with around most, or 90 per cent, of funds in surplus and meeting their minimum funding levels of 110 per cent, according to Haines.

A separate study by LCP shows that Irish pension funds have whittled down their risk assets, such as equities, and invested in a pool of diversified assets. They also have a similar indexation framework to the UK which also showed increased funding levels.

This is underscored in the recent PwC's *Pension Trustee Funding Index* of the UK's 5,000-plus corporate DB pension schemes. It reveals they have overall remained

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in a surplus of £200 billion over the past year despite asset and liability values both falling over January 2022, the strategies adopted included a shift away from low-yielding gilt investments to higher-return, income-generating assets, and a different approach for potential life expectancy changes.

Creating a checklist

Although inflation is unlikely to spiral out of control, market participants believe pension schemes, especially those that do not have many hedges in place, should look at the robustness of their portfolio, as well as the sponsor covenant if there is an LDI structure in place. Top of the agenda is whether they have sufficient liquidity to meet cash calls from their leveraged LDI as interest rates rise, to dampen the price escalation.

"The real question is what they should do to stay on their glide path," Amundi Asset Management head of institutional advisory, Karin Franceries, says. "They do not want to put the endgame into question, but it is difficult because there is no silver bullet for inflation hedging. We believe in the long term inflation levels will stabilise, but over the short to medium term tactical calls, such as investing in commodities and energy-related equities, can act as a short-term hedge.

Russell Investments head of strategic client solutions, David Rae,

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also believes that schemes still need to assess whether their investments still offer real returns. "Many schemes went into the pandemic with better funding levels and were well hedged against inflation risks, which immunised them to some extent against liabilities rising," he adds. "I think they will continue to de-risk and invest in assets that generate future cash flows with an inflation linkage such as real estate and infrastructure debt."

Aviva Investors head of UK and multinational DB pensions, Matthew Graham, echoes these sentiments: "I think one of the best quotes I have heard is don't predict but be prepared. The language has shifted, and inflation is looking more long term, but LDI has helped schemes manage the risks and those that are hedged – which is around two thirds – have not felt the pain. The question now is where do you invest – buy and maintain credit or high yield or real assets?"

However, not all DB plans in Europe are moving, or have moved, in the same direction. For example, Germany is a different story, although funding levels remain healthy. Aon research shows that Pensionskassen and Pensionsfonds, or German Occupational schemes, are almost likely to be fully funded

However, in terms of asset allocation, "Germany has been the reverse of the UK," Insight Investments head of Germany, Wolfgang Murmann, says. "10 to 15 years ago, 80 per cent of asset allocation was in liquid fixed income; now it is a third, while more money has flowed into equities and private assets, interest rate hedges are on average estimated to be around 20-30 per cent, while inflation rate hedges are even lower. One reason for the shift towards riskier assets is that there are guaranteed minimum returns embedded in the pension promise. However, we are beginning to see a greater focus on risk management and LDI."

Although pension funds will have their own approach in combatting inflation, the one area that they will have to pay more attention to is the environmental, social and governance (ESG) component, which permeates all corners of investment. Whether it be bonds, equities or real assets, funds will need to have a better understanding of the wider sustainability factors that affect the financial performance of their investments, as well as their relationship with sponsoring employers across all economic scenarios.

Overall, "ESG is front and centre in our client discussions across asset classes, with increasing attention on labelling, such as the Sustainable Finance Disclosure Regulations (SFDR)," says Natixis Investment Management head of Northern Europe and MENA, Andrew Benton. "Simply, all clients are holding managers to account on ESG issues and expect high standards, transparency and accountability."

There is though, a silver lining as the move to a net-zero landscape by 2050 will also generate a plethora of innovative solutions and products. Inflation pain can be net zero's gain," says Tikehau Capital's head of UK institutional business, Simon Males. "As pension funds seek inflation-linked solutions, there will be a much wider set of opportunities in private debt, private equity and real assets, such as infrastructure and real estate as we transition to a net-zero economy. We are at the early stages but there are many mid-market, profitable companies in the UK and across Europe that are developing decarbonising solutions." ■

FUTURE OF TRUSTEES

With EU regulations stipulating more requirements for pension trustees, what does the future of pension trusteeship look like? And is it the end of the road for lay trustees? Craig Rickman reports

WRITTEN BY CRAIG RICKMAN, A FREELANCE JOURNALIST

The end of the road?

Are lay trustees at risk of fading into obscurity? It's a question that's been posed many times over the past few years and continues to warrant examination. Recent shifts in the pensions industry landscape, driven by a slew of new regulations at national and international levels, suggest lay trustees could be struggling to meet the increasingly stringent demands of the role. Research by the UK's Association of Consulting Actuaries (ACA), conducted in October 2021, found employers are acutely aware of the situation.

In its *Pension Trends* survey, 76 per cent of employers fear a trustee exodus, while 88 per cent feel the scale of administration required will discourage potential new trustees from joining the profession. To avoid buckling under the weight of the ongoing regulatory and governance obligations – most notably the EU's directive on Institutions for Occupational Retirement Provision, or IORP II as it's commonly known, schemes are eyeing up alternative options, namely outsourcing responsibilities to professional trustees.

Lay to stay?

Isio's *2021 Professional Independent Trustee Survey*, published in April 2021, estimates 50 per cent of pension schemes now have a professional independent trustee, with most schemes expected to appoint one or more over the coming years.

The report notes that while professional trustee firms have been around for decades, the industry is still in its infancy. "We expect significant change over the next five years and a divergence in approaches as firms adopt a range of strategies to differentiate themselves," the report says.

While Isio's report is UK-focused, this shift is also occurring in other countries. As Aon partner, Thierry Verkest, notes, one of the consequences of higher professionalism is that the required level of expertise and knowledge is harder to come by, forcing many Belgian schemes to reach out to independent trustees.

"We used to have 200 pensions funds [*in Belgium*] and now there are 170," says Verkest, who expects this trend to continue and the number to decrease further. "If you do not have €100 million in assets it's getting hard to run your own pension fund."

The problem is not restricted to Belgium. According to Cardano Insights director, Stefan Lundbergh, firms across Europe face an important decision and need to ask: "Do you have a representative board, or a board of experts?"

Appointing the latter has obvious attractions. Their wealth of specialist knowledge and experience can bring crucial time and cost savings to schemes. However, lay trustees have plenty to offer too, and many feel they are far from surplus to requirements.

"Lay trustees have a very valuable role to play. They know their members and the culture of the sponsor in a way that external trustees cannot," says Irish Association of Pension Funds (IAPF) CEO, Jerry Moriarty. "They are also in a position to ask really searching questions and seek explanations for things that professionals might just take for granted."

Burges Salmon partner, Michael Hayles, agrees: "They can provide powerful different views, challenge and experience. This can often support more rounded discussion, but training and qualifications may help to get the most value from lay trustees."

Get qualified

As Hayles highlights, one solution is for the lay trustee role to become more professional. The IORP II Directive outlines the need for trustees to possess the necessary knowledge, skills, experience and competencies to carry out their duties. For jurisdictions such as Ireland, this has meant a significant raising of the governance bar.

In June 2021, the UK's Pensions

Management Institute (PMI) launched a new lay trustee accreditation to, in its words, “enable lay trustees to demonstrate a high degree of competence in driving best practice decision-making... so they can navigate the complex challenges of modern scheme governance”.

To become accredited, candidates must complete The Pensions Regulator’s (TPR) trustee toolkit and both parts of the PMI’s Certificate of Pension Trusteeship, as well as 15 hours of relevant continuous professional development every year to maintain their status.

In the eyes of Lorna Russell, trustee of the London Borough of Camden pension scheme, qualifications for lay trustees are a positive move. “But it’s imperative that employers are supportive here as it’s likely candidates will need time off and resources to study,” Russell adds.

Ireland’s Pensions Authority (PA) published a finalised code of practice in adherence to IORP II on 18 November 2021. One of the notable requirements is that at least one trustee in each scheme must complete a trustee qualification course approved by the PA. But Moriarty is not convinced this is a positive step, arguing qualifications are “a lot to ask for lay trustees who are acting in a voluntary capacity”.

Buck principal and senior consulting actuary and head of retirement consulting, Vishal Makkar, believes the need for qualifications could frighten off a new, potentially more diverse generation of trustees.

“Historically, trustees have never had to be experts but rather have had to employ experts, and there is a fine distinction between the two. It’s one thing to ask trustees to complete the regulator’s trustee toolkit to learn the basics, and quite another to expect them to get fully qualified,” he says.

The same differences

As well as national and EU-level governance rules, trustees are also having to grapple with the still evolving rulebooks, standards and definitions surrounding sustainability and climate change. Moriarty says these increasing administrative demands could create a more homogenised trustee landscape.

“Regulators have been clear that they expect more of trustees and expect them to be more professional in their approach. The increased responsibility and expectations will push towards more professional trustees and that may result in a loss of diversity.”

Meanwhile, Capita Pension Solutions director of pensions policy, Anish Rav, says although trustee boards will not become more homogenous, the framework they operate in will be.

“This is an important distinction as each scheme will have its own board with a unique set of dynamics and member demographics that has to be understood. However, the frameworks they operate within will allow best practice from the industry to be followed and adopted, leading to better governance,” Rav says.

A career in its own right

As the Isio report notes, the knowledge and skills needed to cope with these demands means trusteeship is becoming a career in its own right.

In much the same vein as other areas within the pensions sector, a key objective for trustee boards is to attract younger people. The shift to defined contribution schemes in countries such as the Netherlands and Ireland will require engagement with younger generations most affected by the new models.

In 2018, the then Dutch Minister for Social Affairs and Employment, Wouter Koolmees, remarked 40 per cent of the country’s pension funds had no female trustees, while young trustees were absent from 65 per cent of funds.

Lundbergh says regulation is helping on this front. The country’s Pension Funds Code stipulates Dutch trustee boards must appoint at least one woman, and one individual under 40. Lundbergh adds that PensioenLab, an organisation with the goal to train and prepare younger individuals for trusteeship, is playing a key role in the Netherlands: “The aim is to create a flow of young people who are knowledgeable and qualified for a trustee role.”

The lack of racial diversity presents a further problem. For the UK, Isio’s report points towards plenty of work needed in this area. After surveying 12 firms, the report found that on average 39 per cent of trustees were female and only 7 per cent were from a BAME background.

Russell, who became a trustee at the age of 25, says having younger trustees on the board is crucial as a mix of demographics is more reflective of the broader workforce. Russell adds employers can do more to promote the opportunities here.

“Some may be reluctant to make changes to their boards due to the potential disruption, but diversity not only encourages fresh ideas but also avoids the tendency of falling into patterns of groupthink,” Russell says.

According to Rav, it’s vital that the “voice of the member” is taken into consideration, with diversity core to this.

“Professionalism in trusteeship does not mean there will be an impact on diversity,” Rav says. “On the contrary, the professionalisation of trustees will attract a more diverse range of individuals who want to become trustees, which we are already starting to see. It’s really important that the role of the trustee is seen as an attractive option for people from all walks of life.” ■

In their own words...

Industry personalities' comments on the hot topics affecting the European pensions space

On how pension administrators coped with the pandemic

"In the last year, we have all learned that a lot, even pensions, can be done remotely, with a self-service approach. The pandemic is pushing pension administrators to leave behind any manual activity. Administrators have consistently reinforced automation and straight-through-processing capabilities. Also, members have been somehow forced to change their habits. They are more and more experiencing that their pension journey has a digital future."

Previnet Outsourcing Solutions senior manager, Martino Braico

On the use of robot advice and the risks they can incur on long-term savings

"Robot advisers can certainly help savers whittle down their choices on where to invest their money and spread their risks. It can be useful when retirement is approaching as it is appropriate to reduce the risk in your savings, but in long-term pension savings, it is both easier and cheaper for most people to invest their money in a global equity index fund with a maximum fee of 0.20 per cent."

Swedish Pensions Agency market analyst, Ann-Christin Meyerhöffer

On 38 per cent of Europeans not saving for retirement, as revealed by Insurance Europe

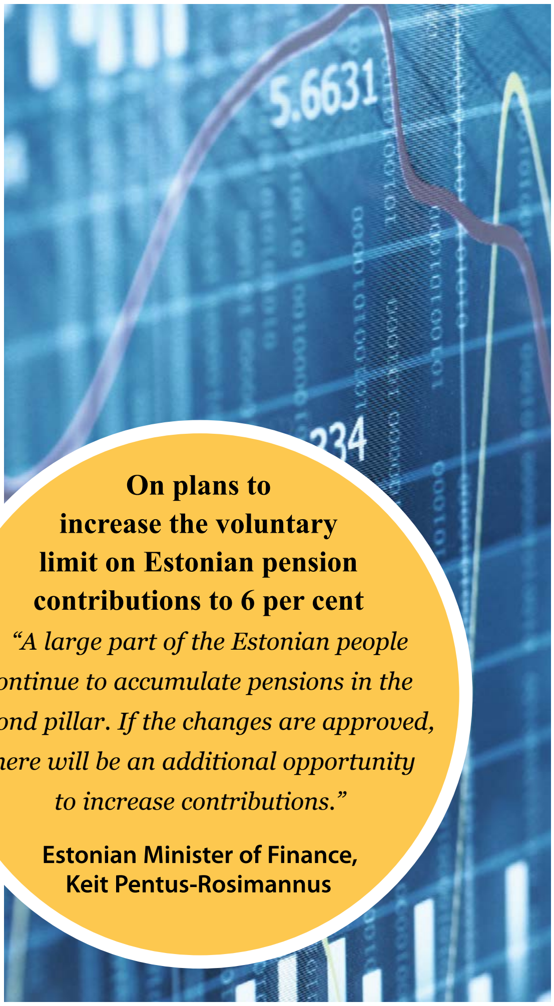
"As the results of this survey confirm, policymakers throughout Europe already face significant challenges in trying to ensure their citizens have an adequate income in retirement. If nothing is done, these challenges will only become more severe. It is therefore vital for policymakers to take steps now to enable their citizens to increase their pension savings, and to ensure that the regulatory framework allows insurers to play their role as long-term pensions providers and reflects the real needs of people saving for retirement."

NICOLAS JEANMART
Insurance Europe head of personal and general insurance

On EIOPA's plans for 2022

"In 2022, EIOPA expects to analyse IORPs' duties to their members in light of sustainability considerations. The analysis will cover the integration of double materiality in the investment decision, having regard to both the short-term impact of sustainability risks on investments and the opportunities that long-term investments can bring to broader societal and environmental goals. Furthermore, the focus will be on the inclusion of members and beneficiaries' sustainability preferences. EIOPA will assess the prudent person rule vis-à-vis the approach for sustainable investment for insurance and for IORPs. The role of stewardship as a tool to actively engage with investee companies to pursue net-zero plans will also be analysed."

PETRE HIELKEMA
EIOPA chairperson



On plans to increase the voluntary limit on Estonian pension contributions to 6 per cent

"A large part of the Estonian people continue to accumulate pensions in the second pillar. If the changes are approved, there will be an additional opportunity to increase contributions."

Estonian Minister of Finance, Keit Pentus-Rosimannus

On Icelandic pension fund investments

"There is also talk about whether it is desirable to have over a half of the pension funds' assets invested domestically, and it raises questions about sufficient diversification and whether the current system contributes to overheating in the Icelandic economy. The sheer size of the pension funds in the Icelandic economy also places further responsibility on them to have a clear investment policy in terms of company ethics, treatment of employees and social impact, etc."

DRÍFA SNÆDAL
Icelandic Confederation of Labour (ASI) president

On the need for Irish pension schemes to carefully consider their master trust

"The directive imposes a much higher standard of governance, risk control, and member communications on company pension schemes. Employers have until the end of 2022 to fully comply with the regulations. The process of understanding the new regulations, the options facing the scheme, seeking and assessing pitches from various master trusts, assuming they go that route, will take time. Firms should be aware that the master trust of their adviser may not always offer the best deal for their employees."

RAYMOND MCKENNA
Lockton Employee Benefits partner

One what needs to be addressed in the IORP II review

"There are issues like whether they would reopen the debate about the harmonised solvency framework, which was the central issue in the previous revision that we were able to resist. We hope that will not become an issue. There are many other issues, such as that the cross-border provision of the IORP II Directive does not work. There was a report published by EIOPA, which shows that only 33 cross-border IORPs exist and their market share is 0.2 per cent. Of the existing previous cross-border IORPs, many were between the UK and Ireland, and they are no longer there. Everybody can conclude that the IORP hasn't been a success in this area.

Another issue that is very important for us is the fact that the European pension legislation is very national. This is unlike other European rules on financial services, which are mostly harmonised. For IORPs, the delegated legislation does not exist. You have the level one directive and it's implemented by the member states, but it leaves much more room for national adaptation than for example in insurance or banking. This is something that was very important for our members, we did not want harmonised rules in governance or communication, not at the level that was envisaged by EIOPA and the commission."

PensionsEurope secretary general, Matti Leppälä