European Pensions

Autumn 2023

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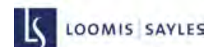

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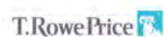

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A balancing act

Over the past 12 months I have taken a break from all things pensions to try my hand at another job. I found my new boss, however, to be a tyrant. He has demanded my attention at all hours of the day and night, causing me many a sleepless night. He does not hold back with his emotions, often screaming when he's not content with my work, or, if he's not happy with what I prepare him for lunch, he will throw it on the floor. If you haven't worked it out by now, my new boss, is in fact, my son and despite his demands, he is the apple of my eye.

I must also admit that while I have the pleasure of writing this issue's editorial comment, the hard work for this issue has been completed by our deputy editor, Jack Gray, and the rest of the team. Whilst seeing out this autumn issue of *European Pensions* it has been great to delve back into the issues facing the pensions industry and to see what progress has been made. But whilst there has been some progress, it seems that in a year there has been very little change.

Becoming a mum, however, has changed my perspective on this. I'm now used to everything taking a lot longer; getting out of the house, eating dinner, going for a walk. Moving at a slower pace is not always a negative, it allows you to take it all in and importantly get things right. Nobody wants a rush job that leads to errors; it is better to take the time and get things right. This is demonstrated in the Netherlands, which is transitioning its pension system away from defined benefit to a defined contribution style system. The deadline for schemes to complete the transition has been pushed back to 1 January 2028. We hear from Dutch fund PFZW [*page 22*] on its preparation for this.

"THE INDUSTRY STILL LACKS DATA ON DIVERSITY ON PENSION BOARDS"

However, in some areas there has been a lot of change, as demonstrated in our feature on regulation *[page 24*], which questions, rather ironically, whether too much change in rapid succession is too much for pension schemes to handle. There are also areas though where slow progress is detrimental to the industry, for example, with improving its diversity. Our feature on page 96 highlights that the industry still lacks data on diversity on pension boards. Just as I am learning to balance motherhood alongside my career, there is a balance needed in the pensions industry on issues that must be addressed imminently, and those that can be fine tuned over several years. Enjoy reading!

Natalie Tuck, Editor

European Pensions has agreements with several associations to reach their membership. For details contact john.woods@europeanpensions.net

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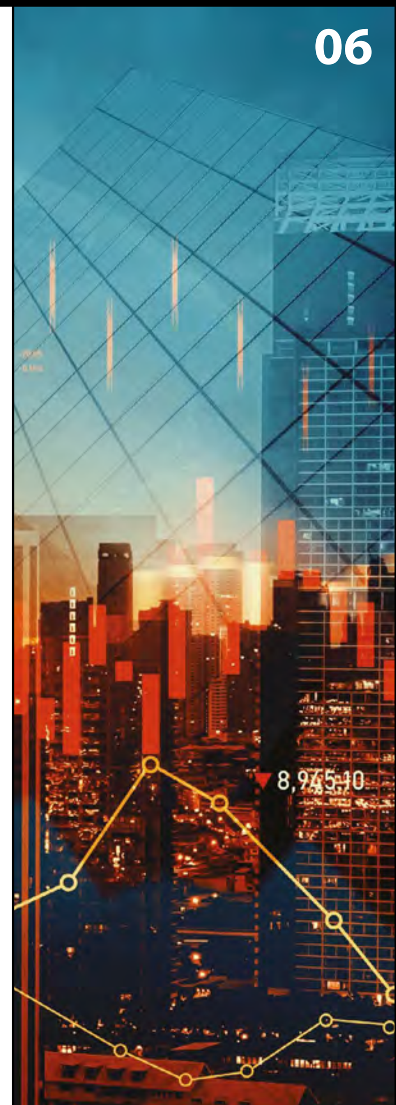

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Concerns raised over 'restrictive' regulations on European pension funds

INDUSTRY EXPERTS CALL FOR SECTOR-SPECIFIC REGULATION

Written by: Natalie Tuck and Jack Gray

Industry experts have raised concerns over the potentially restrictive regulations that are being placed on European pension schemes, with some calling for sector-specific regulation.

The OECD, for instance, warned that quantitative restrictions on pension investments in the European Union "may currently be too restrictive" to allow pension funds to support the green transition.

In its latest *Economic Survey of the European Union and Economic Area,* the OECD noted that many EU countries have quantitative restrictions on pension funds in place that limit investment in private equity and venture capital.

"Existing restrictions reduce funding options for start-ups. Limited financing contributes to slowing the development and commercialisation of new technologies. A particular concern is low funding for the scale-up of innovative start-ups. Prudent regulations are important to protect pensioners' contributions," the report noted.

The OECD believes that easing quantitative restrictions on pension funds could unleash investment in green technologies. However, it acknowledged that there are risks associated with relaxing the rules and, therefore, safeguards and appropriate investment regulations will need to be in place.

"In the longer term, bolstering capital markets could be achieved through a stronger take-up of capital-funded pensions. This could entail auto-enrolment in occupational pension schemes, although this is under the responsibility of EU countries," the OECD stated.

The report found that European economic recovery has been disrupted by Russia's war against Ukraine, which has driven energy and food prices higher and curbed the post-pandemic rebound.

The report projects growth will pick up gradually, from 0.9 per cent in 2023 to 1.5 per cent in 2024, with inflation expected to decrease to 5.8 per cent in 2023 and 3.2 per cent in 2024, but to remain above the European Central Bank's 2 per cent target.

The report said that a stronger and deeper Single Market can help Europe boost growth and innovation while fostering structural change. Priorities should include renewed efforts to ensure a level playing field, through a consistent and evenly applied state aid framework, as well as a re-direction of EU resources towards support for green R&D, innovation and early-stage support.

Achieving climate change objectives – notably the net-zero target by 2050 – will require an acceleration of emission reductions, according to the OECD. More action is needed across all sectors, but particularly in sectors not covered by emission trading, notably agriculture, buildings and transport.

"An important element of the green transition is affordable and secure energy, which requires more integrated electricity markets. Deeper capital markets could support the development of new clean technologies, while improving labour mobility and skills will help to reduce transition costs," the report said.

Similar concerns have been seen across the broader industry, as PensionsEurope CEO, Matti Leppälä, recently said that many European pension funds would like to have more tailor-made, sectoral regulations amid increasing amounts of regulation for financial institutions bringing pension funds into scope.

Speaking at the European Pensions Conference 2023,

Leppälä stated that there were big political policy agendas that will lead to legislation that is also applicable to pension funds.

He pointed to the upcoming revision of the Sustainable Finance Disclosure Regulation (SFDR), the ongoing debates about the Corporate Sustainability Due Diligence Directive (CSDDD), ESG rating, and greenwashing issues as examples.

"Looking at these really big policy issues, the digital agenda, the green transition agenda, and everything that comes down as regulation; what is really challenging for pension funds is the fact that we are increasingly in scope of all of this horizontal legislation," he stated. "Many pension funds would like to have their own sectoral legislation. But this is not the case. Everything is relevant to financial services, and pension funds are seen as financial services. It's really difficult to get out of this, or even to have specific, tailor-made rules for pension funds."

Leppälä also acknowledged that there is a lot of frustration amongst the financial services industry with the amount of regulation that has been put in place and is being prepared.

"We and other trade associations going to next year's election will again argue that there is too much regulation, it's harmful and it's not consistent etc.," he added. "But this machine keeps coming up with new regulation."

"What is really challenging for pension funds is that we are increasingly in scope of all of this horizontal legislation"

The European Association of Paritarian Institutions (AEIP) also warned against additional regulatory burden for pension funds in any new developments of the SFDR.

In its response to the European Supervisory Authorities' (ESA) consultation on the SFDR review, the AEIP said that while it was broadly supportive and acknowledged the significance of SFDR reporting, any additional regulatory burden could have a negative impact on pension entitlements.

The association said it appreciated the opportunity to provide input to the review and emphasised that its members were strongly committed, and support socially and environmentally responsible business practices to combat adverse impacts on human rights, society, the environment, and climate. However, the group also raised concerns.

"Ensuring the availability of high-quality data is paramount prior to developing any new mandatory social indicators or making adjustments to existing ones," commented AEIP executive director, Simone Miotto. "Specifically, we have reservations regarding the provider's ability to promptly furnish the necessary data. Moreover, given the data quality challenges encountered by pension funds in principal adverse impacts reporting, we advise against introducing additional indicators at this juncture."

News in brief

■ The volume of assets in the individual pension system in **Spain** increased by €974m to €84.9bn in July 2023, data from Inverco has shown. The firm attributed the rise in individual pension assets to the positive returns experienced during the month. This is the fifth month in a row that individual pension assets have increased in Spain. The data also revealed that returns in the medium to long term on schemes with a long-term time horizon also remained positive.

■ The Pensions Regulator (TPR) in the **UK** has reiterated its climate expectations for pension scheme trustees, emphasising that while trustees don't need to be climate experts, they do need to be able to challenge their advisers and climate scenario analysis. TPR also previously said it "recognises and shares" concerns that some climate scenarios may show impacts that seem at odds with established science.

■ **Dutch** fund Pensioenfonds Zorg and Welzijn is broadening its indexation policy to better help its members in the face of persistently high inflation.
The fund said it is aware that its members, in the healthcare and welfare sectors, were struggling with the cost-of-living crisis.

■ People in **Denmark** retiring early using their own wealth is a "limited phenomenon", despite concerns that large numbers were withdrawing early from the labour market, Forsikring & Pension has said. According to the data, 8,000 Danes between the ages of 60 and 66 years and six months 'self-retired' in 2021, the majority of which were in traditionally wealthy municipalities.

Dutch Future Pensions Act passed into law despite delays

THE DUTCH GOVERNMENT LAUNCHED AN AWARENESS CAMPAIGN AFTER THE FUTURE PENSIONS ACT PASSED THROUGH PARLIAMENT

Written by: Jack Gray

The Future Pensions Act in the Netherlands became law on Saturday 1 July, with schemes now on a countdown to be ready to transition to the new system by 2028.

Under the reforms, the pension system in the Netherlands will shift focus from DB pensions to DC pensions.

Pension funds in the Netherlands need to decide on what their new scheme will look like, its contribution levels, whether accrued pensions will be transferred to the new scheme, or whether they will transition to the new system at all or wind up and consolidate.

Other aspects of the reforms include updated communication regulations, and rules designed to make the system more sustainable and better suited to the current labour market.

Dutch policymakers had been negotiating the details of the act for several years and finally came to an agreement earlier this year, when the bill achieved a majority in both the House of Representatives and the Senate.

Initially, the deadline for pension funds to transition to the new system was set as 1 January 2027, but this was moved back to 1 January 2028 in the latter stages of discussions.

While the deadline has been set at 2028, some funds plan to transition to the new system earlier. For example, PMT has announced that it wants to have transitioned by 1 January 2026, while APG is aiming for 1 January 2027.

Pension funds have warned that there is a lot of work to be done behind the scenes to get ready for the full transition in five years' time, emphasising the need to begin work as soon as possible.

The Dutch Pension Federation also called on pension funds to get started with preparations for the act following improvements in funding levels.

The federation noted that, despite the collapse of the government earlier this month, pension funds assumed that this will not result in any further delays.

Efforts are also underway to improve public awareness of the reforms, as the Dutch government also launched a national campaign aimed at increasing awareness of the new pension rules.

The government said it hopes that its new campaign will help the Dutch public understand what will be changing and what will stay the same.

The campaign, which began on 21 August, will encompass television, radio and social media, with videos and social media posts planned. This media output will aim to explain the new rules in language that's easy to understand, while more extensive information on the new rules can be found on the 'pension clarity' website.

Commenting on the campaign, the Dutch Ministry of Social Affairs and Employment said: "The rules for retirement are changing, because we want everyone to be able to receive a pension in the future.

"The pension rules worked well for years, but that is changing. That is why the unions, employers and the government have jointly drawn up new rules for pensions.

"Because we want everyone in the Netherlands to receive a good pension, including future generations."

Finnish earnings-related pension index set to grow amid saver concerns

THE FINNISH EARNINGS-RELATED PENSION INDEX IS LIKELY TO GROW "SLIGHTLY MORE" THAN THE WAGE COEFFICIENT IN 2024

Written by: Jack Gray and Natalie Tuck

The Finnish earnings-related pension index is likely to grow "slightly more" than the wage coefficient in 2024, the Finnish Centre for Pensions (ETK) has forecast.

As a result, a person who retires on an earnings-related pension before the end of 2023 may receive a slightly higher index increment than a person who retires after the turn of the year.

The effect is similar for the partial old-age pension, ETK noted. There are two indexes that affect earnings-related pensions: The earnings-related pension index and the wage coefficient.

The aim of the earnings-related pension index is to retain the purchasing power of pensions in payment, while the wage coefficient affects starting pensions and brings the pensioner's career earnings up to the level of the year of retirement.

ETK noted that the significance of the indexes varies per person depending on, among other things, working life, employment state and already accrued pension.

ETK economist, Timopekka Hakola, explained that delaying retirement was financially more profitable than hunting for benefits and indexes, as postponing retirement increases the earnings-related pension via the increment for late retirement and pensions continue to accrue during employment.

While last year's earnings-related pension index was "exceptional", Hakola did not believe this year's index was going to be on the same level.

"Last year, the gap between the earnings-related pension index and the wage coefficient was 3 percentage points," Hakola continued.

"This year, it will be much narrower. It would appear to remain at less than one percentage point.

"In light of the economic outlook, wage trends are narrowing the rising consumer prices."

However, Finnish savers have raised concerns over pensions adequacy, with research from Elo revealing that 26 per cent of Finnish pensioners say their pension is not enough to live on, which is why they are drawn to work in retirement.

The survey of 1,205 pension recipients in August looked at the motivation for Finnish retirees seeking employment. Twenty-seven per cent said the labour shortage and the opportunity to help alleviate it affected their willingness to continue working. For those working in health and social services this figured increased to 41 per cent.

In addition to this, previous research from ETK found that the proportion of Finnish people that trust the country's pension system fell by 6 percentage points year-on-year to 66 per cent in 2023.

ETK said trust "remained high", and nearly two-thirds (63 per cent) felt pension assets were being managed responsibly.

However, less than half (47 per cent) were confident that pensions would be able to be paid in the future and more than half (52 per cent) felt that younger generations were forced to pay too big a share of future pensions.

"A broader sense of insecurity about the future and the economic development, rising prices and interest rates as well as the fluctuations of the financial market are all probably reflected in how people trust the pension system," said ETK economist, Sanna Tenhunen.

However, less than half (45 per cent) of the respondents felt they had a good or relatively good understanding of pensions, while less than a third (30 per cent) believed they had a poor or fairly poor understanding.

World's pension funds record largest fall in assets since 2008

THE WORLD'S 300 LARGEST PENSION FUNDS' ASSETS RECORDED THE SHARPEST FALL IN ASSETS SINCE 2008

Written by: Sophie Smith

The world's 300 largest pension funds' assets suffered a 13 per cent correction in 2022, research from the Thinking Ahead Institute has revealed, recording the largest fall in assets in 20 years, and the first annual drop since 2018.

The research revealed that the combined assets of the world's top 300 pension funds decreased by 12.9 per cent by the end of 2022, totalling USD 20.6trn.

This represented a "sharp correction" compared to the 8.9 per cent increase in the previous year, when assets under management reached USD 23.6trn.

It also marks the largest fall in asset values in the 20 years of the study, surpassing the 12.6 per cent annual fall previously recorded in 2008.

The report also showed that while sovereign wealth funds' assets grew by 13.9 per cent during 2022, this compared to a 10.6 per cent fall for the sovereign pension funds in the Thinking Ahead Institute's top 300 global pensions study.

In 2022, sovereign and public sector pension funds accounted for 152 funds in the top 300, representing 70.9 per cent of total assets. Sovereign pension funds accounted for USD 6.2trn in assets, while sovereign wealth funds (SWF) totalled USD 11.6trn.

In particular, the UK and Japan saw the largest number of pension funds fall out of the top 300 globally, with the UK gilts crisis of September 2022 and the ensuing market instability highlighted as "significant contributing factors", as is the continuing shift from defined benefit (DB) pensions to smaller defined contribution (DC) plans.

Despite this, the Government Pension Investment Fund of Japan (GPIF) remained the very largest pension fund, leading the table with assets under management of USD 1.4trn. It has ranked top since 2002.

More broadly, the report also showed that despite the 2022 correction, compared to all pension funds of any size, the world's largest 300 pension funds now represent 43 per cent of the global pension assets, up from 41.1 per cent in 2021.

Regionally, North America now accounts for 45.6 per cent of assets in the world's 300 largest pension funds, while European pension funds account for 24.1 per cent and Asia-Pacific 26.4 per cent.

Looking at the very largest, the report pointed out that assets of the top 20 pension funds decreased by 11.8 per cent in the last year, a slight improvement compared to the 12.9 per cent downturn observed within the top 300 funds overall.

However, Thinking Ahead Institute director, Jessica Gao, clarified that while market performance has improved from 2022 to 2023, "a high degree of caution" is still needed.

She stated: "Pensions schemes are operating in a new environment, where conditions are changing faster and faster each day. Asset owners are increasingly influenced by technological advancements and the rise of artificial intelligence. Balancing the need to catch up with asset managers' AI-driven insights while retaining control over their investment mandates underscores the critical role of effective collaboration and strategic adaptation for AOs."

Norwegian govt reaches agreement on public sector pension rules

FOLLOWING INITIAL TALKS IN JUNE, THE NORWEGIAN GOVERNMENT HAS AGREED NEW PENSION RULES ON SPECIAL AGE LIMITS

Written by: Natalie Tuck and Sophie Smith

The Norwegian government and the parties in the public sector have reached an agreement on the pension rules for those with special age limits.

Commenting on the agreement, Norwegian Minister for Employment and Inclusion, Marte Mjøs Persen, said: "Both the government and the parties have gone to great lengths to reach an agreement. I am proud of the work we have done together and the agreement we have reached."

The agreement, which will apply to over 200,000 workers, acknowledges that although people are living longer, so must work longer, for some occupations, it is necessary to retire earlier.

The deal will cover all public servants born in 1963 or later.

However, further details as to which occupational groups it will cover and what age limits will apply are still to follow.

The current compulsory retirement age limit in Norway is 70 but for some professions this is lower and is known as the special age limit.

Special age limits are in place for occupations that place significant mental or physical demands on the person, which are weakened by age.

Currently the police, firefighters and defence personnel (60 years), correctional services (63 years), and health personnel (65 years) have special age limits.

Around 10-15 per cent of employees in the state, 30 per cent in the municipalities and 50 per cent in the health institutions have a special age limit. Altogether, this amounts to over 200,000 public employees, representing one third of public employees.

Talks began in June this year and included the government, KS, Spekter, LO, Unio, the Academics and YS.

The background for the talks was the new public service pension, which applies to all public servants born in 1963 or later.

The agreement must now be incorporated into legislation, with clarification on the specific rules. The deadline for this process is 1 July 2024.

"The agreement is a long-term and good solution. It ensures the pension level of large groups of public employees and a socially sustainable pension system," Mjøs Persen stated.

"Employees who today have special age limits constitute labour and expertise that will be important for the public sector in the future. The government's aim with this work is for the public sector to make greater use of the expertise possessed by people who today have special age limits."

Norwegian pension schemes have already begun to get to grips with the changes, with Norwegian Public Service Pension Fund (SPK), for instance, recently confirming that it is "in the process of familiarising itself with the agreement in order to clarify all the details, so that it can put correct information into its forecasting tools".

This follows on from the latest review from the Financial Supervisory Authority of Norway, which revealed improved profit before tax for life insurance companies and pension funds. The report found that positive developments in the stock markets contributed to a positive return and positive results in the first half of 2023.

According to the report, pension funds' value-adjusted return in the collective portfolio was 10.6 per cent, up from -12.5 per cent in the first half of 2022.

Stronger legislative pension framework needed in Iceland, IMF says

THE IMF SAID THE COUNTRY SHOULD FOCUS ON GOVERNANCE, INTERNAL CONTROLS AND OUTSOURCING

Written by: Sophie Smith

The legislative framework for Icelandic pension funds should be strengthened, with particular improvements needed on governance, internal controls and outsourcing, a review from the International Monetary Fund (IMF) has said.

The analysis was shared as part of the IMF's 2023 Financial Sector Assessment Programme (FSAP), which included a specific review of the regulatory and supervisory regime for pension funds.

This revealed that whilst the Icelandic financial system remains resilient, there is room for improvement, with particular concerns around the governance, given pension funds' "systemic importance".

The Central Bank of Iceland took over the tasks of the Financial Supervisory Authority (FSA) as of January 2020, taking responsibility for almost the entire Icelandic financial services sector.

However, FSAP's review suggested that resources for pension fund supervision at the FSA have since been stretched, giving rise to key person risks.

It also pointed out that the Ministry of Finance and Economic Affairs continues to perform certain important supervisory tasks, such as authorising new pension funds, which recently resulted in some delays and inefficiencies.

In light of these issues, the FSAP argued that the governance and internal controls framework for pension funds is not aligned with the systemic role of the sector. It also warned that the underlying rules in the Pension Fund Act pre-date the corresponding provisions for other financial sectors.

For instance, the IMF pointed out that the Pension Fund Act is silent on board nomination processes and only defines risk management and internal audit as control functions, but not the actuarial function or the compliance function.

The review also raised specific outsourcing concerns. It noted that the use of outsourcing, including for internal control functions, is quite common in the Icelandic pension market. This is especially true among smaller funds that in some cases outsource all operations to outside parties.

Whilst the review acknowledged that the FSA issues non-binding guidelines and letters to mitigate some shortcomings of the Pension Fund Act, it acknowledged that it can occasionally face resistance from supervised entities, which argue that the FSA's measures are not founded by any requirements in the act.

Outsourcing was not the only structural risk identified in the review, as the FSAP also suggested that there are risks that need to be addressed relating to the scarcity of actuarial resources, and climate risk management.

Given the concerns raised in the review, the IMF recommended a strengthening of the legislative framework, especially regarding governance, internal controls and outsourcing. As part of this, it argued that all supervisory tasks and technical rule-making powers should be allocated to the FSA, and infringements and sanctions should be defined within the Pension Fund Act.

It also suggested that the FSA should conduct more frequent on-site inspections and re-establish the institutionalised dialogue with large pension funds to improve supervisory practices.

In addition to this, it recommended that the FSA issues guidance on how to adjust member benefits based on principles of intergenerational fairness, and engage more closely with pension funds on climate risk management.

Italian pension funds partially recover following positive returns

ITALIAN PENSION SCHEMES' ASSETS UNDER MANAGEMENT INCREASED TO €214BN IN JUNE 2023, DATA FROM THE ITALIAN PENSION FUND SUPERVISORY COMMISSION, COVIP, HAS REVEALED

Written by: Sophie Smith

Italian pension schemes' assets under management (AUM) increased to €214bn in June 2023, up from €205bn in December 2022, data from the Italian pension fund supervisory commission, Covip, has revealed.

The update showed that many schemes were able to partially recover the capital account losses recognised in 2022, after all types of pension schemes recorded positive returns in H1 2023, particularly those with greater equity exposure.

In particular, the update showed that AUM in traded pension funds totalled €64.4bn, while AUM for open pension funds rose to €30.3bn at the end of H2 2023, and to €47.3bn for life insurance contracts.

Those with greater equity exposure fared particularly well, as equity segments delivered average gains of 6 per cent in traded funds, 7.6 per cent in open funds and 7.2 per cent in life insurance contracts.

The update also revealed an increase in members, with 500,000 members in supplementary pension schemes at the end of June 2023, 2 per cent more than the end of 2022.

Traded funds saw particular growth, as the update showed that

there were 3.9 million members in traded funds, marking a 3.2 per cent increase on the end of 2022. The largest increases were seen in construction, after a new requirement for a minimum contribution to be paid by the employer was introduced.

ESAs' Joint Board of Appeal dismisses appeal against EIOPA

THE JOINT ADVISORY BOARD OF APPEAL OF THE EUROPEAN SUPERVISORY AUTHORITIES HAS DISMISSED AN APPEAL AGAINST THE EUROPEAN INSURANCE AND OCCUPATIONAL PENSIONS AUTHORITY

Written by: Jack Gray

The Joint Advisory Board of Appeal of the European Supervisory Authorities (ESAs) has dismissed an appeal from Euroins Insurance Group AD against the European Insurance and Occupational Pensions Authority (EIOPA).

The board unanimously decided that the appeal from the Romanian insurance company was inadmissible.

Euroins' appeal was submitted in relation to an EIOPA report that assessed the valuation of Euroins' technical provisions.

The insurance group requested that the Board of Appeal annulled the EIOPA report as it believed EIOPA had acted in excess of its regulatory powers and infringed Euroins Romania's rights, as well as the principles of proportionality, independence, objectivity and transparency.

However, the Board of Appeal found that EIOPA's report did not have a legally binding effect on national authorities and therefore could not be challenged.

Furthermore, the board concluded that Euroins had the right to challenge the decisions of national authorities that were adopted on the basis of the EIOPA report in front of national courts.

In its decision, the board stated: "It must be concluded that the EIOPA report does not constitute a challengeable act... That conclusion is not called into question by the arguments put forward by Euroins invoking its right to an effective remedy as enshrined in Articles 6 and 13 of the European Convention for the Protection of Human Rights and Fundamental Freedoms."

News in brief

■ The **Australian** Prudential Regulation Authority (Apra) has released findings of a review into the governance practices followed by registrable superannuation entity (RSE) licensees that were invested in the private equity technology company, Canva Pty. The review found the majority of RSE licensees' governance practices related to their valuation of Canva appropriate, although there were areas of improvement that Apra aims to address through its supervision activities.

■ The **US** Pension Risk Transfer market is on track for another record year, analysis from Legal & General suggested. The *Global Pension Risk Transfer Monitor* showed that last year's record momentum for US penson risk transfer transactions continued in the first half of 2023, with an estimated USD 22bn in total transaction volume through June, exceeding the high-water mark set last spring by 31 per cent.

■ The world's largest asset managers are far off track meeting their 2050 net-zero targets, a study by FinanceMap has found. Its analysis showed that the majority of the largest asset managers had not improved their climate performance over the past two years.

■ Superannuation is expected to play a greater role in funding **Australian** retirements, a report from the government has revealed, with spending on age and service pensions projected to fall as a share of GDP by 2062–63. However, the cost of superannuation concessions will increase, driven by earnings on the larger superannuation balances held by Australians.

Australian superfunds put to the test

THE AUSTRALIAN PRUDENTIAL REGULATION AUTHORITY HAS SHARED THE RESULTS OF ITS 2023 SUPERANNUATION TEST

Written by: Sophie Smith

The Australian Prudential Regulation Authority (Apra) has completed its 2023 superannuation performance test, revealing that 96 trustee-directed products failed to meet the test benchmarks.

The review found that 75 per cent of failed trustee-directed products were concentrated in products offered by just four trustees: N. M. Superannuation Proprietary, Nulis Nominees (Australia), Oasis Fund Management, and OnePath Custodians.

There were some improvements, as only one MySuper product failed to meet the required benchmarks, compared with five failed products in 2022 and 13 in 2021.

This marked the third consecutive year that this product – AMG MySuper – failed the test. However, Apra confirmed that the product has been closed to new members since 2022 and the trustee has plans to cease this product.

Trustees of products that failed to pass the benchmarks must notify their members by 28 September 2023. Trustees also cannot accept new members into products that have failed for two consecutive years. Trustee-directed products are multi-asset products where the trustee has control over the design of the investment strategy.

State of US public pensions revealed

RESEARCH SUGGESTS 'FRAGILE' STATE OF PUBLIC PENSIONS IN US

Written by: Sophie Smith

Concerns have been raised over the funding status of state and local pension plans in the United States, after a report from the Equitable Institute revealed that, even with supplemental contributions made during budget surplus years, only a few pension plans have a resilient funded status as of 2023.

The report showed preliminary 2023 investment returns were 5.3 per cent on average for state and local plans, with most likely to miss their assumed rates of return.

Furthermore, whilst the weighted average funded ratio for each state highly varied in 2022, almost every state looked worse than in 2021, due to investment losses.

However, the report clarified that it's likely that the funded ratio for most states in 2023 will be in better condition than the end of 2019, as market volatility previously saw most plans' funded ratios decline between 2019 and 2020.

Diary dates 2023

The latest events occurring across the European pensions market

IRISH PENSIONS AWARDS
2 November 2023
5* Shelbourne Hotel Dublin
Now in their 12th successful year, the Irish Pensions Awards continue to go from strength to strength, aiming to give well-deserved recognition to those pension funds, pension providers, advisers and pension professionals who strive to maintain the highest standards of excellence and professionalism in everything they do, despite the challenging economic and political landscape they find themselves operating in. The shortlist has been announced, with the winners to be announced at a prestigious gala dinner in November.
europeanpensions.net/irishawards

INSURANCE ASSET MANAGEMENT AWARDS 2023
23 November 2023
Waldorf Hilton, London
Now in their seventh exciting year, the Insurance Asset Management Awards are designed to recognise outstanding achievement in the UK and global insurance investment space among insurance companies, providers and individuals. Categories include insurance company of the year, ESG investment strategy of the year, and a diversity award. Winners will be revealed at the prestigious awards night, with table bookings for the night now open.
insuranceassetmanagement.net/awards/

PENSIONS AGE AWARDS 2024
21 February 2024
Great Room, Grosvenor House, Park Lane, London
The 11th Pensions Age Awards aim to reward both the pension schemes and the pension providers across the UK that have proved themselves worthy of recognition in these increasingly challenging economic times. The awards are open to any UK pension scheme or provider firm that serves pension schemes in the UK, with over 30 categories for pension providers and organisations to choose from. Ahead of the prestigious gala dinner in 2024, the deadline for entries is 1 November 2023.
pensionsage.com/awards

Not to miss...

PENSIONSEUROPE CEEC FORUM 2023
10 October 2023
Sofia, Bulgaria
www.pensionseurope.eu/ceec-forum-2023-1

PLSA ANNUAL CONFERENCE 2023
17-19 October 2023
Manchester Central, Manchester
plsa.co.uk/events

CBBA-EUROPE ANNUAL CONFERENCE
15 November 2023
Brussels
https://www.cbba-europe.eu/eventlist

IAPF WINTER CONFERENCE
21-23 November 2023
Online
iapf.ie/events

Appointments

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 jack.gray@perspectivepublishing.com

KIM KEHLET JOHANSEN

Danish pension company Velliv has named Kim Kehlet Johansen as its new CEO. Johansen joins from Danish pension company ATP, where he was CEO and chief risk officer. Prior to joining ATP, Johansen had been chief risk officer at Danica Pension, and was chief mathematical officer and chief actuarial officer at SEB Pension until Danica Pension acquired SEB Pension.

GABRIEL LUNDSTRÖM

Skandia has announced the appointment of Gabriel Lundström as its new head of sustainability. He joins after 10 years at SEB, where he was head of environmental, social and governance (ESG). He is also chairman of the UN initiative Global Compact's Swedish operation and has sat on Swesif's board for four years. He will report to the head of asset management, where the sustainability department is located.

NIENKE MEIJER

Achmea has appointed Nienke Meijer to its supervisory board. Meijer was appointed for a period of four years, filling the vacancy created after Lineke Sneller stood down in April. Meijer is also a co-founder and partner of Stichting De Buitenboordmotor, a member of the supervisory boards of PostNL and Deloitte and chair of the board of Stichting De Volkskrant. The appointment has been approved by the Dutch central bank (DNB).

MAGNUS TELL

Sweden's Alecta has appointed Magnus Tell as its new equity manager with responsibility for equity analysis and equity management. Tell joins from Sweden's AP3 where he is currently head of equities. He has also held roles at ABG Sundal Collier, where he was responsible for the equity strategy. He has also been manager and strategy manager at Deutsche Bank and Arrowgrass Capital Partners in London and New York.

ANNE KOCK-DE KREUK

Anne Kock-de Kreuk has been appointed to the board of Pensioenfonds PGB. Kock-de Kreuk has been active in the financial world for a long time, specialising in socially responsible investments, risk management and governance around asset management. Prior to joining PGB, she worked at the Dutch central bank (De Nederlandsche Bank). She is also a member of the PGB balance sheet management committee.

MORTEN WINTHER HANSEN

Denmark's PFA has appointed Morten Winther Hansen as COO. Hansen, who has worked at PFA for 25 years, will be responsible for operations and development. Having initially joined as a student assistant at PFA, he now joins the group's management, becoming COO with responsibility for operations and development. This follows the news that Peder Hasslev, who has been on PFA's board since 2017, was stepping down to join Alecta.

HANNA KASKELA

Finnish pension company Varma has announced the appointment of Hanna Kaskela as director, responsible for responsibility and communications. As part of the appointment, Kaskela will also become a member of Varma's management team, reporting to CEO Risto Murro. Kaskela has worked at Varma since 2003, having previously acted as responsibility director, portfolio manager and responsible investment manager.

PABLO BERNENGO

Swedish pension company Alecta has appointed Pablo Bernengo as head of asset management as part of its personnel changes following losses after the collapse of three American banks. Bernengo, who was head of asset management at AP3 at the time of his appointment, will take up his new position at Alecta no later than 7 January 2024. Prior to working at AP3, Bernengo was CEO and head of asset management at Öhman Fonder.

MALIN OMBERG

Swedish pension company AMF has appointed Malin Omberg as its new vice president. She will hold the position in parallel with her current role of chief of staff. Omberg initally took over as AMF's chief of staff in October 2022. Prior to this, she held several senior positions at the Swedish Financial Supervisory Authority, as well as head of schemes and regulation in relation to payments at Swedbank.

KÅRE HAHN MICHELSEN

Danish pension fund P+ has appointed Kåre Hahn Michelsen as its new managing director. Michelsen, who will also join the executive board, will take over the role following Søren Kolbye Sørensen's departure at the end of September. Currently P+ director of investment, Michelsen is already fit and proper approved by the Danish Financial Supervisory Authority.

TAINA ERKKILÄ

Finnish occupational pension company Elo has named Taina Erkkilä as communications manager. She joins from Solwers Oyj, where she was the communications director responsible for the listed company's communications, brand and investor relations and served as a member of the management team. Erkkilä also has experience in communication management at Fortum, Huhtamäki, Pihlajalinna and Nissan.

COUNTRY SPOTLIGHT | SWEDEN

Re-building bridges

Sophie Smith **looks at the affects of recent market volatility on trust in the Swedish pension system, and the lessons to be learnt for the broader pensions industry**

WRITTEN BY
SOPHIE SMITH

Sweden's pension system is often touted as a global example of excellence, frequently featuring in the Mercer CFA Institute *Global Pension Index* top 10.

Yet recent market volatility has shaken faith in the system, after the US banking crisis saw pension fund losses dominating headlines.

Swedish pension company, Alecta, was particularly thrown into the spotlight, after losing SEK 19.6 billion on its investments in Silicon Valley Bank (SVB), Signature Bank, and Silvergate, after the three small- to mid-size U.S. banks failed in the course of five days in March.

The scheme admitted that the lost value in the American banks would affect the pensions of its customers "to a small extent", with ITP customers with a DC pension to see a "small" impact.

However, Alecta was quick to reassure savers that its financial position remained strong, with a solvency ratio of 209 per cent as of end of June 2023. The latest accounts revealed that, despite the losses, Alecta Optimal Pension's return was 6.6 per cent in H1 2023, up from -12.7 per cent in the first half of 2022.

Savers' trust in the fund presented a more pressing concern though, as Alecta conceded that while the failed investments did not have a noticeable impact on its financial position, they had damaged trust.

"The losses in the three American banks account for a small part of Alecta's capital and the impact on the customers' pensions is very limited," then Alecta CEO, Magnus Billing commented. "But it has seriously damaged the customers' trust in Alecta... It is now up to us to prove that we deserve their trust again."

"PEOPLE WILL REMEMBER THE LOSSES IN THE THREE NICHE BANKS AND THAT THE CEO HAD TO LEAVE, NOT THAT ALECTA'S OVERALL INVESTMENT PERFORMANCE WAS BETTER THAN ITS PEERS"

Cutting through the headlines

Indeed, Now Pensions head of DC design, Stefan Lundbergh, says that the crisis will have also likely contributed to the erosion of the public's trust in the Swedish pension system, suggesting that international headlines around the issue will have heightened member concerns.

"Media was effective in producing numerous articles about the losses and putting pressure on Alecta, but when the Q1 comparison was released, there was limited interest from media. This is not surprising since an article about a crisis gets more clicks than one about good news," he states. "As a consequence, most people will remember the losses in the three niche banks and that the CEO had to leave, not that Alecta's overall investment performance was better than its peers during this period."

However, AP7 head of ESG and communications, Johan Florén, suggests that savers will see through these headlines once the dust settles, arguing that "the Alecta incident will not have a long-term effect on trust in the Swedish pension system, given the reassurance that the fund has since been able to share".

"Even though circumstances implied the problem was very serious, I think it was over dramatised from a financial perspective," he continues. "They had a concentrated portfolio and large AUM. If any holding gets serious problems the impact will be substantial in terms of money. That comes with the strategy, which doesn't have to be wrong in itself."

This is echoed by AP4 head of sustainability, finance and communication, Tobias Fransson, who says that there have not been any negative effects relating to the general trust in the pension system.

And the public pension system in particular, according to Fransson, has delivered over time and is stronger than ever.

Most funds in the industry have not reported a rise in queries after the incident, either, suggesting that savers have not been pushed so far as to take action.

Despite this, AMF head of asset management, Tomas Flodén, emphasises that it is "of course important that we as an industry do what we can to safeguard the general public trust in our ability to deliver good pensions, not least during financially challenging times".

And work to tackle this is underway, and since Alecta announced the losses, its management and board have worked to isolate the losses and work through the processes within asset management to understand how the situation arose.

Rebuilding and reassuring

This included the departure of the group's CEO, Magnus Billing, who has since been succeeded by Peder Hasslev. The group also appointed Magnus Tell as its new equity manager, while Pablo Bernengo was appointed as its head of asset management.

Changes were also made within the administration, including a reduction of the risk with high ownership stakes in individual companies far from Sweden, with a focus on concentration in the American holdings.

A strategic review of its asset management also identified a number of further "lessons learned from what happened in March 2023", with the group confirming that its active management will have a downwardly adjusted risk, with an increased number of companies and lower ownership shares in companies outside the Nordics.

"Confidence in Alecta has been negatively affected by the losses in the American banks in March," said Alecta board chair, Ingrid Bonde. "With these proposals for changes, we learn from the spring's events, adapt the model to higher volumes and lay the foundation for continued high returns and adapted risk for our different categories of customers."

Lessons to be learnt

Alecta was not the only pension organisation to have invested in SVB, however, with Norway's Government Pension Fund Global reportedly holding around NOK 1.7 billion in the American Bank.

And the case could serve as an example for other schemes and

countries, as Lundbergh highlights the crisis as "a failure in practical governance".

"Running a concentrated equity portfolio is nothing new," he continues. "Carefully implemented, such portfolio should beat the broad market indices, but when an individual holding ends up in trouble, or even goes bankrupt, it results in a performance dent.

"The practical governance failure was that the non-executives did not have a plan for how to act in the case that their equity strategy would face a serious headwind. Being caught unprepared, forced the board to think on their feet and make 'forceful' decisions in the heat of the situation. This is not an ideal context for making informed decisions."

Taking stock

The incident has yet to prompt many funds to make changes. However, Fransson says that AP4 bases its allocation decisions on its long-term asset liability management study and its view on medium-term macro and market trends. "How Alecta manages its assets does not affect how we make allocation decisions," he says.

Adding to this, Flodén says that whilst the AMF continuously reviews its exposure and allocation, not least when specific industries or sectors suffer from challenges, the fund is "secure in the fact that we have a good spread of risk, and an allocation that is adapted to its mission".

Broader reviews are underway, however, as the Swedish Financial Supervisory Authority (FI) launched a review to investigate Alecta's risk management and, in particular, how Alecta measures the risks in various investments.

"We will now investigate whether Alecta has had control over its risks in the manner required by the regulations. Basically, it's about securing and protecting pension savers' money," said FI head of risk supervision, Ellinor Samuelsson.

And this has not been the only area highlighted by the regulator, as FI also more recently announced plans to investigate whether Alecta followed regulations on its investments in Heimstaden Bostad.

Lundbergh says the first investigation was not surprising from a behavioural perspective, stressing however, that any outcomes from the review need to be balanced and avoid making it more difficult for Swedish pension funds to pursue strategies off the beaten path.

Rather than a change in governance model, Lundbergh says it is about making sure that non-executive boards have the right tools and processes to make better informed decisions. "This requires that board members are competent, cognitively diverse and that biases, such as group think, are mitigated," he explains. "This particular crisis illustrates the importance of thinking through potential scenarios in order to be prepared when something bad happens or just asking themselves: How do we explain this to the press and public in a period of distress?"

"IT IS ABOUT MAKING SURE THAT NON-EXECUTIVE BOARDS HAVE THE RIGHT TOOLS AND PROCESSES IN PLACE"

The Swedish Fund Selection Agency (FTN), meanwhile, highlights the case as evidence of the need to focus the qualitative and quantitative evaluation of funds on the investment philosophy, investment process and risk management of the fund.

"And even more important, any inconsistencies between the processes described and past performance," an FTN spokesperson states. "This is crucial for any procurement of funds or fund management service in the pension system. Thorough evaluation needs to be done not only during the procurement phase to ensure that funds of high quality are procured, but also once selected to maintain a high quality over time."

With a new procurement process underway for premium pensions, changes are already being seen.

Despite the turmoil, a recent report from FI found that the financial position of life insurance and occupational pension undertakings is stable. With the latest update from Alecta also painting an optimistic picture for the future, savers are likely reassured that their pensions remain secure, but whether funds are prepared for the next crisis is yet to be seen.

WRITTEN BY FTN EXECUTIVE DIRECTOR, ERIK FRANSSON

FTN

Raising the bar with fund selection

The Swedish Fund Selection Agency (FTN) **shares updates on its work to deliver safer and stronger pensions for savers, and the new procurement process for premium pensions**

As part of the Swedish social security, the Swedish premium pension – a defined contribution system with assets of about €163 billion and annual inflows of about €3.4 billion – is an important part of the pension system. But since its start in the early 2000s, the premium pension fund platform has faced challenges with fraudulent managers affecting savers. The solution is a procured system, with higher requirements and monitoring of funds done by a new government authority, the Swedish Fund Selection Agency (FTN).

With the aim to create safer and higher pensions for savers, FTN will procure, monitor and quality-assure the funds in the premium pension. Governed by two new laws, amongst others, FTN will take greater responsibility for the design of the offering on the fund platform, making it suitable for the pension system, cost-effective, sustainable, high quality and ensure freedom of choice for the savers.

During the upcoming years, FTN will be amongst the largest fund selectors in the world, as approximately €83 billion worth of procurements will be conducted. The move from excluding poor-performing funds from the fund platform, to selecting funds of the highest quality, characterises FTN's fund selection and manager research philosophy. It is based on the interests of the most important stakeholder, the end saver.

Great effort has been put into designing processes for the quantitative and qualitative evaluation of tenders. In this, interpreting the concepts in the new legislation has been a highly prioritised area to design the procurement process, based on both our new legal framework as well as on industry practice.

Over the past year, FTN has built an entirely new organisation and recruited highly regarded professionals within fund management and fund selection, procurement, fund law and more. Within less than a year of operations, FTN has also launched its first global procurement: Actively managed European equity funds.

The high quality of the extensive procurement material for this first procurement is the result of the preparatory work done. Comments from the industry during two rounds of referral have also been valuable, resulting in a procurement material that is well suited for the pension system that we are proud of.

On the Swedish premium pension fund platform, requirements will be high, to allow savers to select funds of the highest quality for a great price. They must have solid investment strategies from resilient organisations, supporting a strong performance over time. Hence, being awarded a fund agreement in a procurement could be viewed as a mark of quality for fund managers.

To fulfill the legal requirement of procuring sustainable funds of high quality, sustainability is integrated into the assessment of a fund. Only article 8 or 9 reporting funds under Sustainable Finance Disclosure Regulations (SFDR) will be accepted. The new requirements go well beyond those of SFDR, and will apply to fund managers and at fund level.

Should the procured system and monitoring of the funds yield 50 bps of additional returns, this would mean around €42 more in monthly lifelong pensions for the average pensioner, equal to an amount of several billion euros needed in tax revenue to achieve the same result.

INTERVIEW

Seeking perfection

WRITTEN BY JACK GRAY

Jack Gray speaks to PFZW manager innovation & technology, Peter Bannink, and PGGM principal director business development & transition, Marc Nuijten, about the pension fund's transition to the new Dutch pension system

As the Netherlands moves to the new pension system following the passage of the Future Pensions Act, PFZW, like all pension funds in the Netherlands, is going through the process of switching from DB to DC pensions. Working with its service provider, PGGM, PFZW is aiming to complete its transition on 1 January 2026. Peter Bannink (PB) and Marc Nuijten (MN), discuss the process, the challenges and the member communications required in the transition.

Can you provide an outline of PFZW's process in switching to the new pension system?

PB: We are already two years into the process, so we are not starting from scratch. Preliminary calculations have been done, as well as setting the major programme together with our service provider.

We wanted to have a good understanding of what is changing for our participants, not only from a policy side but also a service providing side, and how to construct a tight collaborative working environment with our pension provider. Together, we defined the different requirements for the near future. That's the situation we are in now; the policies are made, so we have a good understanding of our new regulatory environment and our pension schemes. Currently, the social partners of PFZW must decide on the contract, but every bit of information that is required for them to make a sound decision in the near future is there.

Secondly, what we have done, together with PGGM, is a requirement solicitation on what participants are expecting of the new environment and what kind of information they want, because more of the risk is being transferred to the member. We must understand that the services are changing to help the participants in making their financial decisions in a broader perspective than only pensions. PGGM, with us, is constructing the different types of client services that are going to be needed. Our aim is to transfer to the new contract on 1 January 2026. It's not set in stone; it's about what is realistic and what the risks are, because we have to do it on a very sound basis and the data needs to be

ready to transfer the rights into personal capital. That type of transfer should be really robust. We are on track.

■ **MN:** At PGGM I am responsible for the transition programme to the new pension law. We have more than 200 people working on that programme, not all of them full time. The initial legal implementation deadline was 1 January 2027 and, when we began planning three years ago, we did not want to aim for the latest possible moment because you always need some flexibility. However, 2025 would have been too soon, so we decided in agreement with our clients on 2026 as a good and doable compromise. The first phase of the programme is where our clients have to make decisions about the pension scheme and other policy decisions, with which they define what we have to do as a service provider. We are getting close to the end of phase one where all the decisions of the pension funds and social partners have been made.

Another important thing in this phase is that every decision they make has consequences on the work we do, which is something our clients have to take into account. Another reason to work closely.

In the second phase we have to implement all changes following from the decisions made by our clients, including execution of the transition itself. Given the implementation time we need, we are already preparing ourselves in the first phase as much as possible. We will continue with the pension administration system we already have; we were lucky to have a system in place that was futureproof. We have to make some additions to our system, but the base of the system will stay the same. Also, data quality has to be good, because we are preparing for a conversion from the current scheme with one big asset pool to assets on a participant level. It's a one-time transition, so it has to be perfect.

How are you communicating the changes to members?

■ **MN:** We want to improve the confidence of our participants in the new pension law and scheme that is being implemented, so we must be in close communication with the participants of our clients.

■ **PB:** The trust element is important. The basis of the change of the regulations was because the trust was somewhat declining. Each time the economy went down, we tried to stabilise pensions by smoothing out towards the near future. Some schemes had to cut their pensions but there were also regulatory elements in place to smooth out the economic situation.

However, the downside was that when the economy was rising, we could not raise pensions, because we had to make sure the buffers restored. That does not build trust. People understand that when it rains we need to take measures, and when the sun shines, members expect that pensions can be raised. In the new scheme, we will stabilise the pensions to a certain extent, but they will also move with the economy.

It's all about trust; if people don't trust the pension schemes anymore then the added value of collective asset management that we provide for members is at risk and that will cost the member dearly.

We recently started the national communication to build trust via a government-campaign on radio, TV and social media; in which it is explained why there will be a new pension system in the Netherlands. Dutch pension funds should embrace that type of communication. We think that, for our transition process, in the first quarter of 2024 our communications towards our participants will increase, because we expect social partners to have decided on one of the two possible contracts by that time.

What are the biggest challenges in the process?

■ **MN:** As it is a huge transition, it takes work on a lot of different subjects like on the investment side, pension side, advisory side, and financial side, and managing all those dependencies and getting them to work in sync is a big challenge. On top of that, we also have a large stakeholder environment to work with and consider. Working on trust in the new pension system is also a big challenge.

We have a strong IT base, but IT is always a challenge. The whole market is making the transition, so everybody needs IT resources, and there is therefore a resource challenge in the transition process.

■ **PB:** I think creating trust in the new system and communicating in a transparent way are challenges. Too much detail will not create trust, but you do need to have a certain amount of detail so participants understand what is changing.

We've also seen that the economy can be a challenging factor. When the economy is good, we can show rising pensions, but when the economy is in real crisis the message is less positive. In that situation trust might go down.

■ **MN:** Not everyone in the Netherlands supports the transition, which is normal when it comes to major changes. We need to adapt to that in a positive way and give people critical towards the changes room to express themselves and communicate with them. It's easy to build trust with someone who is already positive, but it will be harder with those who have doubts on the advantage of these changes.

REGULATION

Pension funds across Europe are having to deal with a tsunami of new requirements; Jack Gray **asks whether there is too much new regulation and how the pensions industry can cope with the increased burden**

Stepping up to the challenge

WRITTEN BY **JACK GRAY**

The green transition, improved governance, digitisation, climate disclosures; the list of policy areas requiring new regulation for pension funds goes on and on. Pension funds and other institutions are having to contend with swathes of new requirements, putting additional burden on their time, finances and resources, all while the economic and geopolitical landscape fluctuates violently. While all these policy areas have commendable aims and require attention, some argue that the speed and approach governing bodies are taking is too much for pension funds to handle. Not only are pension organisations having to deal with regulations specific to them, they are also increasingly coming into scope of broader financial requirements that are less tailored to the unique nature of pension funds. This has sparked concerns from professionals across the industry and raised questions as to

whether there is too much regulation being proposed and brought into force in a short space of time.

How much is too much?

"The numerous regulations imposed over the past decade have substantially increased administrative burdens and compliance costs for pension funds," argues PensionsEurope CEO, Matti Leppälä. "This diverts resources away from investment activities.

"The pace of introducing new regulations is also very important. Too frequent changes create uncertainty and make long-term planning difficult for pension funds. In many new requirements, the implementation periods have been too short, and this is not a problem for just pension funds but also a challenge for supervisors."

The coming months and years will be pivotal for the operation and prosperity for pension funds across Europe, which are not only having to deal with new or updated EU-wide regulation, such as Sustainable Finance Disclosure Regulation (SFDR) and the Digital Operational Resilience Act (DORA), but also scheme- and country-specific policies, including the IORP II Directive, the Future Pensions Act in the Netherlands, and auto-enrolment in Ireland.

"There has indeed been a large increase in new regulation that pension funds across the EU must abide by, both coming into force and being proposed," notes Insurance & Pension Denmark deputy director, Torben Weiss Garne.

"We refer to this development as a tsunami of new regulation the industry has to adopt in the coming months and years. We are not only talking capital and reporting requirements, but especially new regulation concerning sustainability and digitalisation. Danish pension funds will meet the task ahead, but it will require a lot of work and come at a cost."

Looking at IORP II as one example, Leppälä highlights that the directive has 67 articles, compared to 27 in IORP I: "The implementation of IORP II entailed a significant financial burden for IORPs and, even though there are various reasons, the greatest threat to the survival of small IORPs is the cost burden. In some member states, the number of IORPs has already dropped by 25 per cent since the introduction of IORP II."

However, while PME Pensioenfonds senior strategic responsible investing, Daan Spaargaren, concedes the industry is having to deal with a lot of requirements and legislation, he argues that this is a signal that the pension industry is behind on what it needs to do, especially in world of sustainable investment.

"It is a corrective measure to make sure we bring our investments in line with what society asks," he continues. "Because, in the end, national governments and the EU are putting the legislation on our plate.

"If you look at SFDR, for example, it is aimed at making our investments more transparent and to be more transparent on how we invest sustainably. In that sense, this piece of legislation is primarily important for pension funds because we have a direct responsibility towards our ultimate beneficiaries, the participants, and the pensioners of the fund."

"THE NUMEROUS REGULATIONS IMPOSED OVER THE PAST DECADE HAVE SUBSTANTIALLY INCREASED ADMINISTRATIVE BURDENS AND COMPLIANCE COSTS FOR PENSION FUNDS"

Horizontal regulation

One of the key concerns about the level of new regulation is the amount that is focused on the wider financial sector, rather than pension fund-specific requirements. Pension fund trustees and managers are having to get to grips with policy areas they may not be familiar with, adding to the workload and resource burden that was already becoming an issue, as Leppälä explains: "In addition to increased regulation resulting from IORP II the number of European legislations that applies to pension funds keeps growing.

"On DORA, there are many ongoing consultations on the legislation that is crucial for the implementation of this legislation and what the actual impact on pension funds will be.

"These legislative processes are complicated and challenging for pension funds to assess what the impact on them will be and how should the specificities of pension funds be considered. Pension funds are in many aspects very different than other financial market entities and if it is deemed necessary to include them in these types of horizontal legislations proportionality is crucial for them."

"There has been significant growth in regulations," notes Aon head of pension risk management Ireland, Alcarine Power. "Some of it is very much needed and is good, but keeping it tailored to pension funds and outlining how they can differ from other financial institutions is important. It's not always obvious how it has been tailored."

Her colleague, Aon partner, international wealth solutions, Thierry Verkest, adds that a consequence of the lack of tailoring is trustees and pension managers struggling to understand the upcoming regulations they must comply with. "It has become a real struggle," he explains."Since the financial crisis, we have seen a huge increase in regulation where pension funds have been assimilated to all kinds of financial institutions and we tend to forget that pension funds have a different nature to other financial institutions."

Verkest argues that while the regulation is necessary, it needs to be adapted to pension funds, their complexity and size, and that there is a role, especially for the national authorities, to transpose the law in a way that takes the nature of pension funds in each market into account.

"There is such a diversity across Europe that needs to be recognised in the regulations, even up to local legislation and tax regimes they are working in," Power adds. "There needs to be considerable thought on a country-by country basis how that actually works within the framework of everything else."

However, while Spaargaren agrees that the industry will always want regulation to be as specific as possible to best accommodate the requirements, he argues the pensions sector is simultaneously asking for a level playing field.

"This means that all the actors in the wider financial industry should adhere to the same standards," he continues. "In that sense, I am not against broader regulation, because we have to adhere to the same standards as other investors.

"I don't believe that it should be more tailored. It also makes it harder for the supervisory bodies to compare progress and disclosures."

Stepping up to the challenge

While many pension professionals will argue there is too much regulation, and the broader requirements need more tailoring and proportionality, this does not change the fact that pension institutions must abide by the new rules.

Using external support and expertise seems key in meeting new requirements, especially for smaller schemes that often do not have the same level of internal resources as larger schemes to handle the increased burden, as Power explains: "Advisers are a necessity; this is not something trustees can be expected to be able to navigate without clarity from those who specialise in looking at these things.

"There are vehicles out there that will ease that, for example master trusts and collective schemes, where they can move some of that risk on to people that are dedicated professionals in this area."

Verkest adds that it all starts with understanding the regulations, noting that once pension funds understand what needs to be done, they can assess their capabilities for meeting the requirements.

"They also need to think about whether it is all cost efficient," he continues.

"A board member recently told me, about risk in IORP II, that they were already outsourcing so much work for the pension fund. So, what is holding them up in delegating governance as well?"

Weiss Garne acknowledges that many of the new rules are being introduced to improve outcomes, but warns that adopting the new regulations comes at a financial cost.

"Ultimately, this increase in cost is likely to influence the consumer in terms of higher administration costs," he says.

"The only way forward to make better regulation is by slowing down the processes to be sure that it is value for money. The word deregulation seems at the same time to be totally lacking in the vocabulary."

Spaargaren says that although he believes the industry should not complain about regulation, as it is there for a good reason, it can debate its quality.

"The influence of interest groups is huge, and political compromises have an impact on the quality of regulation," he concludes.

Pensions in Finland

Extraordinary circumstances

FINNISH CENTRE FOR PENSIONS (ETK) HEAD OF DEVELOPMENT, JARI KANNISTO, **DISCUSSES THE HIGHER-THAN-AVERAGE NUMBER OF FINNISH PEOPLE RETIRING ON AN EARNINGS-RELATED PENSION LAST YEAR**

Last year, the exceptionally high number of new old-age pensions was mainly due to two factors. Firstly, last year the entire age group born in 1958 reached retirement age, whereas in previous years only part of the age group reached the old-age retirement age within one year, due to the rise in the retirement age. In addition, the exceptional index development somewhat increased the number of people applying for the old-age pension.

After the 2017 pension reform, the effective retirement age in Finland has risen rapidly. The most important factor in the rise in the effective retirement age has been raising the lower age limit for the old-age pension, because a significant part of the age group retires immediately after reaching the age limit. The retirement age rises annually from one age group to another in three-month increments.

People born in 1955 were the first age group whose retirement age rose as a result of the reform. Their age limit was 63 years three months, so most of the age group reached the age limit in 2018, but some only in 2019. Thus, the entire age group did not reach the old-age pension age in the same year, roughly three-quarters of the age group did. This meant a drop of close to 10,000 in the number of new retirees with an old-age pension in 2018.

The same phenomenon was repeated in subsequent years. If we assume that the different age groups are equal, only three-quarters of the age group reach the old-age pension age each year. Last year, however, all those born in 1958 reached the old-age pension age because their retirement age was 64 years. As a result, the number of new retirees rose by nearly 10,000 people.

In January-March of this year, no one met the minimum age limit for the old-age pension, because the age limit continues to rise and is 64 years three months for those born in 1959. Thus, those born in the age group in October-December will not reach retirement age until next year. The number of new retirees will fall significantly again this year compared to last year.

The number of new retirees is, therefore, primarily influenced by a technical factor complicating comparisons between successive years. In Finland, the age limit will initially rise from 63 to 65 years, after which the raising of the age limit will be linked to an increase in life expectancy.

The exceptional index development also increased the number of old-age pension applications towards the end of 2022. This made it possible to take advantage of the earnings-related pension index increase, which was considerable, at the beginning of 2023.

High inflation and moderate wage increases led to an exceptional situation last year. Due to index rules, it was more advantageous to retire at the end of 2022 than in early 2023. Pensions are increased annually mainly on the basis of changes in consumer prices. The index increase will be made at the beginning of the year.

However, the new pension is calculated on the basis of career earnings history. In the calculation, earnings are indexed to the level of the year in which the pension begins, based on the index of wage and salary earnings, which rose by a few percentage points less than consumer prices. ■

"HIGH INFLATION AND MODERATE WAGE INCREASES LED TO AN EXCEPTIONAL SITUATION LAST YEAR"

Written by ETK head of development, Jari Kannisto

SUSTAINABILITY

Sense and sustainability

The pace and rigour of EU policymaking designed to promote environmentally sustainable business and investment practices are increasing. David Adams **looks at the latest developments in an increasingly complex regulatory and legal landscape**

WRITTEN BY **DAVID ADAMS,** A FREELANCE JOURNALIST

As extreme weather events wreak havoc across the globe and scientists issue warnings about 'tipping points', corporates and politicians are stepping up their responses to the climate crisis. The EU is now arguably the world-leading jurisdiction for development of policy and regulation on environmentally sustainable and socially responsible business and investment practices. As major institutional investors, pension funds across Europe find themselves at the heart of a complex patchwork of evolving legislation and regulation.

"Over the past five years the European Commission has put in place the building blocks of its sustainable finance framework: A taxonomy of sustainable activities, disclosure frameworks; and investment tools including a Paris-aligned climate benchmark and a green bond standard," says Principles for Responsible Investment (PRI) senior policy analyst, Ben Leblique.

ISS ESG global head of ESG research, Bonnie Saynay, commends the pace of the EU's framework: "But now they are being applied in practice, many of these frameworks will need to be improved to ensure consistency, comparability, clarity and usability."

Discussing disclosures

There are three major changes underway that will affect pension funds and their investment strategies. The first is proposed changes to the Sustainable Finance Disclosure Regulation (SFDR), which mandates ESG disclosure obligations for asset managers and other financial markets participants. Additional disclosures are required if a financial product is classified under Article 8 (if it promotes ESG characteristics but ESG investing is not a core objective) or Article 9 (if sustainable investment is a core objective).

Between April and July, the three European Supervisory Authorities ran a consultation on amendments to delegated regulation of the SFDR. These included extending the list of indicators for disclosure of adverse environmental and social impacts; and changing the way information about those impacts and targets for improvement are presented.

PensionsEurope secretary general and CEO, Matti Leppälä, says his organisation has concerns about the criteria for Articles 8 or 9; and about the overlap between the SFDR and the IORP II Directive. A pension fund that takes ESG factors into consideration and discloses this is effectively classified as an Article 8 fund, but Leppälä highlights difficulties funds may have in obtaining data for required disclosures, particularly the adverse social impacts of investments.

Both EIOPA and PRI have stressed the need for proportionality for pension funds in scope. PRI has also highlighted the fact that the pan-European Personal Pension Products (PEPP) regulation requires PEPP providers to take into account the consequences of investment decisions on ESG factors, as part of the prudent person rule. The PRI wants similar requirements included in IORP II. Leppälä stresses the need for closer alignment between the SFDR and the taxonomy. "That would reduce the regulatory burden and simplify reporting," he says. The PRI has urged the commission to align investor engagement policy disclosures under the SFDR with taxonomy targets and sustainability outcomes. But DWS global head of ESG advisory, Dennis Haensel, highlights how much time

may pass before the taxonomy is available for all economic activities, allowing it to become the efficient framework referred to in the SFDR.

Resetting sustainability reporting standards

In June, the European Commission adopted the European Sustainability Reporting Standards (ESRS), which companies will use to report sustainability-related impacts, opportunities and risks. A scrutiny process of the ESRS by the European Parliament and European Council is underway, with reporting under the new rules likely to start in 2024. ESRS will compel businesses to explain why they might deem climate-related factors to be non-material, but the PRI, European Association of Paritarian Institutions (AEIP) and others would like to see disclosure indicators relevant to SFDR made mandatory.

"Instead of aligning the corporate framework with the financial services framework, we're going to allow companies to decide whether certain data points are material for investors to know," AEIP board member, Matthies Verstegen, notes.

"EFFORTS SHOULD FOCUS ON IMPROVING THE CONSISTENCY OF THE DIFFERENT MEASURES, PARTICULARLY BETWEEN SFDR AND THE TAXONOMY REGULATION; AND ADDRESSING DATA GAPS"

Saynay suggests that unless this is changed "divergence between the regimes" will hamper interoperability. She acknowledges that EFRAG is convening advisory panels to develop standards for capital markets, banking, and insurance, including pension funding.

Debating due diligence

The third significant regulatory/legislative development is the proposed Corporate Sustainability Due Diligence Directive (CSDDD). It will require IORPs and businesses to identify and/or prevent environmental and human rights adverse impacts, although the final form of the due diligence requirements is not yet settled. The directive's being debated and should be finalised before the European Parliament elections in 2024.

Leblique says the PRI's view is that if CSDDD requirements are risk-based and take differing approaches to stewardship into account, the new directive will "support investors' sustainability assessments, enhance risk analysis … impact prevention, mitigation and remediation; and provide greater understanding of companies within scope". It will also help investors "conduct better-informed engagement" with investees.

Saynay feels not enough attention has yet been paid to the CSDDD. "This may turn out to be the real game changer," she says. "CSDDD requires mitigating action and introduces not only enforcement through supervisory authorities but also a liability mechanism."

One key question is whether provision of investment activities – and pension funds' investment activities – will be included.

Verstegen says the AEIP's view is that the commission's proposals are not appropriate for pension funds, because they are founded on an assumption of a contractual relationship with a business, which could be leveraged to force action on issues like human rights or environmental impacts.

Embracing the agenda

How are pension funds responding to these imminent or proposed changes? Leppälä sums up the response as "more or less positive", but Verstegen raises concerns about how these regulations might affect smaller pension funds. "The smaller the pension fund gets, the less likely it is to opt in," he says.

Haensel emphasises the value of harmonisation and standardisation of regulation regarding exclusion criteria, requirements, and definitions of adverse impacts within different member states. "Consolidating these measures should be a key priority for EU policymakers in the coming years," says Leblique, adding: "Efforts should focus on improving the consistency of the different measures, particularly between SFDR and the taxonomy regulation; and addressing data gaps."

ALTERNATIVES

Moving with the times

Amid a rapidly shifting investment environment, Lynn Strongin Dodds **explores the role alternative assets could play in the European pensions space**

WRITTEN BY **LYNN STRONGIN DODDS**, A FREELANCE JOURNALIST

Alternative asset classes are a firm fixture in a UK pension fund, but typically it is only the larger and more sophisticated European institutional investors who have holdings. Their smaller and medium-sized counterparts are interested but today's market landscape is giving many pause for thought.

Alternatives came into their own during the prolonged benign interest rate period following the global financial crisis. Real estate had always been a staple, but investors added hedge funds, private markets and infrastructure debt to the mix to generate strong returns and diversification. Fast forward to 2020 and the paradigm began to shift.

Pastures new

"It is clear we have entered a new market regime that looks nothing like the past few decades," says Newton Investment Management CIO of multi asset, Mitesh Sheth. "Deglobalisation, decarbonisation and divergence are proving to be dominant forces. Asset classes, companies and strategies are unlikely to behave as they did during the Goldilocks period, and there are likely to be different winners and losers. Therefore, it is unsurprising that globally institutional investors, are reviewing strategic asset allocation and investment approaches."

In many ways markets have come full circle. After so many years out in the cold, former favourites – government debt and investment grade credit – have come back into the fold. In Europe as well as the UK, given the sustained increases in interest rates, returns on traditional fixed income are more attractive than they have been for years, which has been reflected in allocations, particularly for European public debt and some equities, according to M&G international head of institutional distribution, Robert Heaney.

Natixis head of Western Europe, Gad Amar, also believes the denominator effect has had an impact on decision making. "No one expected equities and bonds to fall together in 2022 and for the illiquid part of the portfolio to become bigger," he adds. "We are now having more discussions about alternatives as a hedge against inflation, but the big question is over timing and when to enter the markets."

Russell Investments director of strategic client solutions, Northern Europe, Jaap Hoek, concurs, adding that the denominator effect has made European pension funds question "how much room do I have to manoeuvre? You can come up with strong opportunities, now the challenge for pension funds is how to create room in their investment plans to implement these. It might need a redesign."

Market movements

Last year not only saw the S&P 500 and the MSCI EAFE indices drop by 18.1 per cent and 14.5 per cent, respectively, but the Bloomberg Aggregate Bond Index slid by 13 per cent. The result was that investors became overly exposed to illiquid asset classes such as private equity and real estate, both of which fell over 20 per cent in 2022.

The reverberations are continuing into 2023, with Heaney flagging research from Broadridge that reveals Q1 represented the worst fundraising quarter for private debt since 2017, while real estate experienced the same fate although its previous lowest point was 2008. Infrastructure equity fundraising also suffered with a 94 per cent year-on-year decline, the poorest showing since 2009.

Given the backdrop, it is no wonder selectivity is the watchword. As Frankfurt-based WTW managing director, Matthias Paetzel, notes: "Alternatives are here to stay and those pension funds that have the experience and resources will stick with them because they do not want to lose the knowledge and resources they have built over the years. It also differs across Europe with, for example, higher allocations in Switzerland, the Netherlands and the Nordics versus Germany and Spain. The aim is to build more robust and diversified portfolios that can withstand downturns and generate returns."

This helps explain why private credit is becoming fashionable for many European as well as global pension funds. These were the findings of BlackRock Alternatives' inaugural global private markets survey, which canvassed allocators with USD 15 trillion (€13.7 trillion) total AUM. To date, this asset class accounts for roughly a quarter of AUM, but more than half of respondents globally plan to add to their private credit allotments over the next year.

Drilling down, the study revealed more than a third in the US and Canada plan a substantial increase while across Europe, the Middle East and Africa (EMEA), the figure jumps to 71 per cent. Income generation was the main reason cited by 82 per cent, followed by capital appreciation for 58 per cent. Just over 40 per cent said they would select private markets for "better ESG demonstration", while 42 per cent pointed to risk diversification.

Changing landscape

The Netherlands could potentially be a standout due to the recent radical reforms of its private pensions system – the biggest in the European Union.

Asset managers are reassessing how they invest €1.5 trillion of retirement savings, and this could trigger outflows from old favourite eurozone government bonds into riskier assets and change the way funds protect themselves from interest rate swings.

"We continue to see European pension funds focusing on private credit, primarily to access diversification and capture illiquidity and/or complexity premia," says PIMCO managing director, Robert English. "Since the inception of the asset class, allocators have predominantly focused on developing their private credit sleeves through investments in traditional corporate direct lending. This has resulted in the formation of substantial capital in income-generating products, particularly against the backdrop of near-zero interest rates."

He notes that the changing landscape and continued bank retrenchment due to stricter capital constraints has led to a surge in the interest and involvement of private capital in providing liquidity. "Pension funds are becoming more patient in their new allocations," he adds. "While traditional direct lending will continue to represent a core allocation in institutional portfolios, we are observing a growing interest in diversified and diversifying sources of private credit."

This, according to English, includes asset-based specialty finance, where the underlying investments benefit from self-liquidating contractual cashflows, floating interest rates and often hard-asset protection. "Such investments play a crucial role in either directly or indirectly funding various sectors of the global economy, including homeowners, the broader consumer population, small businesses, airlines and more," he adds. "Historically, these assets have demonstrated better risk-adjusted returns and exhibited less volatility compared to traditional corporate lending."

"IT IS CLEAR WE HAVE ENTERED A NEW MARKET REGIME THAT LOOKS NOTHING LIKE THE PAST FEW DECADES"

BNP Paribas Asset Management head of pension solutions, Julien Halfon, also highlights infrastructure equity investments, such as utilities, transportation, and renewable energy projects gaining momentum. "These assets provide stable, long-term cash flows and are seen as a good match for the liabilities of pension funds," he adds. "They also offer less volatile exposure to an asset class similar to private equity."

LGIM head of alternatives distributions EMEA, Katherine Laurenson, agrees, adding there is still clear appetite for good quality infrastructure strategies that deliver the right outcomes. "Capital is attracted to both traditional infrastructure, such as energy and transport, and to newer social and digital infrastructure strategies that aim to support the needs of modern living and society," she notes.

Impact investing is also taking hold in private equity especially in the sectors such as renewable energy, healthcare, education and smart cities. The aim is to achieve positive, measurable social and environmental benefits and contribute meaningful solutions to the UN Sustainable Development Goals while also generating strong risk-adjusted returns.

European institutions are more mixed on private equity in general. They are looking to de-risk and limit their stakes in the wake of higher interest rates. "There is a lot of dry powder waiting for opportunities," says Pictet Asset Management head of Nordics, Elisabeth Jadal. "However, we are seeing a lot of interest in the secondaries market as well as impact private equity, which is being driven in Europe by the Sustainable Finance Disclosure Regulation and the requirements in Article 8. It was mainly in the liquid space, but we are seeing growing appetite for natural resources and carbon offset opportunities."

Investment

Are real estate fears justified?

THE REAL ESTATE SECTOR IS WEAK, BUT A LONG WAY FROM WHAT WE SAW IN THE FINANCIAL CRISIS, ARGUES MAPFRE INVERSIÓN CHIEF ECONOMIST ALBERTO MATELLÁN

The worst macroeconomic situation is beginning to be felt in the real estate sector. According to the *Registry of Real Estate Statistics,* published earlier this year by the Association of Registrars, home purchases in Spain fell by 6.7 per cent in May compared to the same month of 2022, while the drop in the number of mortgages granted was much more severe, cratering by almost 25 per cent, with 12,500 less applications processed.

The real estate sector is one of those most affected by interest rate hikes, and what we're now seeing is that very impact – transactions grinding to a halt and prices starting to fall.

The situation, however, is different from that experienced around 2007 because the greatest impact is on balance sheets.

Real estate holdings are assets and many companies and families have them on their balance sheets, while mortgages constitute liabilities. A bank may have both real estate and mortgages in its assets. The problem is that when properties fall in value, balance sheets fall out of sync and solvency problems can arise.

That's what happened in 2007 and 2008, but arguably is not what's happening now, for a number of reasons. The first is that the balance sheets are healthier. The second is that liability levels are lower; and the third is that the price falls right now are less pronounced. It's a problem, but it's already been factored in.

Not all asset classes are performing similar to real estate. Equities closed out the first half of the year with very attractive yields, both in the United States and Europe, where we believe there are still further gains to be made. It's turning out to be a very good year, in fact, despite pessimism, in other asset classes too, although in the United States, the cause is a small group of companies, in Europe the increases are more balanced.

However, future performance will probably be worse than what's been recorded so far, because of the latest not so cheery macroeconomic data, with liquidity and earnings stability as support pillars for this optimism.

Just a few weeks after companies reported their Q2 results, the forecast was for profits to be positive, although slightly lower than previous quarters. Numerous sectors give us reason to be optimistic. There is solid reasoning behind the thinking that many companies can maintain profits, although a minor impact is expected due to the macroeconomic situation.

Growth is the greatest risk for equities

Looking ahead, the main risk facing equities is economic growth, with worrying data in Europe (especially in Germany), while we are more optimistic about the United States.

In any case, a recession is not only about two consecutive negative quarters, but a very significant change in economic dynamics that goes from a virtuous circle to a vicious one. If we work with that definition, the likelihood of recession in the United States is low, and in Europe, a little higher.

A possible sudden change by central banks (or a perception thereof) may pose another major risk to equity markets, whether in the face of monetary tightening or more accommodative policies. ■

"LOOKING AHEAD, THE MAIN RISK FACING EQUITIES IS ECONOMIC GROWTH, WITH WORRYING DATA IN EUROPE"

Written by Alberto Matellán, chief economist at MAPFRE, the largest insurance company in Spain and Latin America

Organised by
European Pensions

REVIEW

European Pensions Conference 2023: Looking ahead

WRITTEN BY FRANCESCA FABRIZI

IORP II, cross-border pensions, ESG, and building trust in pensions were just some of the key topics in the spotlight at this year's European Pensions Conference in London

The European Pensions Conference returned to London again this summer, bringing together thought-leaders and pension funds from across the continent to discuss some of the opportunities and challenges facing funds operating in Europe today.

London's stunning Marriott Hotel Grosvenor Square played host to the one-day event, as a series of pension fund panel discussions and presentations covering a wide range of topics offered delegates a chance to learn from their peers, hear about trends in the marketplace and connect with friends.

Capital Cranfield professional trustee, Andy Cheseldine, opened proceedings, introducing the first keynote speaker of the day, PensionsEurope secretary general/CEO, Matti Leppälä.

Leppälä used his session to offer an overview of the topical issues at a European level, starting with the challenges ahead for the pensions landscape, to include the hurdles that demographic changes and longer life expectancy continue to create: "Of course, every country is different, but all in all, ageing continues and the old-age dependency ratios continue and the fact of the matter is pension models that are for the most part based on pay-as-you-go social security pensions across Europe will not be economically and socially sustainable."

He looked at the importance of technological changes, which have become "priorities in the European agenda", ESG regulatory developments, which are "really important for pension funds", and stressed the "frustration" amongst the financial services industry with the amount of regulation that has been put in place and is being prepared.

He reflected on how some governments are responding to the expected inadequacy of the first pillar system by introducing auto-enrolment (AE) to supplementary schemes; as well as the shift from DB to DC/hybrid schemes.

He then commented on recent developments and trends in European pensions assets and liabilities; the IORP II review; the central clearing of derivatives; and the developments in open finance.

Leppälä closed on a positive note in relation to the European Commission proposals on withholding taxes, which aim to remove cross-border investment barriers arising from refund procedures.

"Pension funds are important cross-border investors and withholding tax has been a real impediment and problem for a long time so we are very much supportive of this – it's not exactly what we have been asking for, but it's very much in the right direction, so is something very positive coming from the European Commission."

Next up was the first panel discussion of the day, which looked at investment strategies for today's world. Panellists included Centrica Pension Scheme chief investment officer, Chetan Ghosh; pension fund board member of multiple Dutch pension funds, Hedwig Peters; and AP4 fund senior portfolio manager, Jan Petersson.

This session looked at the economic, regulatory and other challenges facing European pension investors today and what those

making the investment decisions are doing to meet those challenges.

Looking specifically at ESG, Petersson said: "We have had a big interest especially in climate change for many years now, and this area creates a lot of threats but also opportunities, and we have taken a very active stance here; we don't necessarily avoid certain sectors but try and dig deep into these sectors where we think we can make a difference, for example by choosing companies that are best in class or where we see a very clear path to a transition."

Continuing on the topic of ESG challenges, Peters commented: "My dilemma is that the money we have to run is the members' money, not ours, so we can implement and share our worries relating to ESG, but we ultimately have to listen to the members' preferences and that is not always straightforward."

Ghosh concurred: "That phrase 'it's not straightforward' is so relevant here – when we first started to see some of the temperature change scenario analysis years ago, it was all negative, that it was the

end of the world, it was going to affect GDPs, stock markets, etc, but as that has rounded out more over the years, we have actually seen return forecasts factor in that it will also create opportunities, it will add to productivity, and it is 'finger in the air' as to what it will do for returns."

Continuing on the investment topic, Leadenhall managing director and head of ESG, Alistair Jones, presented on the current opportunity in insurance-linked strategies (ILS). He looked at the origins of the ILS market, and how it has evolved; ILS performance over times of market stress; the attractive relative value of ILS to other asset classes; and its positive ESG characteristics, showcasing how ILS in DB and DC investment strategies can enhance both investment and ESG characteristics.

"In a nutshell, the highlights of insurance-linked strategies include that they have long-term attractive risk and return characteristics; on the ESG front, they give positive characteristics particularly on the social side (where a lot of other strategies in the market focus more on environmental); and pension funds are allocating right now across a number of regions in Europe."

The subsequent panel discussion continued on the theme of ESG, as European Public Real Estate Association ESG policy & advocacy manager, Jana Bour, sat alongside Ag2R La Mondiale finance & investments director, Philippe Dutertre, and Dutch pension schemes board member, Evalinde Eelens, to reflect on the growth and evolution of ESG regulation.

Bour commented: "There is a lot of resistance from the industries and from different stakeholders around the 'E' part of ESG because there is the impression that there has been a lot of regulation, which is true, so at this moment there is some resistance towards new regulation coming, however, in my opinion there is also going to be a shift more towards the 'S', which has been neglected somewhat, so it is important to talk to the policymakers and work with them to make it more coherent, and

to make it also work with the 'S' part of the ESG."

Eelens added: "Let me focus on the 'G', because it has been cited in so many research papers that focussing on the 'G' can improve investment returns, which is why most investment managers have been working on the 'G' for decades, but the 'G' also helps drive the 'E' and the 'S'.

"So from my responsibility as a pension trustee, I think the 'G' is the core of ESG because you want companies to take responsibility, you want those investment returns and you want to see the 'E' and 'S' as opportunities rather than threats or something that is going to cost money, it's about investing in the future and as pension schemes we have long-term objectives."

Dutertre talked about how his pension fund has adopted a 'raison d'être' in this area – a mission or purpose, and incorporated it in its articles and associations, "and this is a very important step for us from a political point of view".

Cross-border pensions was the next focus topic of the day, headed up by CBBA-Europe secretary general, Francesco Briganti. Panellists included LifeGoals CEO, Michael Hadjihannas; EIOPA OPSG vice-chairperson, Falco Valkenburg; and Aon partner, international wealth solutions, Thierry Verkest, who discussed ways in which current European regulation could be improved to boost the interest in cross-border occupational pensions. They also discussed the challenges and opportunities of setting up a Pan-European Personal Pension Product (PEPP), and whether we can expect a new Pan-European Occupational Pension vehicle (PEOP) going beyond the existing IORP Directive. *[See page 90 for more details].*

The pre-lunch session then took the form of a pension CEO focus, with State Pension Fund of Finland (VER) chief executive officer, Timo Löyttyniemi, giving delegates an insider view of overseeing the government buffer fund, which has over €20 billion under management. Timo offered both strategic and current market views, how these impact asset allocation decisions, as well as presented on some of the challenges and successes he has experienced in the role. He explained the new strategy framework of the fund, where alternative asset classes play a role, lessons learned from the past, and key challenges for the future.

After a networking lunch, the delegates were presented with a case study on collective defined contribution (CDC) pension schemes by Royal Mail head of corporate pensions, Angela Gough, and Royal Mail Collective Pension Plan scheme secretary, Emma Weston-Green.

Gough and Weston-Green offered delegates an insight into the establishment of the ground-breaking Royal Mail Collective Pension Plan, the first collective defined contribution (CDC) pension scheme to be authorised by The Pensions Regulator in the UK, looking at what steps needed to be taken, the challenges they faced, the lessons they learnt from Europe and beyond, and the next steps.

Explaining the reasons behind the move to CDC, Gough commented: "Royal Mail, in agreement with our unions, needed to close the DB scheme as it had become unaffordable. DC was the obvious choice, but it didn't necessarily give our people what they needed. A CDC pension offered an income for life and higher expected outcomes."

Gough said that in a number of ways a CDC scheme is simpler than DC as investment decisions are made for the members. They will join automatically and, even if they don't make any further decisions, they will build up a pension that will pay out for as long as they live.

Gough acknowledged that communicating CDC has its

"THERE'S A BIG TRUST ANGLE IN THE UK THAT NEEDS TO BE OVERCOME BECAUSE OF THE COMPLEXITY AND LACK OF UNDERSTANDING"

challenges and that it's important to clearly describe the nature of the benefits and that they can go up and down. But she noted that both the company and the trustee understand that communication and transparency are important and have put a lot of effort into simplifying communications and using language that people understand.

"Of course, the communications are not perfect but we and the trustee will keep asking members for feedback and they will only get better over time. We also hope that other CDC schemes will follow, and we will all be able to learn from each other."

On the future, she said that Royal Mail were working with government to get the last of the legislation over the line that is needed to launch their CDC scheme, with a view to hopefully being able to launch early next year. She noted that "the Pensions Minister is certainly supportive of CDC and our scheme and she wants to get it done, so we are cautiously optimistic that government will move quickly".

Communication was under the spotlight in the following session with Communications and Content managing director, David Butcher, chairing the lively session. BESTrustees accredited professional pension trustee, Roger Breeden, sat alongside LifeGoals CSO, Panayiotis Mavromichalis, and EFIA pension fund managing director, Snædís Ögn Flosadóttir, to debate how technology can be used most effectively to enhance member engagement; what some of the key features are that keep members engaged and motivated; and whether frequent, or even daily interaction, with a pension's platform is possible.

After reading out a poem created by the AI ChatGPT about pensions, Breeden raised the issue of trust, or lack thereof, in UK pensions: "I think there's a big trust angle in the UK that needs to be overcome because of the complexity and lack of understanding. For me, the biggest challenge that technology needs to overcome is helping hone that trust at a foundation level before you get on to the engagement. Certainly for me that's a big piece, the confidence."

"THE 'G' IS THE CORE OF ESG BECAUSE YOU WANT COMPANIES TO TAKE RESPONSIBILITY, YOU WANT INVESTMENT RETURNS AND YOU WANT TO SEE THE 'E' AND 'S' AS OPPORTUNITIES"

Flosadóttir reflected on her experience in Iceland: "A couple of years ago, we started doing surveys amongst Icelandic people to see how [*the pensions industry*] scored on trust and likeability. The outcome of the survey was we scored worse than our politicians. We saw that was something we needed to work on.

"What we also found was a clear correlation between trust in the industry and knowledge about the industry. The more you knew about your pension fund and how the pension system worked, the better the trust was of pension funds and the system as a whole. The focus on education, putting information out there, and using technology to do it, it's part of our social responsibility and fiduciary duty, but it also works in our favour. Because, if people trust us, the communication path is a lot easier."

The last session of the day was a focus on the Irish pensions landscape by keynote speaker, IAPF CEO, Jerry Moriarty; and Mason Hayes & Curran partner & head of pensions, Stephen Gillick.

Moriarty stated that there were two big issues driving both policy and practice in Ireland at the moment: "The first is the implementation of the IORP II Directive; that's driving a lot of change in the market both in terms of certain processes and procedures, things that pension schemes have to do. Smaller schemes, generally, are moving as a whole to master trusts, because the ability to sustain a small scheme is no longer there; the costs are just too great.

"The other one coming down the line is the introduction of AE. That's something we have been analysing, researching and debating for well over 20 years. The current state of play is the Department for Social Protection said that auto-enrolment will start next year."

On AE, Gillick said he was "hopeful" that it will bring "not quite a seismic change for pensions in Ireland, but a large change.

European Pensions

European Pensions magazine is also available as an e-edition for tablets (iPad and Android devices), and can also be read on a PC.

The interactive digital format allows readers to easily search, browse and navigate the latest news stories, in-depth analysis, features, commentary and even adverts.

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European Pensions
AWARDS 2023

The winners

6 July 2023

London Marriott Hotel
Grosvenor Square

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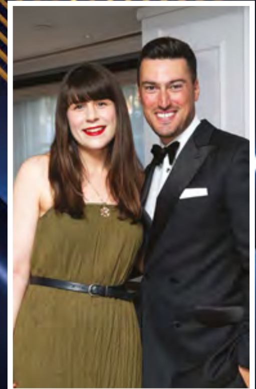

VIP

European Pensions

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Welcome

The 16th annual European Pensions Awards were as exciting as ever, as pension fund representatives from across the continent gathered at London's Marriott Hotel on Grosvenor Square to celebrate the hard work and dedication of those working in Europe's dynamic pensions sector.

Having been faced with high inflation, rising interest rates, global political uncertainty, a deluge of new regulation, as well as pension reform in many countries, 2022/2023 was not a period without its challenges, yet those running pension funds across Europe again used innovation, foresight and professionalism to ensure that their pension members didn't suffer.

Many thanks to all our judges for helping assess the hundreds of entries we received, and congratulations to all those who went home with the coveted trophies. It's always a delight to see hard work being rewarded. We look forward to more of the same next year!

Francesca Frabrizi,
Editor-in-Chief,
European Pensions

Judging Panel

Rob Barrett
Head of UK Distribution, Reframe Capital

Jana Bour
ESG Policy & Advocacy Manager, EPRA

Francesco Briganti
Secretary General, CBBA-Europe

David Butcher
Managing Director, Communications and Content

Evalinde Eelens
Professional Trustee, Ravenna Consulting and board member on multiple pension schemes

Snædís Ögn Flosadóttir
Managing Director, Pension Funds
EFIA and LSBI

Chetan Ghosh
Chief Investment Officer, Centrica Pension Scheme

Matti Leppälä
Secretary General/CEO, PensionsEurope

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

Mike Smaje
Trustee Executive, BESTrustees

Winners 2023

EUROPEAN PENSIONS CONSULTANCY OF THE YEAR
Redington

INVESTMENT MANAGER OF THE YEAR
Impax Asset Management

EQUITIES MANAGER OF THE YEAR
Polen Capital

FIXED INCOME MANAGER OF THE YEAR
Nordea

ALTERNATIVES INVESTMENT MANAGER OF THE YEAR
M&G Investments

PROPERTY MANAGER OF THE YEAR
Nuveen

INFRASTRUCTURE MANAGER OF THE YEAR
KGAL

PRIVATE EQUITY MANAGER OF THE YEAR
Unigestion

ETF PROVIDER OF THE YEAR
Amundi ETF

EMERGING MARKETS MANAGER OF THE YEAR
GoldenTree Asset Management

RISK MANAGEMENT FIRM OF THE YEAR
Rothesay

CURRENCY MANAGER OF THE YEAR
HSBC FX Overlay

LDI MANAGER OF THE YEAR
Schroders Solutions

MULTI-ASSET MANAGER OR PROVIDER OF THE YEAR
Newton Investment Management

ESG OR SRI PROVIDER OF THE YEAR
AXA Investment Managers

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European Pensions AWARDS 2023

FIDUCIARY MANAGEMENT
AON

EUROPEAN PENSIONS LAW FIRM OF THE YEAR
CMS

CUSTODIAN OR TRANSITION MANAGEMENT FIRM OF THE YEAR
BNP Paribas

PENSIONS INSURANCE FIRM OF THE YEAR
Pension Insurance Corporation

PENSION SCHEME ADMINISTRATOR OF THE YEAR
Emergo Wealth

PENSIONS TECHNOLOGY PROVIDER OF THE YEAR
Heywood Pension Technologies

EUROPEAN PENSIONS INNOVATION AWARD
Mercer

EUROPEAN PENSIONS INNOVATION AWARD (INVESTMENT)
LGIM

MASTER TRUST OFFERING OF THE YEAR
Legal & General

FACTOR INVESTING OFFERING OF THE YEAR
Russell Investments

EUROPEAN PENSION FUND OF THE YEAR
PensionDanmark

BEST INVESTMENT STRATEGY AWARD
Nest

EUROPEAN PENSIONS COMMUNICATION AWARD
National Pension Trust

EUROPEAN PENSIONS INNOVATION AWARD (PENSION FUND)
TPT Retirement Solutions

DIVERSITY AWARD
Coronation Fund Managers

MARKETING CAMPAIGN OF THE YEAR
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Nordea

Fixed Income Manager of the Year

European pension funds rely on fixed income for a reliable revenue stream and, as a result, the fixed income market is now as diverse and sophisticated as any other. Recent macroeconomic developments have made fixed income investing an even more dynamic and challenging space to invest. Therefore, this award recognises the fixed-income managers that offer their European pension clients a variety of solutions to meet these ever-changing market conditions.

The Fixed Income Manager of the Year award went to Nordea. Receiving the award on behalf of Nordea was Alina Susca (centre). Presenting the award was Snaedis Ogn Flosadottirm, Pension Funds EFIA and LSBI (right) and host, Rhys James (left).

In a very competitive category this year, the winning firm stood out for its dynamism, strong alpha generation, and commitment to meeting client needs. Congratulations Nordea Asset Management (NAM)!

As part of the Nordea Group, the largest financial services group in the Nordic region, NAM is an active asset manager dedicated to delivering returns with responsibility. Sustainability and responsible investment are deeply rooted in its DNA and is evident within its corporate culture.

While it has a strong dedication to responsible investing, one of its core focuses is catering to the varying fixed-income investment needs of its clients. For instance, its Nordea 1 – European Covered Bond Opportunities Fund takes a dynamic approach to covered bonds, one of the safest asset classes, resulting in consistently impressive alpha generation. This is a particularly strong proposition for clients who are seeking returns from a low-risk allocation.

Managing over €45 billion, Nordea's Danish Fixed Income and European Covered Bonds team is one of the largest in the industry with more than a decade together. Their expertise has enabled the team to build a repeatable process to generate alpha in this highly liquid and low-risk, but relatively inefficient asset class dominated by passive and buy-and-hold investors.

This portfolio builds on Nordea's European Covered Bond Strategy, doubling the credit exposure – its alpha source – by using repos and derivatives to fund additional purchases of highly-rated covered bonds, while hedging the duration to minimise client exposure to interest-rate risk.

In 2022, rising inflation led to upward pressure on rates. At the same time, investment-grade and high-yield spreads widened. Investors needed a solution that offered both safety and low interest-rate risk. With duration hedged to around one year, Nordea 1 – European Covered Bond Opportunities Fund minimises interest-rate risk while allowing investors to benefit from the security and alpha potential available in this often-overlooked asset class. As a result, the fund delivered a positive absolute return to clients in 2022.

Congratulations again to the worthy winner of this year's award - Nordea!

Nordea

Capturing the opportunities in the European covered bond market

We are honored that our covered bond expertise has been recognized by the European Pensions Award 2023, winning Best Fixed income Fund for the Nordea 1 – European Covered Bond Opportunities Fund.

Covered bonds offer many advantages, yet they seem sometimes to be the forgotten piece of the fixed income markets, despite the size of this asset class: with around EUR 3 trillion outstanding bonds, the highly liquid European covered bond market is the second largest Fixed Income market in Europe after government bonds. European covered bonds comprise both very strong bank issuers and strong cover pools backed by high quality residential mortgage loans.

Many benefits come from a structural allocation to covered bonds thanks to their safety, regulatory treatment, liquidity and diversification potential. These compelling features make a strong case for covered bonds to win a place in investors' portfolio, alongside the traditional government and corporate debt investments.

The Nordea 1 – European Covered Bond Opportunities Fund provides access to this unique and less known asset class which has offered a relatively high level of protection (strong asset quality and long history of no defaults) compared to other fixed income instruments. The team takes a dynamic approach to covered bonds, focusing on finding alpha from credit risk, while seeking to limit risk vis-à-vis interest rates. The fund generated positive returns when most Fixed Income asset classes struggled in 2022. Nordea Asset Management's Danish Fixed Income and European Covered Bonds Team is one of the largest in the market, managing over €45bn, with a track record of over a decade[1]. The team has developed a deep understanding of the European covered bond markets, allowing them to build a repeatable process to generate alpha in this highly liquid and low-risk, but relatively inefficient asset class dominated by passive and buy-and-hold investors.

"The fund generated positive returns when most Fixed Income asset classes struggled in 2022"

Henrik Stille
Portfolio Manager for the Nordea 1 – European Covered Bond Opportunities Fund

[1]Past performance is not a reliable indicator of future results, losses may be made. As at 31.12.2022, BP-EUR, gross of fees. Index: Iboxx EUR Covered Bond.

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European Pensions
AWARDS 2023

nuveen
A TIAA Company

Property Manager of the Year

Property is an essential asset class for pension funds seeking to diversify their portfolios, and one that has seen significant development in recent years. Therefore, this award recognises those managers that have proved themselves to be leading the way in the field of property investment.

This year's winning firm impressed the judges with its forward-looking approach, its understanding of the role sustainability has to play in property investment and its display of both innovation and commitment to its pension fund clients. Well done Nuveen, the winner of the European Pensions Awards 2023 Property Manager of the Year award!

The Property Manager of the Year award went to Nuveen. Receiving the award was Gerald Eastwood, Nuveen (centre). Presenting the award was Georgie Gifford, Perspective Publishing (right) and host, Rhys James (left).

Nuveen is one of the largest investment managers in the world, with $1.1 trillion of assets under management (as at 30 June 2023), and, over the past year, Nuveen has continued to respond to structural changes in the traditional real estate sectors and the emergence of alternative sectors.

For instance, in March 2022, Nuveen announced its intention to enter the UK affordable housing sector with Preferred Homes Limited.

The joint venture identified an attractive pipeline of opportunities across three sites in the UK's regions and cities, leveraging the expertise of local authorities where there is a significant undersupply of extra care housing.

Then, in May 2022, Nuveen announced the launch of a comprehensive global impact investing sector that will focus on building the vitality and sustainability of entire communities by enriching the lives of their residents and addressing some of the most pressing social and environmental challenges in the US, Europe, and the Asia-Pacific region.

Nuveen's new real estate impact sector will invest in early-stage projects and take an impact-led approach to increase the supply of social and affordable housing by targeting low-income and disadvantaged populations, while also focusing on regeneration projects within healthcare, education, and transportation services

May 2022 also saw Nuveen complete the first close of its fourth debt strategy in the European commercial real estate debt series, having secured approximately €150 million in initial commitments from investors.

Last year also saw it maintain close client relationships with UK LGPS clients, creating innovative solutions in response to their specific needs, as well as regularly providing ESG reports to all clients, within which Nuveen confirmed that its target to reduce energy intensity by 30 per cent has been brought forward to 2025.

It plans to make its global property portfolio net zero carbon by 2040.

Due to this continual innovation across all sectors of property investment, Nuveen is clearly a worthy winner. Congratulations!

nuveen
A TIAA Company

How can you benefit from evolving real estate sectors?

Leverage our deep understanding of the structural trends framing the future of real estate investing.

One of the top 5 largest real estate managers in the world[1]	85+ years of real estate investing experience[2]	Committed to delivering net zero carbon real estate portfolios by 2040

That's the power of Nuveen

nuveen.com/realestate

Real estate investments are subject to various risks associated with ownership of real estate-related assets, including fluctuations in property values, higher expenses or lower income than expected, potential environmental problems and liability, and risks related to leasing of properties. Responsible investing incorporates Environmental Social Governance (ESG) factors that may affect exposure to issuers, sectors, industries, limiting the type and number of investment opportunities available, which could result in excluding investments that perform well.

1 ANREV/INREV/NCREIF Fund Manager Survey 2023. Survey illustrated rankings of 116 fund managers globally by AUM as at 31 Dec 2022; updated annually.

2 Nuveen, 31 Dec 2022.

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Infrastructure Manager of the Year

The important role infrastructure investment can play, for both portfolios and the wider economy, is being taken increasingly seriously by European pension investors. Therefore, this award recognises those players that understand this complex asset class and are working hard to help pension funds reap the potential rewards.

The recipient of the 2023 European Pensions Infrastructure Manager of the Year accolade was described by the judges as "an exciting and innovative organisation, which has created products that deliver exactly what clients need in today's market". Congratulations, the winner for the third year in a row, KGAL Investment Management!

The Infrastructure Manager of the Year award went to KGAL Investment Management. Receiving the award was Peter Tschuetscher, KGAL (centre). Presenting the award was Rob Barrett, Reframe Capital (right) and host, Rhys James (left).

KGAL is a leading independent investment and asset manager with a managed investment volume of more than €16 billion. Its investments focus on long-term real capital investments for institutional and private investors in real estate, sustainable infrastructure and aviation. The pan-European group was founded 55 years ago.

By the end of 2022, KGAL's investment in wind and solar power projects, with a total capacity of around 1.2 gigawatts, were in operation. Additionally, its pipeline of renewable energy investment opportunities for its flagship funds, KGAL ESPF 4 and ESPF 5 currently consists of projects with a capacity of more than 2.5 gigawatts.

In 2022, KGAL ESPF 5, its fifth renewable energy fund for institutional investors and KGAL's first impact fund – one of the few Article 9 SFDR products in the market to date - raised 60 per cent of its target size with equity commitments of €315 million. At year-end, around 80 per cent of those commitments could be allocated on projects for the fund that pursues a pan-European core-plus strategy.

KGAL ESPF 6 has also been launched, as another Article 9 SFDR fund, focused on the investment opportunities in green hydrogen and the wider energy transition area across Europe.

KGAL has also been innovative in helping investors achieve their goals. For instance, it is increasing the use of investment platforms, as platforms that develop renewable assets can help long-term investors navigate risks in development-stage assets, offering opportunities for operational improvement, financial optimisation, and regulatory arbitrage, to generate a more efficient return on investment.

This is achieved through KGAL's inhouse active asset management approach. Half of its 60-strong renewables team are asset management specialists. As a result, investors receive consistent and reliable cashflows, with very high levels of control, low correlations with other asset classes and good continuity, through periods of crisis or volatility.

Congratulations to KGAL for once again being crowned Infrastructure Manager of the Year!

KGAL SUPPORTING THE EUROPEAN ENERGY TRANSITION

KGAL ESPF 5
„Renewable Energy Generation“
Article 9

KGAL ESPF 6
„Green Hydrogen and Energy Transition“
Article 9

For further information, please contact:
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www.kgal.de

Private Equity Manager of the Year

With all eyes on both risk and return, particularly amid the current economic environment, this award 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 area of the market.

The Private Equity Manager of the Year award went to Unigestion. Receiving the award was Ken Harvie and Andreas Georgiades, Unigestion (centre). Presenting the award was Chetan Ghosh, Centrica Pension Scheme (right) and host, Rhys James (left).

Described as a pioneer in the field of private equity, the judges praised this year's winning entry for showcasing its excellence, innovation and commitment to pension fund clients. Huge congratulations to all of the team at Unigestion on a very well-deserved win!

Having launched one of the first private equity fund-of-funds in Europe in 1997, Unigestion's experience in this area is well proven.

This expertise enables the firm to provide its clients with global access at scale to the market leaders of tomorrow by targeting exciting hard-to-access companies whose growth is driven by investment themes, delivering resilient portfolios with regular liquidity and premium returns.

Unigestion's access to private equity opportunities is separated into four distinct strategies: directs, secondaries, emerging managers and climate impact. Taking a specific focus on the mid-market also allows Unigestion to hone in on high quality buyout and growth capital investments, with diversification of risk at the forefront of its strategies.

And the results of these efforts are clear, as more than 230 clients have entrusted Unigestion's private equity team with over USD 10bn in assets invested across mandates, segregated accounts and commingled funds.

Last year was also a busy fundraising year, as Unigestion Secondary Fund V, which focuses on the smaller end of the secondary market, completed its final close in Q1 2022, raising over €900m.

In addition to this, Unigestion launched a new Climate Impact Fund, designed for those investors seeking to benefit from the private equity market opportunities presented by the climate change investment theme. The Article 9 fund aims to drive robust investor returns by capturing the strong growth potential of innovative products and services that are, or will be, at the core of the low carbon economy.

Broader innovations have also been made by the business, with the integration of its new machine-learning tool, PEpper, into its fund selection and its direct due diligence process.

For funds, the tool bases its scores on 27 parameters, allowing the firm to screen a larger pool of potential investment opportunities in advance of fundraising and focus its due diligence efforts on critical areas. This process enables the firm to identify more "hidden gems", reducing human bias and making high conviction investment decisions.

Congratulations again to all of the team at Unigestion!

Seeking the market leaders of tomorrow - with AI inside

Unigestion is proud to have won the European Pensions Private Equity Manager of the Year Award six times in the past seven years - reflecting our continued drive for excellence over three decades. During this time, private equity has become a mainstream asset class and we have remained at the forefront of this change, becoming one of the largest players focused on the mid-market.

Private equity depends on the expertise of its people, requiring specialist knowledge and skills very different to other asset classes. Our global team of investment specialists work across Europe, North America and Asia to source opportunities and manage portfolios. They are supported by an investment committee with decades of experience, an Industry Advisory Board and a 700-strong investment partner network helping us identify and source the market leaders of tomorrow, focusing on seven themes: climate transition, resource efficiency, sustainable cities, service efficiency, future of work, personal wellbeing, and health re-engineered.

Technology can play an important role too. Our proprietary AI tool - PEpper - predicts whether an investment will pass a given return hurdle and, in rigorous backtesting, has so far made the correct choices at least two-thirds of the time. It should therefore help us achieve better returns than would be possible through human capabilities alone.

ESG has become an increasingly important part of our investment process since 2010 and we have nine dedicated ESG 'champions' integrating ESG considerations across our funds. From research and sourcing, to analysis and engagement, they work to harmonise our ESG approach and monitor progress.

This expertise is reflected in two of our four key strategies:

Directs: Our Article 8 compliant Directs strategy invests in companies capable of becoming market leaders, with growth underpinned by long-term trends. These portfolios provide global exposure with accelerated exposure to a portfolio of innovative companies and exits across the cycle.

Secondaries: We have been a pioneer in secondaries for over 20 years. Our team focuses on sourcing non-auctioned, complex and unlevered acquisitions of portfolios. Returns are driven by growth, not leverage, and we focus heavily on risk mitigation, leading to a low loss ratio of below 1%.

Emerging Managers: Emerging managers have been a component of our portfolios since the 1990s. This strategy targets the first or second funds of managers who are backed by supportive market conditions, have regional or sector expertise and a differentiated sourcing approach, plus a strong track record of creating value and successful exits.

Climate Impact: While climate Impact is our newest strategy, we have invested in companies providing solutions to the climate challenge for over a decade. This strategy seeks high growth companies driving the transition to a low carbon economy while targeting robust performance.

To find out more about Unigestion and our approach to private equity, please visit *www.unigestion.com.*

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Amundi ASSET MANAGEMENT | ETF

ETF Provider of the Year

ETFs have established themselves as highly useful investment tools for European pension funds, but only a select number of providers can be considered true leaders in this dynamic field.

The European Pensions ETF Provider of the Year award was designed to give recognition to those providers who have stayed ahead of the market to offer ETFs to pension funds and tailored their offerings to meet pension funds' ever-evolving demands.

The ETF Provider of the Year award went to Amundi ETF. Receiving the award was Pav Sharma, Amundi ETF (centre). Presenting the award was Mike Smaje, BESTrustees (right) and host, Rhys James (left).

This year's ETF Provider of the Year award went deservedly to Amundi ETF, for impressing the judges with its clear commitment to environmental, social, and governance (ESG) issues, a strong desire to understand its pension fund clients' needs, and the development of innovative solutions to meet those needs.

With more than €170 billion in ETF assets under management, and offering a range of over 300 ETFs across different asset classes, geographies, sectors and themes, Amundi has shown that it is certainly a leader in this field.

Rather than rely on its size to stay ahead of the game, the judges noted how Amundi still works hard to stay committed to its investors, helping them to ensure their money is being put to work in meaningful ways, with a focus also on both quality and cost-effectiveness.

This was highlighted, for example, in their focus on ESG and climate acceleration, topics clearly at the top of European pension funds' agendas.

The firm is continually developing its extensive responsible ETF range, and has made a commitment for it to reach 40 per cent of its total ETF range by 2025.

Recent highlights in this area include the listing of a new fixed income ESG ETF; the launch of the lowest-cost range of global ESG sector UCITS ETFs available in the market; the development of an even wider range of ETFs tracking EU climate indices; all alongside an ongoing commitment to voting and engagement.

Further examples showcasing how Amundi ETF works hard to meet pension fund clients' needs include the re-designing of one of its Euro Corporate IG ETFs to make it fully comply with the EU's Paris Aligned Benchmark.

In 2022, the company also launched an Irish Collective Asset Management Vehicle (ICAV) to provide an efficient domicile for European pension funds investing in global and US equities – further evidence, noted the judges, that this firm listens to the demands of the market and refuses to stand still.

Finally, Amundi ETF works hard to guide and educate its clients on the complex and ever-evolving ESG regulatory environment, showing again how it is keen to work closely with the market in order to be the best it can be in this space.

Huge congratulations to all of the team at Amundi ETF!

Bonds are Back and Aligned with a Greener Future

Bonds are back in vogue and of the current fixed income opportunities available, we believe Euro-denominated investment-grade credit offers one of the most compelling risk/reward profiles.

Flows to this asset class have accelerated over the past few months (€8.2 billion YTD[1]), supported by the positive performance of underlying exposures. Spreads have also reverted to the levels seen at the end of Q1 2022, prior to the bond market sell-off.

Although the environment for corporates will get tougher as the impact of higher rates bites, we believe that spread levels in the European corporate bond market have priced in a far bleaker-than-materialised outcome.

Moreover, investment-grade corporate credit shows low valuations with yield levels comfortably above 4%[1].

Marrying Bonds with the Paris Agreement

So how can investors tap into the potential opportunity in Euro-denominated investment-grade credit, while pursuing a climate-conscious strategy?

With climate change widely recognised as a clear and present threat to the planet, ever more investors are seeking to align their portfolios with the goals of the Paris Agreement.

An increasingly popular route is via climate-aligned indices. In 2019, the European Commission unveiled two benchmarks complying with the Paris Agreement, Aiming to support the climate transition by 2050 and limit a global average temperature rise of 1.5°C, one such index is includes the Paris-aligned Benchmark (PAB).

PAB indices focus on a decarbonisation level of at least 7% on average per year and a reduction in carbon intensity by 50%, versus the initial investment universe. Exclusion filters on companies involved in fossil fuel exploration and coal are also applied.

They have been widely embraced by the sustainable finance community, and a growing number of asset managers are incorporating PAB into their investment strategies. They may also be suitable for investors seeking to be at the forefront of the energy transition.

Capturing the opportunity

Combining investment-grade credit with a PAB benchmark can bridge the gap between having a core credit allocation with solid fundamentals and an enhanced ESG profile: the Bloomberg MSCI EUR Corporate PAB Green Tilted Index ties it all in.

When comparing this index with the parent index (Bloomberg Euro Corporate Index), the analysis shows very limited tracking error between a PAB-titled corporate bond index compared to the parent index.

Additionally, the PAB index allows for an improved ESG score and much lower carbon intensity. Performance is also broadly comparable.[2]

Therefore, investors wishing to tap into this opportunity, and also respond to the climate emergency may wish to consider ETFs with a PAB approach. It can help investors implement climate-conscious strategies in their portfolios by tilting towards constituents with better climate profiles, improved ESG scores and a far lower carbon intensity without affecting performance – all whilst being in line with the Paris Agreement's goals.

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1. Sources: Amundi ETF, Bloomberg, data as at 21/07/2023. Past performance is not a reliable indicator of future returns
2. Sources: Bloomberg, Amundi. Data as at 28/04/2023. ESG and Carbon ratings as at 31/12/2022. Past performance is not a reliable indicator of future performance.

Emerging Markets Manager of the Year

Investing in emerging markets (EM) can be challenging given the diversity of the asset class and higher volatility relative to developed markets. However, the rewards can be substantial and after a difficult period, EM is back on the agenda for many European pension funds. This award recognises managers that apply a disciplined investment process to achieve consistently superior investment results in EM.

The Emerging Markets Manager of the Year award went to GoldenTree Asset Management. Receiving the award was Elizaveta Andreeva, GoldenTree (centre). Presenting the award was Evalinde Eelens, Ravenna Consulting (right) and host, Rhys James (left).

Congratulations to this year's worthy winners – GoldenTree Asset Management! GoldenTree is one of the largest independently-owned global credit managers and the firm has a long, successful history of partnering with European pension funds. The firm has been investing in EM for over 20 years and its dedicated EM debt strategy is over $1.8 billion with European pensions representing roughly two-thirds of the strategy's assets under management.

When selecting GoldenTree as this year's Emerging Markets Manager of the Year, the judges said: "This firm has a true understanding of the emerging markets space and applies a differentiated approach leading to strong results." The judges were particularly impressed with GoldenTree's dynamic, selective and catalyst-driven style, which has consistently achieved some of the industry's best absolute and risk-adjusted returns over a broad range of time horizons. GoldenTree's EM fund has outperformed its benchmark in every calendar year since its inception in 2017. Alpha has been derived from a broad range of sources and has been driven by bottom-up security selection, allowing the fund to deliver outperformance in both market rallies and sell-offs.

GoldenTree is distinguished by a number of factors, including its resources, approach and size. The strategy's lead portfolio managers have over 25 years' experience on average and are supported by a team of experienced EM specialists that cover the full universe of EM sovereign and corporate issuers. Furthermore, the EM team leverages the deep resources of GoldenTree's broader credit platform.

The judges were also impressed by the team's highly active approach to identifying the best return opportunities across the full EMD universe, including sovereign, quasi-sovereign and corporate issuers from over 90 EM countries. The foundation of GoldenTree's approach is its forward-looking research and its proprietary fundamental sovereign scoring system which allows for relative value comparison across the investment universe. Size is also a key differentiator for GoldenTree's EM strategy which is large enough to be a key counterparty, and yet highly nimble and able to generate alpha in ways that large EM managers may not be unable to. Congratulations to GoldenTree on helping European pension investors achieve success in their EM allocations!

It's Time to Reconsider Emerging Market Debt Mandates

Not surprisingly, pension fund managers are reassessing fixed income allocations. After spending the past decade moving down in credit quality or foregoing liquidity in search of yield, investors can now achieve higher yields across a broad range of fixed income asset classes. However, with growth and inflation outlooks varied across the globe, investors should emphasize the best relative value opportunities across the fixed income universe and the optimal implementation to access these opportunities. Emerging market debt (EMD) is one area where we see a compelling opportunity to capture attractive yields without sacrificing credit quality or liquidity. Hard currency EMD yields close to 9% and has an average credit rating on the cusp of investment grade. Over the last two decades, there have been only two periods when yields have been higher—the Global Financial Crisis and COVID-19. Fortunately, the outlook today is brighter. Inflation has eased in most developed and emerging markets and although global growth is slowing, the growth outlook for EM is improving relative to the developed world for the first time in nearly a decade. Additionally, EM has absorbed external shocks from ongoing geopolitical and macro crosscurrents.

Still, demand for EMD has not yet reflected this improved outlook. Since the start of 2022, EMD has suffered outflows of more than $100 billion which equates to over 15% of asset class AUM. The reduction in allocations may be partially explained by investors having chosen a sub-optimal approach to EMD resulting in a poor experience. EMD is a large and highly diverse asset class with an investable universe of roughly $7 trillion across hard and local currency sovereign, quasi-sovereign, municipal and corporate debt issued by over 90 countries. Outcomes have been starkly different depending on which of these sub-sectors investors have allocated to. In short, hard currency investors have been rewarded with attractive long-term risk-adjusted returns while local currency investors have had a much bumpier ride. The hard currency index has delivered an annualized return of around 7% over the past 25 years. Meanwhile, local currency debt has been a tale of two markets with a 12% from its 2003 inception through 2012 and a -1% return since then. This has made for a difficult experience for investors with a strategic allocation to local debt, either on a dedicated basis, or as part of a blended mandate, highlighting the importance of selecting the optimal approach to EMD. We believe the best starting point for an EMD allocation is hard currency debt given its attractive risk-adjusted return profile. Local currency debt can at times provide high levels of return but is highly cyclical. Thus, we believe local currency debt should be used opportunistically as an accent to a hard currency focused mandate to enhance a portfolio's return profile. Accordingly, we look across each country's capital structure to identify the best sources of value based on the market opportunity.

We expect the environment going forward to be characterized by a high degree of dispersion given the macro backdrop and the breadth and diversity of EMD. Therefore, investors should seek to identify managers with a proven ability to earn attractive returns and superior information ratios. While an EMD allocation is not without risk, risks can be mitigated through rigorous, bottom-up fundamental analysis and a robust risk management process. We are confident that GoldenTree's dynamic, selective, and catalyst-driven approach is an optimal implementation to capture the structural attractiveness of EMD.

By Matias Silvani (Partner, Head of Emerging Markets) and Vladimir Liberzon (Partner, Portfolio Manager)

Rothesay

Risk Management Firm of the Year

The Risk Management Firm of the Year award went to Rothesay. Receiving the award was Katie Overton, Rothesay (centre). Presenting the award was Richard Poole, Royal Mail Group (right) and host, Rhys James (left).

Effective risk management is high up on the agenda for European pension funds bearing the burdens of increased risk, stringent regulation, and a brighter spotlight on governance. The Risk Management Firm of the Year Award looks to reward those firms that have assisted European pension funds in their quest for better risk management in this ever unpredictable economic landscape.

This year's worthy winner was Rothesay who put forward what the judges called "an outstanding entry highlighting its commitment to developing innovation where needed, its passion for high levels of client service and its strong performance".

Rothesay is one of the UK's leading pensions insurance specialists, purpose-built to protect pension schemes and their members' pensions. It manages over £47 billion in assets, secures the pensions of over 825,000 people, and pays out, on average, over £200 million in pension payments each month. However it wasn't just size of assets under management that made Rothesay this year's winner, but, said the judges, "it's about how this firm approaches everything it does – with a keen eye on excellence at every level, its use of innovation, and a pure passion for improving this important area of the European pensions space".

2022 was an extremely busy and challenging year for the UK buyout market, and for Rothesay it was one of the most exceptional years for the firm to date. As part of securing the benefits of their new pension fund clients, they developed multiple innovative solutions tailored to meet each scheme's needs, as well as making huge strides in the area of ESG - and all whilst maintaining robust capital positions and providing excellent service to clients, industry and staff.

Rothesay's innovation cut across many areas of its work in 2022 – in relation to illiquid assets; helping schemes to reduce their trading exposure in the run up to transacting; offering solutions for in-house administration teams; and insuring complex benefit features, to name a few. In terms of performance, in 2022, Rothesay excelled at winning new business across 10 pension schemes, whilst its Solvency Capital Requirement coverage ratio remained highly robust, increasing from over 200% at the start of the year to over 250% by the end of the year. Throughout the year, its policyholder satisfaction levels also remained high with 95% of policyholders rating Rothesay's service as excellent or good.

The judges were also impressed with Rothesay's work in relation to ESG, with the firm having reached a number of commendable milestones in 2022, and its Carbon Intensity dropping by 7% over the year.

Rothesay stood out for its dedication to offering quality service across the board to its clients; to the pensions industry as a whole; and also to its staff.

A well-deserved winner of this year's Risk Management Firm of the Year award. Well done Rothesay.

Protecting the UK's pensions. Now and in the future.

At Rothesay, we look after over 825,000 pensions, securing the future for every one of our policyholders.

Find out how our award-winning approach to risk management can support your journey to buy-out at Rothesay.com

Rothesay
Protecting Pensions

European Pensions AWARDS 2023

WINNER
Risk Management Firm of the Year

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Currency Manager of the Year

Investing in foreign assets is as popular as ever among European pension funds today, as they continue to seek returns in an ever more challenging economic environment. As with any investment, however, there are associated risks that need to be managed, with currency risk being one of the most complex. As a result, any firm that can truly assist pension funds in managing this risk effectively deserves recognition.

The Currency Manager of the Year award went to HSBC FX Overlay. Receiving the award was Marc Tuehl, HSBC (centre). Presenting the award was Laura Blows, European Pensions (right) and host, Rhys James (left).

The Currency Manager of the Year award was designed to highlight those currency managers that have displayed a superior capability and expertise in this complex sector and work hard to constantly evolve their offerings.

This year's worthy winner, HSBC FX Overlay, provides scalable front-to-back FX risk management services for clients looking for strategic solutions in order to achieve their individual FX objectives.

The judges praised HSBC for "its comprehensive service" and for showcasing a true understanding of navigating the complexities of currency risk management in today's world.

This firm, added the judges, is "a clear leader in the field", and continually works hard to build long-standing partnerships with pension funds in order to help it deliver the very best in tailored solutions to meet their individual needs.

Additionally, despite being a long-established player in this segment of the market, HSBC continues to evolve, constantly investing in innovative technology to enhance its offerings, always striving in order to ensure it is doing the very best for its clients and stay one step ahead of its peers.

The firm put forward an excellent submission, highlighting how it delivers its expertise via four key 'layers': Strategy Definition, Risk Management, FX Execution and Risk and Performance Services. At each layer, HSBC impressed the judges with its clear understanding of what's needed in order to offer the very best to meet its client needs, whatever challenges they face.

HSBC consults effectively with its clients in order to implement the best strategies to meet their needs, be they passive, dynamic or both.

It continues to invest heavily in technology to ensure that its offers a scalable, best-in-class service, without jeopardising risk control.

It uses innovation across all levels of its offerings to stay ahead of the market; and it provides comprehensive FX reporting and consultative services along the way.

Finally, in its submission, HSBC re-enforced the effectiveness of its approach with the use of a detailed case study, where it further evidenced how working closely with pension funds to understand their demands, and drawing on its unrivalled expertise, helps ensure it is delivering the right products to meet their client needs, however complex they may be.

Well done HSBC – an excellent winner!

What’s
your plan

if we
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Schroders
solutions

LDI Manager of the Year

The LDI Manager of the Year award went to Schroders Solutions. Receiving the award was Chetan Ghosh, Schroders (centre). Presenting the award was Camilla Capece, European Pensions (right) and host, Rhys James (left).

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. With this award, we recognise the firms that have excelled in their LDI offerings in an effort to assist European pension funds better match their assets with their liabilities going forward. A massive congratulations is therefore in order for the winner of this year's LDI Manager of the Year award – Schroders Solutions!

The judges said that Schroders demonstrated a true understanding of the complexities of LDI's role in the pension fund space, continues to be innovative in this area, and boasts positive feedback from its clients. In a hugely challenging environment amid the volatility in the gilts market in the UK, Schroders approach to LDI and its proposition for clients came through the crisis standing ahead of the other players in the LDI space. Due to the firm's expertise and successful navigation of the crisis, its LDI clients were able to focus on the bigger picture issues and decisions they needed to make, rather than being concerned about their LDI portfolios.

Schroders proved its ability to navigate difficult circumstances through its LDI approach. Over the last decade, it invested heavily in its systems and infrastructure, ensuring its clients' portfolios were understood at all times. Furthermore, for Schroders Solutions' LDI clients implementing LDI on a segregated basis, it meant that more flexibility was available in top-up timing and counterparties could be engaged with to manage the timing of payments.

The liquidity management of the firm's bespoke pooled fund solution stood out for the judges, with its enhanced Liquidity Management Application allowing the LDI portfolio managers to place over 48,000 LDI pooled fund or growth asset re-capitalisation/de-capitalisation trades over 2022 to ensure portfolios were adequately capitalised. Despite the challenges posed by the gilts crisis, at no point did Schroders Solutions suspend a pooled fund or cut any positions within a pooled fund, again showcasing why the firm deserved to win this year's award.Schroders moved quickly to address the challenges of the crisis, with its wide depth of resource enabling the firm to ensure resources were available to its business and clients to manage the implications of the extreme market moves. During the crisis, the company showed its commitment to ensuring the best possible outcomes through daily crisis management meetings and twice daily meetings with representation from across the firm to ensure a joined up and effective response. Having core functions in-house also allowed the firm to control the resource needed to support the LDI business rather than relying on already overwhelmed outsourced providers. Congratulations again to Schroders Solutions on a much-deserved award win!

Experience the difference with Schroders Solutions

Delivering exceptional LDI solutions tailored to you

With Schroders Solutions, you can trust that your Liability Driven Investment ("LDI") needs are in good hands. We keep our promises – they're backed by a proven track record of delivering bespoke client outcomes through our solution-focused platform and robust operational systems.

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Schroders solutions

ESG/SRI Provider of the Year

European pension funds are becoming increasingly aware of the impact environmental, social and governance (ESG) issues can have on their portfolio returns, facing growing pressure from savers, regulators and governments alike.

This award therefore aims to recognise the leaders in this increasingly significant and competitive space. The judges praised this year's winner on showcasing a whole plethora of ways in which it stands out, both in what it continues to achieve in the ESG arena, and the innovation it continues to develop.

The ESG/SRI Provider of the Year award went to AXA IM. Receiving the award was Claudia Sanchez and Tim Banks, AXA IM (centre). Presenting the award was Shannon Woods, Perspective Publishing (right) and host, Rhys James (left).

Congratulations to all of the team at AXA Investment Managers (AXA IM)!

The firm has continued to grow its ESG expertise since being awarded its first responsible investment mandate in 1998, and now has 15 impact strategies across its core business and 34 specialists putting this expertise to work.

2022 saw further improvements, as AXA IM worked to increase both its engagement and education efforts.

This included the launch of its Investment Institute, a new platform designed to help clients make better informed investment decisions by bringing together expertise across the firm's research and investment teams.

Alongside this, the business introduced a new "Three Strikes and You're Out" policy, which prompted a more forceful engagement campaign with a selection of companies that lacked net-zero commitments or whose quantified emissions reduction targets are insufficiently demanding or not credible.

The firm also reported a 108 per cent increase in the number of engagements since 2021.

Increasing its accountability, AXA IM also launched a new progress monitor, to sit alongside its financial targets and indicators as additional indications of its progress as an investor and a business.AXA IM has shown no signs of slowing down though, as 2023 saw the firm include ESG targets in the remuneration of its senior executives for the first time.

Those leading the industry cannot simply follow the example of others though, and AXA IM also continued to push boundaries in terms of ESG disclosures, sharing its global carbon footprint including Scope 3 emissions for the first time, and piloting new biodiversity metrics in its Taskforce on Climate-related Financial Disclosures report.

The business has also worked hard to ensure that these disclosures remain decision-useful, further enhancing its client reporting standards in line with changing requirements.

The fruits of these efforts are clear, as 65 per cent of AXA IM's assets are now managed in line with its goal of achieving net zero by 2050.

Congratulations to all of the team at AXA IM!

Marketing communication

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Custodian Firm of the Year

A custodian/transition manager can have a significant impact on a pension scheme's investments and can play a vital role in helping schemes achieve their investment aims.

Therefore, this award recognises those custodians that have proved themselves as leaders in this market with their excellence, innovation and dedication to meeting European pension funds' demands in today's market.

The Custodian Firm of the Year award went to BNP Paribas. Receiving the award was Daniel Gonzalez Fuster and Grant Copleston, BNP Paribas (centre). Presenting the award was Matti Leppälä, PensionsEurope (right) and host, Rhys James (left).

This year's winner impressed the judges with its strong client focus and demonstration of the plethora of ways it strives to meet clients' evolving needs. Congratulations BNP Paribas!

BNP Paribas' Securities Services business is the only European player among the world's top five custodians, making it ideally positioned to help pension schemes with their liquidity, assets diversification and ESG needs.

Never was this more evident than last year's UK gilt crisis, which required European pension funds to rethink their OTC-related hedging activity, with collateral usage expected to move from cash to securities holding. Given the ongoing market volatility and high interest rates of the last year, European pension schemes need tools to simulate crisis situations in order to mitigate liquidity risks and monitor exposures.

To help with this, BNP Paribas' Securities Services business predictive collateral coverage reporting is an innovative and unique risk management solution, suited for pension funds with large books of OTC and listed derivatives. Its solution facilitates the liquidity/counterparty risk management with key features to assess the risk of liquidity shortfalls up to 10 years in the future.

BNP Paribas also delivers a cross-asset clearing service, with a direct presence on 70+ of the world's largest exchanges. By combining its OTC and listed clearing and execution expertise with collateral and custody experience, BNP Paribas is able to offer a single entry point, specialist reporting tools and cash settlement netting across all OTC and ETD transactions.

In 2022, Securities Services at BNP Paribas further developed its triparty collateral management platform, including a digital matrix capability.

As implementing quality ESG data is often a barrier to ESG integration, BNP Paribas has evolved and expanded Manaos, its investment data platform that has become a reference point for ESG reporting and analytics. Securities Services at BNP Paribas is also increasingly embedding ESG into its core asset servicing solutions to help pension funds monitor their ESG principles related to sustainability engagement activity. In 2023, the bank enhanced its investment compliance screening capabilities to include a wide range of ESG criteria, which enables pension funds to ensure that their ESG commitments and frameworks are being met.

TO ACCELERATE CHANGE, WE CONNECT YOU TO EXPERTS AROUND THE WORLD.

Within **Securities Services** at BNP Paribas, we support your global ambitions and sustainable investment strategies.
Our experts around the world provide you with the connectivity, technology and local knowledge you need in today's fast-changing world.
Getting to a better future faster, together.
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Pensions Insurance Firm of the Year

With many defined benefit (DB) pension schemes maturing across Europe, this category recognises performance in providing bulk annuities, longevity insurance and other pensions insurance structures to address the ongoing de-risking needs of pension funds throughout Europe.

This year's deserved winner was Pension Insurance Corporation (PIC), with the firm displaying innovation and providing excellent service to its pension fund clients and members. Upon selecting PIC as this year's winner, the judges said: "With an impressive catalogue of business over the last year, strong performance, a commitment to customer service, and a keen eye on the importance of diversity and inclusion, this firm was a worthy winner."

The Pension Insurance Firm of the Year award went to PIC. Receiving the award was Clive Booth, PIC (centre). Presenting the award was Lucie Fisher, European Pensions (right) and host, Rhys James (left).

During the year, PIC secured the pensions of tens of thousands of members through de-risking transactions, including a £1.1 billion full-scheme buy-in with the EDS 1994 Pension Scheme and a £600m buy-in with the House of Fraser, Beatties & Jenner's Pension Fund. It had new business premiums of £4.1 billion and a business pipeline of an astonishing £30 billion. This impressive scale also enabled PIC to invest £2.2 billion directly in the UK's economy during the year, including huge investment in social housing, highlighting the firm's commitment to helping the country meet its development goals.

Not only was the firm's performance commended by the judges, but they also highlighted the exceptional work PIC had undertaken in the area of ESG. PIC published its first TCFD report, setting out its climate-related disclosures, and building on its commitment to be net zero across its own emissions by 2025 and across all sources of carbon emissions by 2050. Furthermore, PIC forward funded a £105 million net-zero carbon office in Manchester to be let to the UK Government Property Agency, which was awarded an 'A' rating, signifying best practice in the built environment sector.

The judges also expressed their admiration of PIC's performance, with the firm's solvency ratio in excess of 225 per cent. The insurance company paid out £1.76 billion in pensions during the year and received extremely impressive scores on transparency and accountability, with 99.6 per cent of its policyholders indicating they were 'satisfied or better' with the firm's customer service.

PIC was commended for its work on diversity and inclusion through its PIC Academy, which is an early careers talent development programme focused on diverse candidate shortlists, and its continued spearheading of the cross-industry Actuarial Mentoring Programme, which helps increase diversity and employee engagement. Furthermore, the insurance company has displayed strong progress on reduced the gender pay gap, with its mean gender pay gap well below the finance services sector average.Congratulations again PIC!

We're proud to pay Ken's pension every month...

...and to have secured the pensions of 302,199 more people like him.

At PIC, we have a simple purpose: 'to pay the pensions of our current and future policyholders'.

Ken is one of those policyholders. When he retired, he still had plenty of wind in his sails, so he volunteered to help the next generation of British sailors to grow and thrive. He can do that thanks to the pension he receives on time, every time. Ken's just one of the 302,200 reasons we're proud to pay our policyholders pensions.

If you would like to find out how PIC can help your defined benefit pension scheme members, enjoy the retirement they've worked so hard for, visit:

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Pension Technology Provider of the Year

Effective and reliable pensions technology is essential for the successful running of any pension fund. The Pensions Technology Provider of the Year Award recognises the firms that are leaders in the field of pensions technology, and ultimately reward who is the best of the best. The company that stood out from the crowd this year and is therefore the worthy winner of the award was Heywood Pension Technologies – congratulations!

The Pension Technology Provider of the Year award went to Heywood. Receiving the award was Fraser Smart and Sian Jones, Heywood (centre). Presenting the award was John Woods, European Pensions (right) and host, Rhys James (left).

The judges said that, with an impressive array of case studies and client testimonials, Heywood showcased how it continues to use innovative and effective technology to meet the diverse and complex needs of the pension space. They were particularly impressed by the firm's establishment of a new specialised data business – Heywood Analytics. This specialised area of the business focuses on transforming the quality of pension data with the use of automated technologies, allowing providers to focus on improving member outcomes.

With employers supplying nearly all the data that pension funds hold for members for many pension schemes, Heywood spotted a way to mitigate the risk of employer submitting incorrect data and save administrators time through an employer services solution, i-Connect. Heywood developed the solution with an automated exchange, so employers can submit timely data and payments.

Heywood's i-Connect has an innovative, secure and accessible portal that collects data in one batch, with this straightforward approach resulting in an impressive 97 per cent of annual benefit statements being produced for the first time without error for one of its clients, the Warwickshire County Council Pension Fund, thanks to regular and ongoing data updates. Furthermore, the fund's administrators saw a staggering 93 per cent fall in fund-to-employer queries during this time.

Its business intelligence capability, Insights, has helped trustees and fund managers with the production of data reports and the challenge of exporting information from various systems. The judges were impressed by Insights' innovative approach of integrating directly with scheme pension data anytime and anywhere. The solution enables teams to easily extract and readily present information, combining ready-made and customisable dashboards and reports, showcasing Heywood's ability to create time-saving and convenient solutions for its clients. Several pension funds highlighted the benefits that the solution provided when producing data reports.

One of the biggest technological advancements in the pensions industry is the development of dashboards, and Heywood again proved it was ahead of the pack in this area, further highlighting why Heywood is this year's deserved winner of the Pensions Technology Provider of the Year award.

Data.Engagement.Administration.Tracing Governance.De-risking.Regulations.Fraud. Automation.Calculations.Dashboards.Data. Engagement.De-risking.Governance. Tracing.Regulations.Fraud.Analytics.Automation.Calculations.Dashboards.Data. Engagement.Administration.Governance. Tracing. De-risking. Regulations. Fraud. Analytics. Automation. Calculations. Dashboards. Data. Engagement. Administration. Governance. Tracing. De-risking. Regulations. Fraud. Analytics. Automation. Calculations. Dashboards.

Old problems.

New solutions.

Heywood build modern software solutions for pension schemes, pension administrators and employers to help transform how their members manage their lifelong financial journeys.

Pensions Innovation Award (Investment)

No industry can sit still and the pensions industry is no exception, with plenty of innovation seen over the past year, be that in the area of investment, product design, de-risking or any other area.

Against this ever-changing backdrop, this award aims to reward those across Europe that have truly added value to with their originality and innovation.

The Pensions Innovation Award (Investment) went to LGIM. Receiving the award was Niamh Conneally, LGIM (centre). Presenting the award was Mike Smaje, BESTrustees (right) and host, Rhys James (left).

This year's winner was praised by our judges for showcasing a number of innovative projects and displaying a true commitment to using innovation to improve the member experience in new and important ways.

Congratulations to all at Legal & General Investment Management (LGIM)!

With so many struggling as the cost-of-living soars, LGIM placed a renewed focus on taking innovative approaches to provide practical and holistic support for members facing tough times.

Working to remain sensitive to the financial realities for those simply unable to invest in a pension right now, LGIM focused its efforts on doing whatever it could to maximise the chances of as many people as possible to achieve more financially secure retirements.

Taking a holistic approach, LGIM's efforts were spread across a number of new initiatives designed to help schemes deliver good quality pension provision and support member wellbeing.

This included a new scheme to support member wellbeing, a partnership with educational charity, RedStart, to promote financial literacy, and driving change within the industry.

Wary of the need to stay abreast of members' concerns to provide the right support, LGIM also launched a new online community, LGIM's Insight Lab, to encourage dialogue with members.

Around 9,000 DC workplace members joined this live, 24/7, fully-moderated online portal, taking part in surveys, polls and video focus groups that help LGIM to develop new products, services and campaigns.

LGIM also introduced more targeted support for members, with the launch of a new member outcomes tool, designed to provide greater insights into their membership's needs, and view the likelihood of their entire membership attaining a prescribed Pensions and Lifetime Savings Association (PLSA) retirement living standard.

Innovation cannot be isolated just to one scheme or provider, however, and LGIM has acted to influence how the broader industry and policymakers rise to the challenges of those unfairly penalised by current pension provision. Backed by original research, the firm has made recommendations in a number of crucial areas, such as the gender pensions gap.

Amid a challenging time, LGIM has shown its dedication to all retirement savers, not just those in its own schemes. Congratulations again on a well-deserved win!

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Master Trust Offering of the Year

Master trusts often lead the way in driving innovation and change throughout the sector, as pension funds continue to look for ways to control their costs, without compromising on quality and governance. Therefore, the European Pensions Master Trust Offering of the Year award recognises the master trust that is ahead of the game in this dynamic space.

The Master Trust Offering of the Year award went to Legal & General. Receiving the award was Paul Gilbertson, Legal & General (centre). Presenting the award was Olivia Richardson, Perspective Publishing (right) and host, Rhys James (left).

This year's winner impressed the judges with its commitment to members, innovation, and strong awareness of what's happening in the world around them, and what this means for their clients. Congratulations Legal & General!

At the end of 2022, Legal & General's master trust celebrated the significant achievement of passing £20 billion in assets under management, making it the largest commercial master trust in the UK market.

Its dedication to its members is a major reason for Legal & General's master trust's popularity.

For instance, in 2022 Legal & General recruited its first member advisory panel, which was developed solely for listening to member priorities.

The innovative panel meets quarterly, drawing on the experiences of a diverse group of members across a range of industries and roles. Themes discussed include ESG, tax-free cash and financial priorities during the cost-of-living crisis, with the feedback directly shaping the content in Legal & General's online response hub and the member-facing ESG hub, as well as influencing how members can view and analyse their investment performance in the member portal Manage Your Account.

The panel is supported by Legal & General's Insight Lab, a 24/7 online insight portal that allows a two-way dialogue with members, which went live at the beginning of May 2022 and has 9,000 active members.

Another offering from Legal & General's master trust, its My Scheme Intelligence (MySi), allows clients to self-serve and gain valuable insights into scheme performance and member behaviour. They can link to a wide range of ready-made member facing campaigns, covering topics such as new scheme launch, wellbeing, registering for Manage Your Account and the importance of nominating a beneficiary. The inbuilt segmentation capability allows clients to use data trends to engage with their workforces.

Legal & General has also continued its march towards net zero at an impressive pace.

In November 2022 the master trust published its first Task Force on Climate-related Financial Disclosures (TCFD) Report, with positive progress made towards delivering net-zero alignment across the master trust's default funds by 2050.

For putting members at the heart of the master trust and its achievements towards reaching net zero, Legal & General is clearly the worthy winner of this year's Master Trust Offering of the Year award.

Legal & General credits member focus for award-winning success

In early 2023, the Legal & General Mastertrust surpassed £20 billion in assets under management (AUM) – the first commercial master trust in the UK to reach this milestone.

With 275 participating employers looking after the retirement savings of over 1.8 million members, it also made it the largest commercial master trust in the UK.

We're proud that our strong market position means we're able to invest more in our services and achieve economies of scale that aim to deliver value for members and clients.

The L&G Mastertrust's independent board of trustees set up its member advisory panel which has since become an established forum for members and trustees to discuss issues close to members' hearts. As the award judges noted, the panel is supported by our 24/7 Insight Lab, allowing us to test and develop communications using direct member feedback. The trustees, whose governance document clarifying roles and responsibilities was recently highlighted as best practice by The Pensions Regulator, also run a virtual annual member forum with the number of attendees increasing every year.

Meanwhile, we created our uncertain times hub to help provide information to members with questions about their pensions, savings and other investments during volatile times. In addition, we introduced a service called Legal & General Financial Advice (LGFA) for members aged 45+ with pension pots of £20,000 and above to access advice more easily.

Supporting members means supporting their employers, so we have the Mastertrust Employer Group, now celebrating its 10th year. The quarterly forum supplies updates on all aspects of the scheme and gives trustees the opportunity to listen to, and act on, employers' feedback.

Our 24/7 interactive dashboard, My Scheme Intelligence (MySI), supplies scheme managers with real-time data, while our new scheme management tool, My Scheme Updates, gives clients a straightforward way to share their pension enrolment and contribution data with us.

As the judges noted, The L&G Mastertrust published its first Task Force on Climate-related Financial Disclosures (TCFD) Report in 2022 highlighting that since December 2019, our Target Date Fund Growth Phase has reduced its carbon footprint by more than 50%, along with a 25% reduction across our Future World Multi-Asset Fund and a 23% reduction across our Multi-Asset Fund.

For schemes considering pensions consolidation, we aim to offer Own Trusts a smooth transition into the L&G Mastertrust.

We're delighted to have won this award recognising our commitment to adapting to the changing needs of clients and members – particularly given the challenging market conditions of recent years.

Rita Butler-Jones
Head of DC
Legal & General Investment Management

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Factor Investing Offering of the Year

In a challenging investment environment for European pension funds last year, all available levers were required to ensure the strongest risk-adjusted returns. Factor investing played a key role, providing cost-effective exposures in a volatile time. Russell Investments showed that it had the expertise needed to help pension funds take advantage of the opportunities that factor investing provides, which is why it is the deserved winner of this year's Factor Investing Offering of the Year award.

The Factor Investing Offering of the Year award went to Russell Investments. Receiving the award was Chris Davies, Russell Investments (centre). Presenting the award was Shannon Woods, Perspective Publishing (right) and host, Rhys James (left).

The award recognises firms that have a true understanding of the role factor investing can play in pension portfolios today and have demonstrated a true expertise in implementing this dynamic strategy. Russell Investments was selected as this year's winner due to its impressive and continual research, client education and an ESG focus - all of which put this factor investment specialist ahead of the rest.

"Impressive and continual research, client education and an ESG focus all put this factor investment specialist ahead of the rest for the judges"

Russell Investments' wider multi-asset expertise enabled it to support investors in incorporating relevant factor strategies into their portfolios, enabling symbiosis with active managers, with these strategies spanning equity, fixed income and currency markets.

Within equities, Russell Investments highlighted two recent themes of innovation: Quality income and ESG enhancements. In 2022, Russell Investments enhanced its Intelligent Credit strategy to reduce the carbon exposure compared to the benchmark while tracking the risk and return of the underlying strategy. The strategy outperformed the broad credit benchmark and peers during the year, acting as a defensive lever in its global bond funds and improving risk-adjusted returns.

Russell Investments also successfully accessed currency markets factor strategies, ensuring stable returns at a lower cost compared to active management.

While the firm's 'standalone' Absolute Return Currency Strategy delivers equal weighted exposure to carry, value and trend, in 2022 it introduced an adapted strategy (50 percent value, 25 percent carry, 25 percent trend) into its clients' fixed income portfolios to offer diversification and improve downside protection, highlighting Russell Investments' ability to innovate.

The judges expressed their admiration for the firm's impressive investment performance in both equities and fixed income in a period of high volatility.

Congratulations again to Russell Investments!

Factor strategies: Providing strong risk-adjusted returns

In 2022, European pension schemes faced market headwinds and struggled to achieve strong risk-adjusted returns. Factor strategies bridge the gap between active and passive, lowering costs and providing an efficient tool by allowing for specific exposure in the most effective way. This can mean reducing unintended exposure to volatility risk, or targeting specific levels of exposure to other factor strategies, such as; value, momentum and quality.

At Russell Investments, we believe that factor strategies can be most effective when used across a wide range of asset classes in order to diversify risk exposure. We invested in factor research and development to enhance the integration of key criteria for pension funds.

Equities: Themes of innovation

Within equities, two recent themes of innovation include quality income and ESG enhancements. Quality income is a strategy which offers exposure to stable companies with reliable dividend yields. It complements active managers, given its low correlation with their strategies.

In order to continue to enhance our ESG offering, we implemented a factor decarbonisation strategy across many of our equity funds for a further 25% reduction in carbon footprint and fossil fuel exposure, relative to their managers' portfolios. This tilts the portfolio towards more ESG-friendly exposures, making these funds Article 8 compliant.

Fixed Income: Decreasing carbon exposure

Since 2016, our Intelligent Credit strategy has performed well in distressed markets, reducing volatility. In 2022, we enhanced this strategy to decrease the carbon exposure compared to benchmarks, while tracking the risk and return of the underlying strategy. The strategy outperformed the broad credit benchmark and peers during 2022, acting as a defensive lever in our global bond funds.

Foreign Exchange: Lowering costs

We have successfully accessed currency markets through factor strategies, ensuring stable returns at a lower cost versus active management. While our standalone Absolute Return Currency Strategy delivers equal weighted exposure to Carry, Value and Trend, in 2022 we introduced an adapted strategy (50% Value, 25% Carry, 25% Trend) into our clients' fixed income portfolios to offer diversification and improve downside protection.

Chris Davies
Managing Director,
Head of EMEA Customised Portfolio Solutions
Russell Investments

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Best Investment Strategy

Amid the ongoing volatile and challenging economic landscape across Europe, it has never been more important for pension schemes to adopt innovative and dynamic investment strategies. Nest has proved that it continues to understand this need for innovation and is the worthy winner of the Best Investment Strategy Award for the second year in a row.

The Best Investment Strategy award went to Nest. Receiving the award was Mark Fawcett, Nest (centre). Presenting the award was Sophie Smith, European Pensions (right) and host, Rhys James (left).

The judges were impressed by Nest's ability to approach the challenging environment head on, and stated: "With a sophisticated and innovative investment approach across a range of areas, this entry stood out among the rest for never standing still and doing its utmost to meet the investment needs of its members."

Nest's investment strategy smoothed the ups and downs of market volatility over the year, while still supporting its members' money to grow at a steady pace over the long term. The judges highlighted diversification and a strong commitment to ESG as two factors that proved Nest was ensuring its members see their pots grow and was the deserved winner of this year's award in an extremely competitive field.

The pension scheme pushed the boundaries to seek out new asset classes to help mitigate the volatility and became one of the first UK DC pension schemes to invest in private equity. It was this kind of innovation that helped Nest stand out from the crowd. Nest appointed two new fund managers to focus on growth and middle market deals, and the pension scheme estimates that it will have at least £1.5bn invested in private equity by early 2025 and more than 5 per cent of its portfolio in the longer term. It proved it was ahead of the game, with private equity becoming an increasingly popular asset class for DC schemes in the UK.

Nest also proved that it understands its membership, as the long-term nature of private market investments suiting their relatively young membership base perfectly. Furthermore, private equity investments are likely to generate superior returns than other asset classes, which is imperative in this period of high inflation.

As a private equity investor, Nest is also able to have a more concentrated influence on companies that it invests in, improving its ESG credentials. The judges were impressed by the pension scheme's commitment to responsible investment and stewardship, with Nest setting targets of halving the carbon emissions of its investments by 2030 and being net zero by 2050 at the latest. It displayed innovation through the development of four key commitments: Asset allocation, fund manager selection and monitoring, stewardship and public policy. The judges also highlighted the excellence of Nest's default fund offering, which has low charges for members and provides annualised returns that are among the best in the UK industry. Congratulations again to Nest – worthy winners of this year's Best Investment Strategy Award!

An award-winning investment strategy

Our expert in-house investment team works with the leading fund managers in every asset class to access a wide range of global investments. We design our default funds around the year we expect members to retire, aiming to produce strong returns without taking undue risk. Our size and scale opens doors to exciting investment opportunities, including private equity.

Find out how our award-winning strategy is delivering for customers.

nestpensions.org.uk

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nationalpensiontrust
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Communications Award

European pension schemes have continued to showcase some excellent pensions offerings, but these efforts could be wasted if supporting member communications fail to deliver. This award therefore aims to recognise the pension funds that have used innovation and flair to make their member communications the best they can be, and have the results to back it up.

The Communications Award went to National Pension Trust. Receiving the award was Roz Watson and Fran Bainbridge, National Pension Trust (centre). Presenting the award was Georgie Gifford, Perspective Publishing (right) and host, Rhys James (left).

This year's winner was praised on the work it has done to make a real difference in this highly competitive and quickly developing space, demonstrating true improvements as a result of these efforts!

Congratulations to all of the team at National Pension Trust (NPT)!

Despite facing one of the most challenging periods for many, as savers faced a cost-of-living crisis, a possible recession, and rising rates of pension poverty, NPT took the chance to ensure that it was providing the best support possible to support members, and help them to improve and protect their financial futures.

This culminated with the launch of a new personalised video annual benefit statement campaign, acting as a supplemental communication to the traditional annual benefit statements.

These personalised clips allowed the scheme to use video to 'enhance' the existing customer journey, and offer a more accessible version of this important financial communication, that could otherwise risk falling by the wayside.

The campaign has already been rolled out to nearly 60,000 members, translating the impact of their unique choices and circumstances on their future retirement income in as little as 90 seconds.

And this has already translated into action, as NPT reported a 188 per cent increase in members logging in to see their video statements, with a 91 per cent video retention rate.

Pensions cannot be viewed in isolation, however, and this was not a standalone initiative. NPT also looked to provide broader support in the face of the cost-of-living crisis, with the launch of its holistic financial product, the Financial Wellbeing Hub.

Efforts to improve member experience also prompted the launch of a new DC Member Analytics tool to understand member behaviours and send bespoke communications, providing further insight into each unique member journey.

Alongside this, NPT launched a new contact centre for members, as well as a new education platform, XPSArena, which provides support and development for pension professionals.

Delivering results and stepping up to the challenge to support member wellbeing amid an incredibly difficult time, congratulations again to all of the team at National Pension Trust as well-deserved winners of this year's Communications Award!

nationalpensiontrust
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National Pension Trust

Who are we?

We're the National Pension Trust (NPT), a leading Master Trust, providing a high-quality, affordable service, offering choice and flexibility not commonly seen in pensions. 178 employers and 60,000 members trust us for excellent retirement outcomes.

Our vision

We're building a pensions culture so people value their futures and act now, leading to a better retirement. What was once confusing and restrictive is now agile for each member, with award winning support, so members are empowered to make the right decisions for them.

We provide a high-quality service, with clarity, diversity and Environmental, Social and Governance considerations at its heart.

Engaging communications and caring for our members

It's often tricky to get members to engage with their pension savings, so we:

- Nudge members that their savings exist and need attention;
- Educate and empower members to be in control of their finances; and
- Simplify the experience, to make taking action easier.

Our range of innovative materials support members from the moment of joining us right into their retirement and beyond. A true end-to-end service.

Top investment performance

NPT continues to be the top performing Master Trust. Even through testing times with the COVID-19 pandemic, we delivered strong returns.

"The scheme's investment approach has helped propel it to the top of the performance tables, across several time frames. Younger savers saw growth of 22.81% over the past year, and annualised returns of 12.94% over five years, both comfortably outperforming the CAPA average."

Corporate Adviser Intelligence. Master Trust and GPP Defaults Report April 2022.

We are proud to showcase our Financial Wellbeing Hub

Finances can be difficult; our Financial Wellbeing Hub enables our members to plan a better retirement, while helping them understand their entire financial landscape.

It brings together pensions, savings, banking, budgeting, goals and debts, giving members a 360° financial view. We aim to promote real financial wellbeing.

2023 Awards!

We're delighted to have received the European Pensions Communications award, for our video statements.

This year we've also been shortlisted for:

- 'The Campaign Innovation' award - Investment Marketing and Innovation Awards 2023
- 'DC Master Trust of the Year' award – Professional Pensions
- 'Master Trust Offering of the Year' – Pensions Age

Roz Watson
Head of Engagement
National Pension Trust

Innovation Award (Pension Fund)

Innovation has been rife in the European pensions space, be that in investment, product design, de-risking or any other area. With this Innovation Award (Pension Fund), we reward pension funds across Europe that have truly added value to the pensions space with their originality and innovation. In an extremely competitive field, this year's winner stood out from the crowd with its digital and communications innovations. Huge congratulations to the worthy winner – TPT Retirement Solutions!

The Innovation Award (Pension Fund) went to TPT Retirement Solutions. Receiving the award was Philip Smith and Peter Smith, TPT (centre). Presenting the award was Jerry Moriarty, IAPF (right) and host, Rhys James (left).

The judges stated that this firm stood out with its use of innovation to empower its members in a variety of ways that set the bar high for the industry. They were impressed by the transformation of TPT's communications and member experience, especially the focus on personalisation and digitalisation. The company displayed its ability to deliver a modern, compelling pensions experience by ensuring that its members have access to the right tools and information at the right time, enabling them to make informed decisions.

During the year, TPT showcased its commitment to innovation through the launch of its latest engagement initiative, which uses gamification to bring the Pensions and Lifetime Savings Association's Retirement Living Standards to life with its 'picture your future' interactive quiz. It also introduced a new pensions savings tool to help members understand if they are on track with their savings and easily model the impact of changing their contributions or retirement age, and enhanced its personalised video benefit statements. These kinds of innovations have never been more necessary for savers in the current climate and TPT proved it was committed to helping members achieve positive outcomes.

TPT's pledge to improve engagement was evident in its three overarching engagement objectives: Help members optimise their pots and achieve good outcomes, employer members to make informed decisions, and manage members' expectations in relation to their retirement income. The judges highlighted the results of TPT's engagement activities, including that the number of its members registering for an online account doubled in 2022 compared to the previous year and the sharp increase in the proportion of members' email addresses the firm has access to, as further reasons why it deserved to win this year's Innovation Award (Pension Fund).

Further proof of the company's successful innovations was found in the engagement levels with its new pensions savings tool and improved personalised video benefit statements. Within the first few months of its introduction, the savings tool was used more than 3,000 times, with members spending an average of five minute using the tool. TPT is clearly a market leader in innovation – congratulations again on the deserved award win!

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Diversity Award

The importance of diversity in all aspects of the European pension system is gaining momentum, with some pension providers and pension funds already leading the way in this evolving area. The European Pensions Diversity Award was designed to recognise those players that have shown a true understanding of the importance of diversity in today's climate, either in the way it has shaped its business, its workforce, its product offering or otherwise.

The Diversity Award went to Coronation Fund Managers. Receiving the award was Bryan Melville, Coronation Fund Managers (centre). Presenting the award was Olivia Richardson, Perspective Publishing (right) and host, Rhys James (left).

This year's worthy winner, Coronation Fund Managers, impressed the European Pensions judges for being a true leader in this arena across so many levels. According to the judges, they are "setting the bar high and displaying a plethora of ways in which it is standing out in this important area".

With a growing global franchise offering products across a range of equity, fixed income and multi-asset strategies, the firm manages $35.3bn on behalf of individuals and institutions across Europe, the US, Canada, Australasia, and Southern Africa.

The work that Coronation has done - and continues to do - in recognition of the important role diversity, equality, and inclusion plays in building a successful investment management business is unquestionably strong, going far beyond just a human-resources target, but being an entrenched part of its culture.

Its commitment to diversity is demonstrated across all aspects of its business, from the board of directors to new starters, with its staff complement spanning gender, ethnic, language, religious and socioeconomic backgrounds across a range of academic and professional qualifications.

The firm also works hard to foster an inclusive work environment in all areas, with impressive initiatives aimed at encouraging robust debate, all helping to ensure that the work it is doing in this arena doesn't stand still. Within the investment team, for example, it is cognisant of the need to avoid "group-think" and strives to promote a culture where opposing views can be heard.

Looking to the future, Coronation runs multiple projects that aim to attract and develop diverse talent for the years ahead, including its workplace career development initiative, the Aspiring Leaders Project (ALP), which aims to inspire innovation and build confidence.

Alongside this, the judges were impressed with the work Coronation is doing outside of the organisation in an effort to help drive industry change – actively supporting a plethora of projects, most recently, for example, partnering with stockbrokers to hire and train unemployed university graduates.

An impressive entry which sets the bar high for others – well done Coronation.

It's not about seats at the table. For us, it's about voices in the room.

Winner of the 2023 European Pensions Award for Diversity.

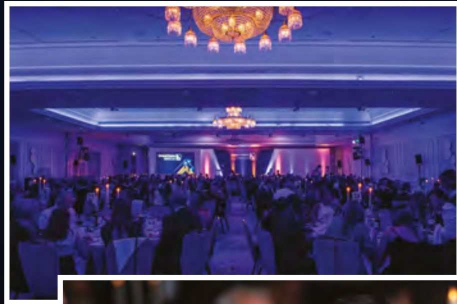
Since we opened our doors in 1993, we have been committed to achieving real and meaningful diversity. Why? Because we genuinely believe that true diversity makes for a more competitive organisation.

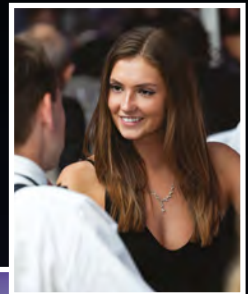
We have always employed people who come from different academic, ethnic, gender and socioeconomic backgrounds. Their unique and varied perspectives have led to greater results for our clients. Today, we have a 30-year track record of superior investment performance to prove it. And now, an award that does it too.

CORONATION

TRUST IS EARNED™

Coronation is an authorised financial services provider. Past performance is not an indication of future performance.





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4 July 2024

GUEST COMMENT

Biodiversity rises to the investor agenda

WRITTEN BY **VARMA SUSTAINABILITY SPECIALIST, RESPONSIBLE INVESTMENT & CORPORATE RESPONSIBILITY, ALINA MATULA**

There is growing concern over the extent of biodiversity loss. The *WWF 2022 Living Planet Report* has reported that global biodiversity has declined by nearly 70 per cent since 1970. Considering this, it is understandable why the World Economic Forum has identified biodiversity loss to be the fourth most severe risk for the next decade. While there is increased knowledge of biodiversity loss and its consequences, there is little guidance on how to incorporate biodiversity risks into the investment process.

It is important to us at Varma Mutual Pension Insurance Company that the pension assets we take care of are managed profitably, securely, and sustainably. As pension investing is a long-term investment activity, it is significant to consider the potential risks that the environmental crisis may pose in the future. Natural ecosystems provide many services that are vital to humans, society and the economy. Biodiversity loss creates physical, transition, litigation, and systemic risks for investors.

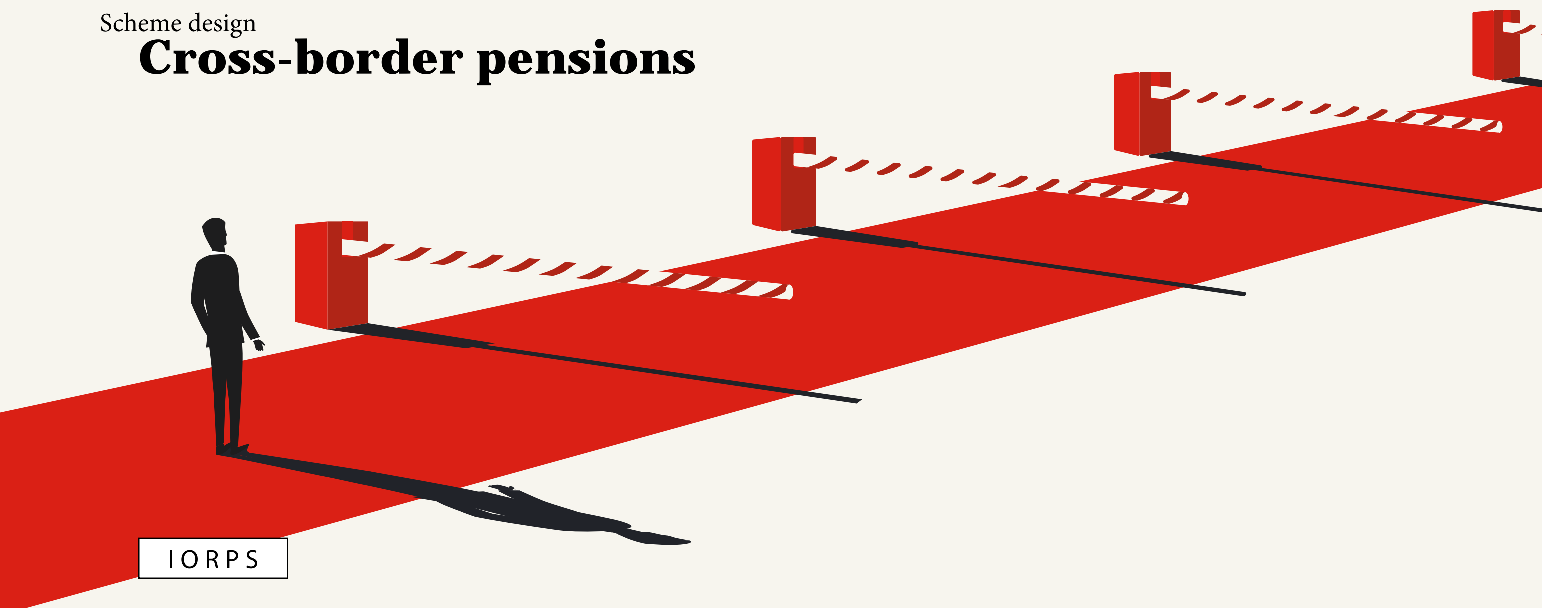
Last year, we created a Biodiversity Roadmap, with the purpose of creating a framework for responsible investment requirements, policies and goals that prevent biodiversity loss. Our goal is to ensure that the biodiversity and climate targets will carry equal weight and that they together promote our environmental responsibility. How the climate and biodiversity work is applied depends on the asset class and type of investment. Our goal is to systematically assess the risks and impacts of our investments in terms of biodiversity loss. The roadmap guides us in defining the double materiality of our investment activities regarding biodiversity. We monitor the development of global work combatting biodiversity loss and update our measures accordingly.

Investment returns are connected to nature through economic activities that our investees support. Entities such as the UN PRI have identified sectors with the highest impacts and dependencies concerning biodiversity. Based on this, we have decided to focus on key transition industries that are more exposed to risks related to biodiversity loss.

We also wanted to know how prepared our investees are to prevent biodiversity loss. During summer 2023, we surveyed our investment portfolio companies' attitudes and preparedness for risks linked to biodiversity loss. The survey covered our listed equity investments and included 282 companies in high-risk sectors. Of the companies, 27 per cent had set targets for considering the prevention of biodiversity loss in their operations. Nevertheless, 51 per cent expressed their intent to implement considerations or compensation for biodiversity loss. However, only 5 per cent of all companies had a concrete action plan. Twenty-two per cent of the companies had not considered biodiversity issues in their public policies.

Biodiversity loss has recently gained more importance in the sustainability area. Our survey showed that although concrete action plans still lacked, many of the companies had committed or intended to commit to preventing biodiversity loss. For us as an investor it is an ongoing challenge to identify companies that are more advanced in terms of taking biodiversity loss into account in their operations. This is due to the lack of common indicators and metrics to evaluate biodiversity work.

Responsibility influences our investment decisions alongside financial factors. From our perspective, making allowances for sustainability does not conflict with return expectations. Our goal of responsible investment at Varma is to reduce risks and to identify investees that benefit from responsible operations as well as the return potential of such investments. In analysing responsibility, we are focusing on the most material responsibility aspects related to the specific industry and asset class. In 2023, we were ranked third in the international *Global Pension Transparency Benchmark*. We are happy that our efforts for climate issues have been noticed.



IORPS

Crossing borders: Clearing the hurdles

The evermore frustrating obstacles that need to be tackled when setting up a cross-border pension plan was a hot topic at this year's European Pensions Conference, with one panel raising some of the major challenges and missed opportunities in this area. We look at the key messages from the discussion

WRITTEN BY FRANCESCA FABRIZI

The merits of cross-border pension plans are well-versed, yet the complications that go with setting them up are multiple. This was the theme of a 'cross-border pensions' session at the recent European Pensions Conference. Setting the scene, panel chair and CBBA-Europe secretary general, Francesco Briganti, explained how we currently have two vehicles with which one can create cross-border pensions: "One is the IORP Directive, for occupational pensions; and we have a newer regulation, the Pan-European Personal Pension Product (PEPP) – an individual product."

Focusing initially on the former, he asked the panellists what they felt the main obstacles were to having cross-border activities within the IORP Directive.

Aon partner, and risk manager of several pan-European pension funds, Thierry Verkest, began by highlighting the importance of terminology in this area: "When we say cross-border pensions, we also mean pan-European pensions. Terminology here is important; and the aim of these pan-European plans is that across Europe, instead of having separate arrangements in each country – these days generally each country has its own pension funds/ insurance companies – instead, the whole idea is that you centralise most of that into one single pension fund."

If one considers multi-national companies with locations all across Europe, he added, "they have all these different arrangements, but it is possible to centralise them all, bring them all together into one single pension fund, working with one regulator, having one trustee board – it's an obvious thing to do".

So why aren't more people doing it, was the next question Briganti posed. Verkest explained: "I have personally been working on cross-border pensions for 10-15 years, helping companies set up and manage these funds, and back in the day we could all see this was a great concept. We could see it was a great solution for the future of many multi-national companies, and it was all based on a European directive

Chair: CBBA-Europe secretary general, Francesco Briganti

"THOSE WHO ARE AGAINST CROSS-BORDER ARGUE THAT THERE IS NO MARKET APPETITE. BUT WE KNOW THAT THERE IS"

– the IORP Directive. We had IORP I and now we are talking about IORP II, and one of the intentions of IORP II was to facilitate cross-border pensions.

"It should be easy to develop these pan-European structures but it has, unfortunately, been the opposite."

So what is blocking this? Why has there not been a big bang of pan-European plans? Verkest offered his view: "In the directive they introduced the concept, or at least the possibility to member states, to introduce individual consent in order to decide to move assets from one country to another. Remember, we are gathering, collecting everything into one central pension fund, moving assets from one country to another. We are creating a big size of assets, that is the intention, but now, in many countries, you need to ask the individual members, 'do you agree to move your assets from country A to country B?'

"Can you imagine? A lot of these pan-European plans are based in Belgium and there are many good reasons for that, but you are asking perhaps a member of a pension fund in Ireland, or whatever country it may be, whether they agree to move their assets to Belgium. You might be asking a pensioner of 80 years old, 'do you agree to move your assets?' That's hardly achievable, and yet you need a majority of members to agree with that."

Consequently, he continued, for many corporates, the project of pan-European plans has been stopped because of the risk of not achieving that majority in transferring the assets from one country to another.

"As a result, we have been lobbying, alongside CBBA and others, to replace that individual consent with at least the consent of the representatives of these pension funds, therefore not asking the individuals to make such an emotional decision. Today, for me, that is the main obstacle."

Picking up on these challenges, EIOPA OPSG vice-chairperson, Falco Valkenburg (speaking at the event in a personal capacity), commented: "In the early days, in the Netherlands, there was a fear that Dutch pension assets would move to Belgium, so a majority of the politicians voted against cross-border pensions and tried to find ways of preventing them. One of the ways was to set a higher bar for the transfer of a pension fund to an international pension fund or a pan-European pension, a higher bar than for a transfer within the country. So, if a pension fund wants to transfer their assets and liabilities to an insurance company, the bar in the Netherlands is lower than going to Belgium or any other European state with an IORP."

Panellist: Aon partner and risk manager of several Pan-European pension funds, Thierry Verkest

"WE ARE HELPING A NUMBER OF COMPANIES WITH THEIR PAN- EUROPEAN PLANS AND THEY WORK PERFECTLY WELL"

That is a big issue, he stressed, "and we have written that into social and labour law, and the point with cross-border schemes is that if you have a cross-border scheme, the prudential law of the home state, in this example Belgium, prevails and is supervised by the Belgian supervisor, but the pension scheme is still a Dutch one and is supervised from a social and labour law perspective by the Dutch supervisor".

So, he added, "the plan for the beneficiaries doesn't change – it is executed in another country, but social and labour law is from the host state and the responsibility of the host state, and some countries, including the Netherlands, have amended these social and labour laws in such a way that it creates obstacles to go to another country. Thus against the European idea of creating better movement of people's assets and financial needs in the European community."

Continuing on this point, LifeGoals CEO, Michael Hadjihannas, agreed that, on the occupational pensions front, there is no unitary pension market in Europe, as in the US or Australia. "While the IORP II Directive provides a general framework and sets minimum standards for running an IORP, workplace pensions are in essence still regulated by the national competent authorities of each member state, which creates a diverse cultural and regulatory framework across member states."

The process of passporting to offer cross-border services outside an IORP's own member state, he added, requires the collaboration of both the home and host member states, with the cross-border authorisations and transfers being an unwanted headache for both national authorities. "Even if successful, the process can be cumbersome with excessive timeframes for any independent sponsoring undertaking to wait on."

Cross-border licencing for independent multi-sponsor IORP providers (MIPs) is even more challenging since, he argued, conflicts of interest are considered an inherent risk in the case of an independent provider.

"It is therefore no wonder that cross-border IORPs represent just 0.2 per cent of the total number of members and beneficiaries, and 0.4 per cent of assets of all European

Cross-border pensions

IORPs. According to EIOPA's 2022 report, the number of cross-border IORPs has stopped expanding since 2010 and is not expected to grow substantially in the near future."

Therefore, he argued, while EIOPA has concluded a consultation on the review of the IORP II Directive, which has addressed some of the core challenges for cross-border activity and transfers, the revision is not expected to result in any meaningful improvements for the industry.

As a final reflection on the challenges question, Verkest highlighted the important point that, while implementation might be challenging, once a pan-European plan is in place, it is an excellent vehicle. "We are helping a whole number of companies today with their pan-European plans and they work perfectly well. I have not seen one of them disappearing so far! I would like to stress that. So, it is the implementation that is challenging, but once you are there, it works perfectly well."

Pan-European Personal Pension Product (PEPP) regulation

When asked about the different options in the marketplace today, Hadjihannas commented: "An alternative approach to a pan-European pension scheme, which we hope will drive a faster track to a pan-European product offering, is proposed by the PEPP regulation.

"In contrast to the IORP II Directive, by electing to enact as a regulation, the EU legislator leaves hardly any room for member states to manoeuvre, while at the same time allowing each member state to set its tax and decumulation phase policies. Member states will undoubtedly try to impose other national requirements on PEPP, but that is prevented by harmonising PEPP product requirements in underlying standards.

"Just like MIFID services, under PEPP, providers can sign up cross-border 'retail' investors with a simple notification procedure. That, compared to IORPs that need approximately five months to sign up cross-border 'knowledgeable institutional' investors under the current IORP II passporting process."

Provider related conflicts of interest are also not a factor under PEPP, he argued, since the provider is a vital part of the structure.

"The PEPP product approach

Panellist: EIOPA OPSG vice-chairperson, Falco Valkenburg

"THE ACRONYM PEOP IS NOT VERY SEXY. WE NEED TO FIND A CATCHY NAME IN ORDER TO ATTRACT ATTENTION"

presents a fresh approach for European pensions cross-border and consolidation and we believe that the cross-border occupational pensions front has a lot to benefit from a similar structure."

Additionally, he added, under current circumstances, a so-called 'group PEPP' setup could present a more efficient framework for work-related pensions, where employers do not play a role in establishing or sponsoring a PEPP but may pay contributions to an individual pension product on behalf, or for the benefit, of the employee.

Current appetite

The next question Briganti asked related to the general appetite in the marketplace for pan-European pensions: "We understand the legal framework is complicated. We understand there is some resistance and protectionism from member states, but in the real economy – companies, sectors, providers – is there an appetite? That is a very important question because those who are against cross-borders argue that there is no market appetite. But we know that there is."

Valkenburg made reference to an EIOPA report from 2017 that lists the barriers but also confirms that there is appetite, "but because it so difficult, it is not the highest priority".

Verkest agreed that the appetite is definitely there: "Two years ago we went through a full feasibility study for multiple countries in Europe for a big US company, and we were about to set up the biggest pan-European plan in Europe, exceeding €10 million, then IORP II came up with the complications we have been talking about, and the whole project was put on hold, because it was too complicated. We really hope that regulators will be more aware of these complications, that they make the necessary changes to the directives, rules and guidelines to make this happen, because the appetite is definitely there."

IORP III

Briganti next asked panellists for their thoughts on the future outcome of the IORP II Directive: "We know that it is under revision. Do we think that it could improve cross-border activities? Or will we need IORP III

for this?"

Verkest commented: "I don't expect IORP III to come any time soon, so we need to go forward with IORP II. That means you need to stick to what's in the directive, and then it's about interpretation of the directive in issuing guidelines. We have suggested that the individual consent point is addressed – sorry to come back to that but that's really a broken factor. If that explicit consent could at least be replaced by an implicit consent, whereby you work on your communication, you inform all your people in these pension funds that what you are doing is making their pensions more sustainable as you're creating a European pot – and really explain the benefits, and you leave in your communication at the end something open like, 'you do not need to respond, and if you do not respond we assume you approve' – that would be a signed consent."

Something like that, he argued, would truly facilitate cross-border transfers. "That's what I would suggest doing. Of course, an IORP III would be even better, but that always takes years and we want to move forward now."

IORP III will come, argued Valkenburg, but he acknowledged it will take some time. "Whether it will solve the problem that we are discussing, I'm not so sure."

Product development

Briganti went on to ask about product innovation in the market. Verkest commented: "We have been working for 10 to 15 years on a contractual basis with the European Commission on a project called Resaver – the Retirement Savings Vehicle for European Research Institutions. This is a pan-European pension fund which is operational today, and has been since 2016 or so.

"The whole idea here is to facilitate the mobility of researchers, PHD fellows, students, and professors across Europe – people tend to stay in their own organisations for fear that they'll lose their pension, so to avoid that we have helped set up this option so people can move easily across Europe without losing their pension rights."

Panellist:
Michael Hadjihannas,
CEO, LifeGoals

"A SO-CALLED GROUP PEPP SETUP COULD PRESENT A MORE EFFICIENT FRAMEWORK FOR WORK-RELATED PENSIONS"

Verkest also highlighted the problem of companies struggling in managing their own pension funds due to increased regulations and reporting requirements. "As a result, there is currently a clear trend of transferring self-administered pension funds to multi-employer master trusts. This is also possible on a multi-country basis by transferring DB and DC plans to a cross-border multi-employer solution like, for example, United Pensions – Aon's multi-employer multi-country pension solution."

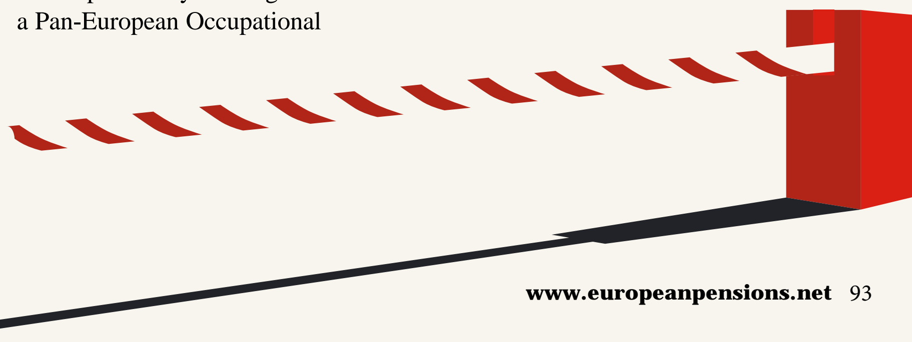
Continuing on the topic of market development, Valkenburg flagged up current discussions taking place within the EIOPA stakeholder group on the possibility of a regulation for a Pan-European Occupational Pension (PEOP) as an alternative to what is possible under the IORP Directive. "So, in a similar vein to the PEPP but for occupational pensions."

One of the things that they also need to do here, he argued, is think of a new name, "because the acronym PEOP is not very sexy".

"We need to find a catchy name. That is one of the most important things in order to attract the attention of members of the European Parliament, for example, perhaps even the European Commission."

He concluded: "I think there can be a lot of support from both the commission and parliament. I'm not so sure about the council, and the member state governments. Are they willing to give up what they have? Are they really wanting to come up with European solutions going forward? But when you look at the demographic changes, the first pillar pensions in many countries will not deliver enough pension, so adequacy is going down, and second pillar pensions are not always well developed, at least not in all member states. So, that could be an additional reason to come up with something like a PEOP.

"It would also fit with the European plan for social rights, the action plan that they have, where one of the principles – principle 15 – is that everybody should be entitled to good means for their retirement."



RISK

Ask the industry:

With swathes of new regulations being proposed and coming into force, and the continued economic and geopolitical uncertainty, *European Pensions* ask: What is the biggest challenge the pension sector in your country is currently facing?

In the coming period, the Netherlands will be faced with a number of challenges such as IT systems, data quality and switching to the new pension, so-called 'invaren'. Communication is of great importance and a challenge. We now like to zoom in on that. In the current system, communication about pensions is a challenge. And this challenge continues with the arrival of the new system. We still need to actively approach participants if they, or their retirement, need attention. We must continue to enable participants to make informed choices, especially as the number of choices for the participant will increase. And we must continue to make it as easy as possible for participants to be busy with their retirement. The transition to the new pension system has its challenges, but also offers clear opportunities. Trust and support are extremely important for our pension system. By arranging our pension together, collectively and in solidarity, we are a top player in the pension field worldwide. A contemporary system also needs broad support. Reputation is one thing, but the 'content' must also be reliable and transparent. If the investments are doing well, the expected pension benefit will increase. If it goes less, the expected pension decreases. This makes it clear how pensions move with economic developments. This way of communicating is expected to contribute to more confidence in retirement. It becomes more transparent and personal. Communication is therefore one of the major challenges. It is important that there is coordination with all parties about concepts, language, simplicity and conveying the same messages in the same time and order.

EUNICE BRONSWIJK
PMT employee chairman

While a lot of focus over the past couple of years in Ireland has been on the implementation of IORP II, much of that has now been put in place. Probably the biggest challenge now is the introduction of auto-enrolment, which is due to take place in 2024. Employers with existing schemes will need to decide if any employees not in their scheme should be encouraged to join or if they are happy for them to be auto-enrolled. This will involve them having to remit contributions to the Central Process Agency that will administer the auto-enrolment scheme. While the contribution levels will be phased in over 10 years, ultimately they will be a total of 14 per cent of gross earnings and existing schemes will also have to change their structures to match that. How existing schemes interact with auto-enrolment will therefore be a major focus over the next year.

JERRY MORIARTY
Irish Association of Pension Funds CEO

The biggest challenge the earnings-related pension system in Finland is facing is demographic changes driven by declines in fertility and increases in longevity. While this is not an immediate concern, a shrinking working-age population and a growing number of retirees challenges the financial sustainability of earnings-related pension system over time, both from the contribution and the benefit side. To address these challenges, the pension system has successfully implemented some built-in automatic adjustment mechanisms. Thus, the retirement age and the pension amount are linked to life expectancy. Some argue, however, that these existing automatic stabilisers are not enough, but should be further strengthened rather quickly. Others suggest a more balanced and traditional approach in which earnings-related pension reforms should be prepared in a durable and responsible manner without urgency. The novel right-wing government leans more towards the former view, so one may expect lively pension-related discussions in Finland in the near future.

MIKKO MÄKINEN
TELA chief economist

Denmark ranks in the top three in Mercer's ranking of pension systems across the world, with high scores on both adequacy, integrity and sustainability parameters. But as in most developed countries, not only the pension system but Danish economy as a whole is faced with the challenges posed by ageing populations: Within a few years the workforce as a percentage of the Danish population will have diminished dramatically, and the number of very old people will increase even more dramatically. In a broader perspective on 'pensions' taking both income and the need for care and health services into account, the demographic challenge to the Danish economy is not only a question of finance, but even more acutely a question of securing an adequate labour supply to meet the growing need for care and health services.

TOVE BIRGITTE FOXMAN
PensionDanmark chief economist

In DC pensions, Spain has suffered from relentless tax reforms and regulatory tweaks that have created uncertainty for private voluntary retirement savings. Most recently, the removal of tax incentives on contributions into individual pensions (both mutual funds and guaranteed plans from insurers) means people have stopped saving into these schemes. Net inflows peaked at over €700 million in 2020, but in 2021 and 2022 there were net outflows of €1.1 billion and €1.3 billion, respectively. These outflows have not been offset by contributions into employer pension plans, despite improving those tax incentives. For DB pensions, it's much simpler as the market was almost fully bought out under regulations implemented nearly 20 years ago. However, the insurers making these pension payments must grapple with relatively high guarantee levels that consume a lot of capital and the maintenance of legacy IT systems, a combination that often makes their returns on capital suboptimal.

LUCA INSERRA
MEDVIDA director of business

DIVERSITY

Striving for change: Diversity in the EU pensions industry

As EIOPA prepares to release its final advice for the IORP II Directive, Niamh Smith **looks at the progression of diversity on pension fund boards and what measures could be implemented to further improve representation across the industry**

WRITTEN BY **NIAMH SMITH**, A FREELANCE JOURNALIST

The pensions industry has increasingly come to recognise the benefits associated with diverse representation on pension boards, leading to the diversity and inclusion (D&I) issue quickly rising up the agenda of many European pension schemes.

More and more pension schemes believe that improved diversity is an effective tool to encourage innovative thinking and create approaches that better reflect the evolving needs and values of members.

As a result, EU regulators have recently faced increased pressure to introduce regulation aimed at improving diversity and inclusion at all levels across the European pension industry.

How is the EU improving diversity?

Equality is one of the founding values of the EU, so diversity and inclusion (D&I) values are well rooted in the EU legislative framework and policies, says PensionsEurope senior policy adviser, Anastasios Pavlos.

The Charter of Fundamental Rights of the EU obliges bodies to ensure that regulation is introduced to effectively improve diversity levels. "The charter proclaims the fundamental rights and freedoms protected in the EU. It is directed at the national governments of EU member states as well as the EU institutions and bodies when they are carrying out EU legislation," he adds.

The European Commission introduced the IORP II Directive in January 2019 to improve the way occupational pension funds are governed as well as enhance the transparency of information.

The directive states that diversity should be taken into account in the recruitment policy of IORPs across member states – but this must not lead to unduly burdensome requirements. However, a European Insurance and Occupational Pensions Authority (EIOPA) consultation identified a clear need for IORP II to introduce an effective system of governance that sets out requirements for D&I policies.

EIOPA proposed that the pension industry adopts standards analogous to the banking sector's diversity requirements. IORPs are not required to set a target for tackling underrepresentation in management bodies whereas the Capital Requirement Directive requires banks to establish a recruitment policy that promotes diversity in management or supervisory bodies.

Although the EU lacks D&I-related requirements for IORPs, many member states remain committed to enhancing D&I, according to European Association of Paritarian Institutions (AEIP) policy adviser on pension and financial affairs, Panayiotis Elia. To achieve a more inclusive pension industry, countries across Europe have implemented voluntary and national requirements for IORPs, Elia adds.

"For instance, in the Netherlands, self-regulation requires that there be at least one person of the under-represented gender and one person under 40 years old on the management board," he notes.

Diversity data

Analysing diversity levels in pension management boards is hampered by a limited amount of available data. This is because 89 per cent of national competent authorities do not collect any information on D&I, according to EIOPA.

The lack of data has prevented an accurate assessment of how much diversity in the pension industry has improved in recent years, says NextGen chair, Caroline Escott.

"There isn't enough concrete data – particularly on pension trustee boards – to be sure. Given that 'what gets measured, gets managed', the lack of information presents a fundamental barrier to improving the diversity of pension boards," Escott says.

Elia adds the limited data availability has also created challenges to measure the effectiveness of the EU regulations, such as the IORP II Directive. "It would be vague… to reach any conclusions on whether measures by EU bodies have been effective in improving diversity due to a lack of data. It will also be very hard to isolate and assess the exact impact of the implementation of EU rules on improving diversity," he says.

Extending diversity

To enable assessments of diversity and improve the effectiveness of EU regulation, a clear definition of diversity that extends beyond gender must be established, says ABA deputy managing director and head of IORP, Dr Cornelia Schmid: "There is no comprehensive and coherent legal definition of the concept of diversity, which means that it is unclear how to measure it. It is important to keep in mind that diversity goes beyond gender."

The Association of Austrian Occupational Pension and Provision Funds says that the definition of diversity must not solely focus on gender, to ensure all differences between people are included.

"Diversity criteria could include, inter alia, age, gender, geographical provenance, and educational and professional background, as well as differences in cultural and socio-economic background and differences in education, experiences, and mindset," it says.

Schmid adds the vague definition of diversity has caused regulators to exclude other diversity metrics in policies, decreasing the effectiveness of the regulation: "In our opinion, in its policy recommendations, EIOPA is focusing too narrowly on gender, thereby somewhat ignoring other aspects of diversity such as age, geographical provenance, professional background etc."

> "GIVEN THAT 'WHAT GETS MEASURED, GETS MANAGED', THE LACK OF INFORMATION PRESENTS A FUNDAMENTAL BARRIER TO IMPROVING THE DIVERSITY OF PENSION BOARDS"

In addition, EIOPA's definition of gender diversity in recent policy recommendations does not accurately reflect the changing views of gender, says Elia.

"We feel that in its consultation paper EIOPA starts out with the correct broad definition of diversity, that recognises that for inclusion quite a few aspects are relevant, but then takes a wrong turn in effectively reducing the concept of gender to the binary male and female. This happens through the concept of 'the underrepresented gender'. The use of the definitive article 'the', turns the language into something which, today, may not be seen as inclusive anymore," he notes.

Problems for SMEs

To ensure a larger proportion of pension boards are diverse, EU regulators must recognise that it is necessary for regulation to be altered to suit the size of IORPs, says Pavlos.

A board can be as small as two members so it can be difficult for smaller pension boards to consider gender balance and other diversity aspects, he states.

Elia adds smaller pension boards already face additional burdens to meet requirements so all new diversity-related regulation must be adapted to encourage improved diversity in smaller boards: "Given the current scope of the fit and proper requirements, small and mid-size IORPs sometimes today already have difficulties attracting the right board members."

Therefore, Pavlos commends EIOPA's draft advice to implement a comply-or-explain principle for having diversity and inclusion on the management board.

Following the close of EIOPA's consultation in May, the regulator will provide its final advice for the IORP II Directive in October 2023.

While the new directive is widely welcomed, it is important the final advice addresses the concerns of pension organisations across Europe. This can be achieved by improving data availability, establishing a clear definition of diversity and reducing the added burden for smaller IORPs.

In their own words...

Industry personalities' comments on the hot topics affecting the European pensions space

On rebuilding trust following Alecta's losses on American banks

"The loss of SEK 20 billion is an enormous amount and we fully understand that customers and owners have been worried. It is important for us to make sure that something like this does not happen again, and that customers can feel confident that we are doing everything we can to ensure that."

Katarina Thorslund, Alecta acting CEO

On the Swedish Fund Selection Agency's notice for active European equity funds' procurement

"The reform of the fund platform has been preceded by preparatory work that began as early as 2018 when a public inquiry was initiated. This year, the work for the procurement has intensified and now we have reached this milestone for the premium pension system."

Mats Sjöstrand, Swedish Fund Selection Agency chair

On the Netherlands' SNS Reaal 'fully greening' its corporate bond portfolio

"This step fits in with the newly formulated ambition of Pensioenfonds SNS Reaal to be – within our capabilities – a leader in sustainable investment. We only invest in 'higher-rated European government bonds', from countries such as the Netherlands, Germany and France."

BENNO HONSDRECHT
SNS Reaal Investment Committee chair

On pension fund investment in Norwegian forestry companies

"Sustainability and digitisation create great opportunities for the traditional forest industry. But the need for competent capital and active ownership is great. That is why we are now establishing 3K6 together with leading private investors to ensure long-term industrial ownership and access to capital."

ANN-TOVE KONGSNES
Investinor acting managing director

On the increased levels of EU-wide financial regulations

"We and other trade associations going to next year's *[European Parliament]* election will again argue that there is too much regulation, it's harmful and it's not consistent. But this machine keeps coming up with new regulation."

MATTI LEPPÄLÄ
PensionsEurope CEO

On Denmark's P+ making investments in green credit funds

"We have a clear expectation that the credit fund can also deliver an attractive return to our members, at the same time as we increase our exposure to green energy production across several asset classes."

Kåre Hahn Michelsen, P+ director

On the switch to the new pension system in the Netherlands

"Communication is and will remain key in this transition. Given the fact that pension fund managers have a lot on their plate, it is logical that the minimum was chosen to comply with the legislation of last July."

FRANK DRIESSEN
Aon Netherlands CEO wealth solutions

On the improvement in German DAX pension scheme funding levels

"The stock markets in particular have picked up significantly. As a result, pension assets were able to recover from the low of the previous year. That benefits the funding level of the pension schemes."

Hanne Borst, WTW Germany head of retirement

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