European Pensions

Autumn 2022

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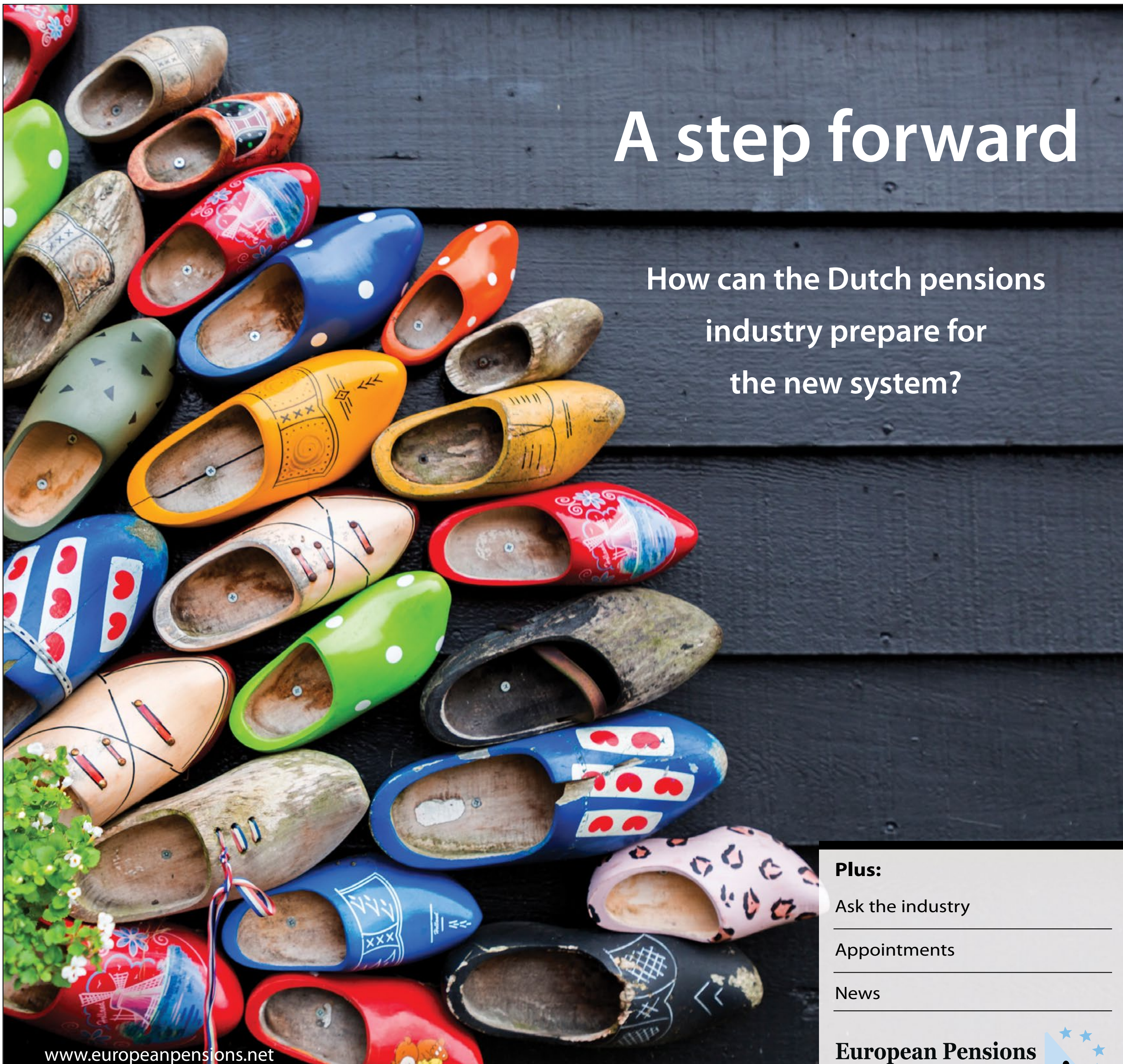

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Editor in Chief
Francesca Fabrizi
+44 20 7562 2409

Editor
Natalie Tuck
+44 20 7562 2407

Associate Editor
Laura Blows
+44 20 7562 2408

Deputy Editor
Jack Gray
+44 20 7562 2437

News Editor
Sophie Smith
+44 20 7562 2425

Reporter
Tom Dunstan
+44 20 7562 4380

Commercial
John Woods
+44 20 7562 2421

Camilla Capece
+44 20 7562 2438

Lucie Fisher
+44 207 562 4382

Design & Production
Matleena Lilja
+44 20 7562 2403

Accounts
Marilou Tait

Circulation
perspectivesubs@dynamail.co.uk
+ 44 1635 588 861

Management
John Woods, Managing Director
Mark Evans, Publishing Director

Subscription rates:
£198 or €299 per annum

www.europeanpensions.net

6th floor, 3 London Wall Buildings,
London, EC2M 5PD
ISSN 1753-5859

A new era

With the sad death of Queen Elizabeth II earlier this month, the second Elizabethan era has come to an end and a new period – a third Carolean age – has begun in the UK and the Commonwealth nations.

On her 21st birthday in 1947, the then Princess Elizabeth declared: "My whole life, whether it be long or short, shall be devoted to your service and the service of our great imperial family to which we all belong."

After ascending the throne in 1952, Her Majesty lived to the age of 96 and reigned for over 70 years, and truly lived up to her commitment to serve her country and the Commonwealth, whilst also being respected by countries and people around the world.

It is said that there were only two days a year – Christmas day and Easter Sunday – when Her Majesty did not receive a red box from the government containing policy updates and documents to sign. As we enter this new era, her service should be remembered as an example to us all, no matter what that service may be in.

This issue of *European Pensions* looks internally at the pensions industry and how it provides a service to savers. Our feature on fintech [*page 77*] examines how the industry is adopting financial technology to improve services for savers behind the scenes, such as in investment.

"CHARACTERISTICS OF THE OLD SYSTEM, SUCH AS RISK SHARING, WILL REMAIN IN THE NEW SYSTEM"

Furthermore, as we recognise the importance of diversity more and more, we look at how it plays a part on pension funds' trustee boards [*page 80*] and why the industry needs to work harder on increasing diversity and look beyond the typical gender balance.

We also explore what the industry can do to protect itself from cyber attacks [*page 84*], something that has become an increasing threat in a post-pandemic world as working practices changed.

Equally, our cover feature in this issue focuses on the Netherlands [*page 18*], which, at the beginning of 2023, will see a new era in the country's pension system begin. That being said, characteristics of the old system, such as risk sharing, will remain in the reformed system because sometimes a new era means combining the best qualities of the past with present thinking. While change can mean progress, continuity can be comforting and familiar.

During her reign the Queen saw much change, whilst she herself was the one constant in many people's lives. And so as this new era begins, we shall take with us her commitment to service. May she rest in peace.

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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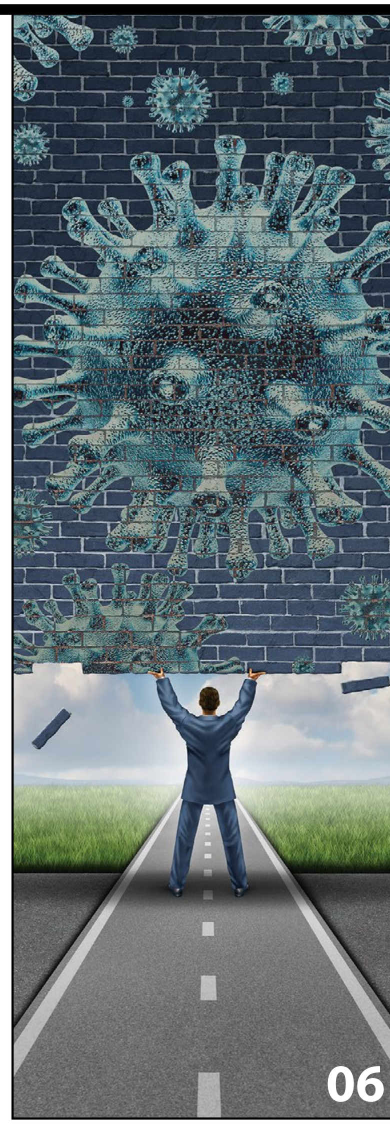

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IORPs' financial positions have 'recovered' from impact of Covid-19

EIOPA FOUND ASSETS ROSE WHILE LIABILITIES WERE UNCHANGED

Written by: Natalie Tuck, Tom Dunstan and Jack Gray

The financial positions of IORPs in the European Economic Area have recovered following improvements in financial markets since the outbreak of the Covid-19 pandemic, a report from the European Insurance and Occupational Pensions Authority (EIOPA) has revealed.

EIOPA's June 2022 *Financial Stability Report*, which examined the main trends for the European insurance and pensions sectors as well as the macroeconomic landscape with its implications, found that the total amount of assets increased whereas liabilities remained relatively unchanged.

The report also described the current European economy as being in a phase of "heightened uncertainty" as macroeconomic conditions had deteriorated as a result of Russia's invasion of Ukraine.

Although the report found that the direct impact of the invasion of Ukraine on IORPs is very limited, second-round effects from the macro side and spillovers from other parts of the financial sectors could become a potential source of risk.

Volatility was also found to have returned to financial markets, being accompanied by rising interest rates as markets expected monetary tightening to head off inflation.

Bond and equity prices fell in view of the ongoing crisis and the risk of a further correction was found to be "material".

EIOPA chair, Petra Hielkema, commented: "We are at a juncture in macroeconomic developments where inflation pressures from various sources meet.

"The pandemic has disrupted supply chains, caused pockets of bottle-up demand and seems to have shifted consumers' spending habits. Russia's invasion of Ukraine with all its consequences has only made pre-existing inflationary pressures worse.

"The impact of inflation on insurance and pension undertakings, as well on policyholders and beneficiaries, warrants our full attention."

Meanwhile, PensionsEurope has said it is "concerned" by the lack of "public analysis" of IORP data collected by EIOPA.

Publishing its response to EIOPA's review of IORP reporting requirements, PensionsEurope also said that it thinks EIOPA's review has come around "very/too early".

"In general, we find that EIOPA's review of IORPs' reporting requirements comes very/too early.

"We would have expected that EIOPA would have published at least some analysis of the very comprehensive data that it has received from IORPs, and we are concerned about the lack of public analysis for various reasons," the association said.

Furthermore, it said that a transfer of Solvency II reporting requirements to IORPs was never politically envisaged by the EU legislator and, therefore, should not be done by EIOPA.

"The development of new requirements should never occur at too rapacious level and should be based on careful consideration of what the supervisory needs are, and not on what EIOPA deems either 'good to have' data or where alignment is argued to be motivated solely on the basis that similar data is required by insurers who are regulated by Solvency II, which is a very different set of regulations," PensionsEurope stressed.

PensionsEurope noted that the new reporting requirements have significantly increased the administrative burden and costs to IORPs, and it is in the public interest of all stakeholders that EIOPA requires IORPs only to report the data that it needs and is able to analyse.

"In that vein, it would be useful for EIOPA to state in detail the purposes behind gathering each element of data," the association said.

"We would like to see an awareness among regulators that reporting requirements on IORPs incur costs – in addition to direct costs, also indirect costs for NACE and rating agencies, among others – which lead to lower pensions for beneficiaries."

In other news, the Joint Committee of the three European Supervisory Authorities (ESAs) has said that voluntary disclosures as part of the Sustainable Finance Disclosure Regulation (SFDR) are "not very detailed".

"The impact of inflation on insurance and pension undertakings as well on policyholders and beneficiaries warrants our full attention"

The ESAs consist of the European Banking Authority (EBA), EIOPA and the European Securities and Markets Authority (ESMA).

The comments were made in the ESAs' first annual report on the extent of voluntary disclosure of principal adverse impact under the SFDR – Article 18 of Regulation (EU) 2019/2088.

Based on a survey of National Competent Authorities (NCAs), the ESAs have developed a preliminary, indicative and non-exhaustive overview of good examples of best practices, and less good examples of voluntary disclosures.

"The extent of compliance with voluntary disclosures varies significantly across respondents, but, overall, the first disclosures since the application of the SFDR are not very detailed – this is expected to change for the disclosures made for the 2022 reporting period once the SFDR Delegated Regulation applies," the ESAs stated.

The report found that there is an overall low level of disclosure on the degree of alignment with the objective of the Paris Agreement – when disclosure of alignment is made, it is often vague, and there is a low level of compliance with the details required for explaining why financial market participants do not take into account the adverse impact of their investment decisions.

The report also includes a set of recommendations for NCAs.

These recommendations aim to ensure appropriate supervision of financial market participants' practices, such as running regular surveys in their own market to determine whether supervisory entities comply with Article 4 SFDR disclosures.

News in brief

■ Norges Bank Investment Management (NBIM) has reported a return of -14.4 per cent for **Norway's** Government Pension Fund Global (GPFG) in the first half of the year. NBIM, which is responsible for the management of the investments of the GPFG, said this equates to NOK 1,680bn.
The return on the fund's equity investments was -17.0 per cent and fixed-income investments was -9.3 per cent; investments in unlisted real estate returned 7.1 per cent.

■ **Finnish** earnings-related pension provider, Elo, has announced that it has begun restructuring negotiations. On 15 August, Elo submitted a proposal for negotiations in accordance with the Cooperation Act for the initiation of restructuring negotiations. The restructuring negotiations may lead to the termination of a maximum of 50 tasks. It aims to respond to changes in Elo's operating environment.

■ The **Belgian** government has agreed to a partial pension reform. The reform, which is yet to be transposed into legislation, set out that future pensioners must have worked for at least 20 years to be entitled to a minimum pension.
A 'pension bonus' will be introduced.

■ **Sweden's** AP2 is to increase its allocations to sustainable infrastructure as part of its work on sustainability. The announcement was made in the fund's sustainability report, in which it detailed how it has continued to develop its work as a responsible investor and responsible owner.
A strong focus has been on how the fund can contribute to a low-carbon economy.

Ireland's Pensions Authority publishes trustee information on annual reports

TRUSTEES WILL BE REQUIRED TO PRODUCE ANNUAL REPORTS AND AUDITED ACCOUNTS

Written by: Natalie Tuck and Jack Gray

Ireland's Pensions Authority has published information for trustees on the implementation of the audited annual report requirements provided for under the Occupational Pension Schemes (Disclosure of Information) (Amendment) Regulations 2022 (S.I. No. 295 of 2022).

Trustees of one-member arrangements (OMA) are required to produce an annual and audited accounts for a scheme year ending on or after 31 July 2022.

However, the authority will not require trustees of an OMA to produce an annual report and audited accounts for a scheme year ending prior to 31 July 2022.

For schemes with fewer than 100 members, trustees are required to produce an annual report and audited accounts for a scheme year ending on or after 31 July 2022.

The authority will not require trustees of a small scheme to produce an annual report and audited accounts for a scheme year ending prior to 31 July 2022.

Trustees of a small scheme are required to produce an alternative annual report for a scheme year ending prior to 31 July 2022.

The authority has also published amendments to its trust RAC and occupational pensions regulations.

The Trust RAC Regulations 2022 came into effect on 16 May 2022. The regulations amend the existing Trust RACs Regulations 2007.

The main amendments include: Minor changes to the content of the annual report in relation to information required to accompany the audited accounts; and changes to signing requirements to reflect the two-trustee rule under section 64AC of the Pensions Act, 1990, as amended.

In addition, the Occupational Pension Schemes Regulations 2022 also came into effect on 16 May 2022. The regulations amend the existing Occupational Pension Schemes Regulations 2006.

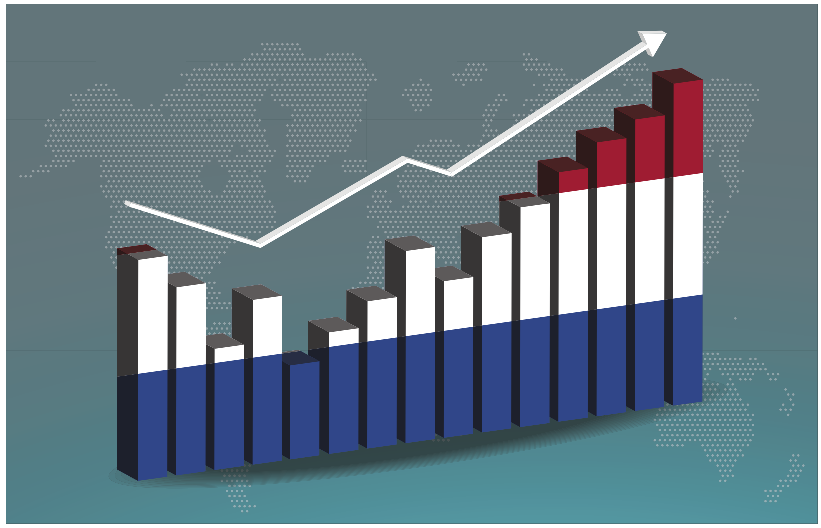
The main amendments include: Deletion of the exemption for one-member arrangements in respect of annual reports, deletion of the alternative annual report option for small DB or DC schemes, minor changes to the content of the annual report in relation to information required to accompany the audited accounts and actuarial funding certificate, and changes to signing requirements to reflect the two-trustee rule under section 64AC of the Pensions Act, 1990, as amended.

Both regulations follow on from disclosure-related amendments made in December 2021 and some of these changes are consequential to the transposition of the IORP II Directive.

Meanwhile, the Irish Pensions Authority has expressed concerns about the establishment of new OMAs since April 2021 and whether those pension schemes are complying with the amended Pensions Act 1990.

In an update, the authority issued a further reminder to trustees of OMAs established on or after 22 April 2021 of the 1 July 2022 compliance deadline and set out its position on the continued establishment of non-compliant OMAs post 1 July.

The Pensions Act 1990 was amended in November 2021 to include the new requirements of the IORP II Directive and impose higher standards on Irish pension schemes.



Average Dutch funding ratio of DB schemes rises to 128%

THE INCREASE IN FUNDING RATIO WAS PRIMARILY ATTRIBUTED TO A SHARP RISE IN INTEREST RATES

Written by: Sophie Smith and Natalie Tuck

The average funding ratio of Dutch defined benefit (DB) pension schemes rose to 128 per cent in August, data from Aon Netherlands has revealed.

According to Aon, a sharp rise in interest rates for August, despite poor equity results, translated into a rising funding ratio.

Furthermore, Aon's Pension Thermometer found that the policy funding ratio, based on the average funding ratio of the past 12 months, rose to 117 per cent in August.

High inflation and rising interest rates pushed down the return of global equities by 2.5 per cent. Developed market equities fell about 3 per cent, but emerging market equities rose about 2 per cent. Real estate stocks fell about 5 per cent due to the sharp rise in interest rates, Aon said.

The rise in interest rates and an increase in credit risk led to negative yields this month, especially on corporate bonds (-4.2 per cent) and high yield (-1.4 per cent). Long-term interest rates rose, causing the entire fixed-income portfolio to fall by around 11 per cent. Overall, investments decreased by about 6 per cent.

Regarding interest rates, after a dip in July, interest rates continued to rise in August. Over the first 40 years, the yield curve rose by about 64 basis points. Due to the higher interest rates, liabilities decreased by 10 per cent on balance.

Looking back to the second quarter (Q2) of 2022, Dutch pension assets fell by €190bn in the period, according to figures from DNB.

Pension assets dropped to €1,517bn over the quarter, while liabilities fell by €198bn to €1,239bn. This led to an improvement in the average funding level of schemes, coming in at 122.4 per cent at the end of June 2022.

This represents a 3.6 percentage point increase from the first quarter and is now well above the figure for a year ago, which was 109.4 per cent. The funding ratio reflects a pension fund's current financial position, expressing the ratio between available assets and liabilities.

In addition, the policy funding rate came to 114.7 per cent at the end of Q2. This represents a 3.7 percentage point increase from the previous quarter.

It increased because the funding ratios in the second quarter of 2022 were higher than those in the corresponding quarter of 2021.

DNB also warned that Dutch workers could face a sharp fall in income at retirement, after its analysis found that low participation in occupational pension schemes is not being made up for via other savings.

The study from DNB showed that 1.7 million Dutch workers did not participate in an occupational pension scheme in 2020, with roughly half of this group made up of self-employed workers, while the other half were employees.

This means around 13 per cent of employees and 94 per cent of the self-employed are not participating in an occupational pension scheme.

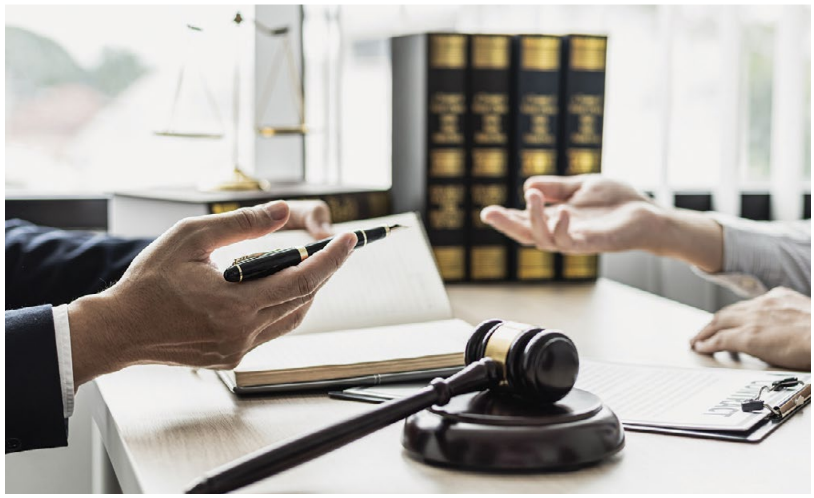
In addition to this, the research showed that self-employed savers almost exclusively only accrue an occupational pension in sectors where a compulsory arrangement applies.

DNB noted that most self-employed workers who do not accrue pension entitlements won't accrue a pension in later years either, as 92 per cent of self-employed workers who had not accrued a pension in 2016 have made no contributions in the five years since.

NSK brings charges against PKA A/S and PKA+ following competition concerns

THE COMPANIES ARE BEING PROSECUTED FOR ALLEGEDLY VIOLATING THE COMPETITION ACT

Written by: Natalie Tuck and Sophie Smith



The Danish National Unit for Special Crime (NSK) has brought charges against pension companies PKA A/S and PKA+ for allegedly agreeing to divide the market with competitor Danica Pension.

The two companies are being prosecuted for having violated the Competition Act by agreeing to divide the market for life and pension insurances with the competing company Danica Pension.

According to the NSK, the companies, together with Danica, agreed to submit a joint bid when Dansk Supermarked A/S (now Salling Group A/S) gathered offers for a company pension agreement in 2018, with annual payments of around DKK 440m for employees and managers in the group.

However, the NSK stated that Danica and PKA A/S and PKA+ could have bid separately and therefore limited competition by submitting a joint bid.

In 2018, both Danica and PKA A/S submitted applications for leniency under the Competition Act to the Danish Competition and Consumer Authority, while PKA+ has also since independently applied for leniency.

Although the Danish Competition and Consumer Authority concluded that Danica meets the criteria to obtain a preliminary commitment to drop charges, it found that PKA A/S, including PKA+, do not meet the conditions to obtain leniency.

NSK special prosecutor, Lise Kjærup-Heide, commented: “Market sharing is a serious violation of the Competition Act.

“It limits competition when two companies agree to join together and share a tender between them instead of bidding individually, when the collaboration does not provide significant efficiency advantages.

“It affects the customers who probably could have got lower prices or better products if the companies were competing against each other.”

In other news, Denmark’s Pædagogernes Pension (PBU), the pension fund for teachers, has been reprimanded by the Danish Financial Supervisory Authority (Danish FSA) over the risks it has taken in relation to private equity investments.

In a statement, the Danish FSA said that in February 2022 it inspected the pension fund’s private equity investments, with a focus on the fund’s organisation and resources, investment strategy, investment processes and ongoing valuation for private equity investments.

As part of the inspection, the Danish FSA reviewed three selected private equity investments.

PBU had private equity investments of DKK 1.8bn at the end of 2021, corresponding to 1.7 per cent of the company’s total investment assets.

The company’s private equity portfolio consists of a larger exposure to one fund, a number of vintage funds in the run-off and a few new, smaller impact funds.

“The Danish FSA found that there were deficiencies in the preparation of the return/risk ratio for the individual fund investments, as the company did not take sufficient account of the underlying risks in the investment funds in the calculated risk premiums.

“The Danish FSA has therefore instructed PBU to ensure that specific and relevant risks are included in the measurement of risks and assessment of the return/risk ratio,” the regulator noted.

It also found deficiencies in the company’s business procedures in relation to private equity.

Maltese govt cautioned on population estimates' impact on pension spend

POLICYMAKERS WERE WARNED OVER THE METHODOLOGIES BEING USED TO PREDICT POPULATION ESTIMATES WHEN CALCULATING FUTURE PENSION SPENDING

Written by: Natalie Tuck

Policymakers in Malta have been cautioned over the methodologies used to predict population estimates when calculating future pension spending.

In a *Quarterly Review* published by the Central Bank of Malta, the bank highlighted that the country's high migration flows experienced in recent years have made it harder to make reliable population projections.

For example, the first set of Eurostat's population projections for Malta made in 2005 suggested a population of 508,000 by 2050, while those made in 2010 indicated 427,000 for the same year.

Yet the Maltese population in 2020 was already more than 516,000. The bank noted that Eurostat's projections assume that most migrants stay in Malta until their death.

"In fact, Eurostat's no migration population projection shows a population aged 65 and over of 168,000 in 2050 as against the baseline projection of 210,000 for the same year.

"This suggests that the Eurostat baseline projections imply that over 42,000 pensioners in 2060 will be recent migrants to Malta.

"However, Borg (2019) using longitudinal administrative data found that around a quarter of foreigners exit the Maltese labour market within their first year in the country while around half exit between one and two years later," the report stated.

Volatility prompts asset depreciation in Romania pillar II

ROMANIAN PILLAR II PENSION FUNDS HAVE EXPERIENCED A 'TEMPORARY' DEPRECIATION IN ASSETS DUE TO RECENT VOLATILITY

Written by: Sophie Smith

Romania's pillar II pension system delivered an average annual yield of 7.3 per cent over the past 14 years, although recent volatility has prompted a temporary asset depreciation, according to the Association for Privately Administered Pensions in Romania (APAPR).

The APAPR confirmed that around 7.8 million Romanians currently contribute to seven funds in the pillar II system, with gross contributions of LEI 72.5bn made over the past 14 years of operation, and LEI 850m in payments.

The seven schemes currently manage around LEI 88bn in net assets, having generated a net gain of LEI 16.3bn in the past 14 years, net of all fees, equal to an average annual yield of 7.3 per cent.

However, the association acknowledged that whilst 2008-2021 saw pillar II schemes "substantially exceed" cumulative inflation, more recently, the war in Ukraine and rising inflation has prompted volatility that has been reflected in the Romanian financial markets, and in the performance of pillar II schemes.

As a result of this, pillar II schemes have seen a temporary asset depreciation of about 5.9 per cent over the first five months of 2022, mainly due to the depreciation of the government bond portfolio, in which APAPR estimated private pension funds invest about two-thirds of their assets.

APAPR pointed out that, in the past year, the price index of all government securities issued by Romania decreased by 12 per cent, 8 per cent of which was in this year.

Swedish AP funds report negative returns in H1 2022

THE FIRST THREE AP FUNDS IN SWEDEN ALL RECORDED NEGATIVE RETURNS FOR THE FIRST HALF OF THE YEAR

Written by: Natalie Tuck

Sweden's first three AP funds all reported negative returns in the first half of 2022.

Sweden's Första AP-fonden (AP1) has reported a return of -9.4 per cent, after costs, in H1.

Publishing its interim results, the buffer fund said that it continued to deliver positive results from currency and unlisted assets as well as risk capital, real estate and infrastructure, but it has been difficult to parry the negative development for listed shares and bonds.

A total of SEK 2bn has been transferred to the income pension system, and at the end of the year the fund had a managed capital of SEK 420bn.

Commenting, AP1 CEO, Kristin Magnusson Bernard, said: "With Russia's invasion of Ukraine, war is being fought in our immediate area and Europe is dealing with its biggest refugee crisis since World War II.

"In the negative market situation, our focus was on protecting the portfolio by reducing equity weighting, reducing interest rate sensitivity, optimising our liquidity management and taking advantage of the strong US dollar.

"However, with a portfolio where the majority of the capital is invested in listed assets, Första AP-fonden cannot, in the short term, parry market falls of the magnitude that occurred in the past six months."

"Första AP-fonden cannot, in the short term, parry market falls of the magnitude that occurred in the past six months"

Meanwhile, AP2 returned -6.2 per cent, after costs, in the first six months of 2022, its interim results have revealed.

The result amounted to SEK -27.3bn and the fund's assets amounted to SEK 411.7bn at the end of the first half of 2022. During the period, SEK 2bn was transferred to the pension system.

The first six months of 2022 were among the most turbulent ever for the financial markets and the real economy with many pension funds reporting negative returns. Russia's invasion of Ukraine is primarily a humanitarian disaster but has also affected energy, food and commodity prices.

Inflation has risen to levels not seen in decades and central banks have tightened much more than previously expected. As a result, both equities and bonds have recorded a sharply negative return during the half year.

The Third Swedish National Pension Fund (AP3) has also reported a negative return, of -7 per cent, after expenses, in the first six months of 2022.

Its interim results revealed that this equates to a loss of SEK 35,347m. However, AP3 said the return still outperformed the LSP benchmark portfolio by 5.6 percentage points during the period.

Over the longer term, AP3 has generated an average annual return of 8.5 per cent over the past five years and 9.9 per cent over the past 10 years.

The annualised asset management cost ratio was 0.08 per cent, of which operating expenses totalled 0.05 per cent.

Fund capital was SEK 464,927m (SEK 502,287m at 31 Dec 2021), a decrease of SEK 37,360m.

In total, SEK 2,013m was paid from fund capital to the Swedish Pensions Agency during the period to cover the difference between paid-in pension contributions and outgoing pensions and to meet pension system costs.

News in brief

■ One in three pension funds around the **globe** expect a dramatic rise in industry spending on stress testing and scenario modeling, while 54 per cent expect a slight increase, according to research by Ortec Finance. The analysis found that growing focus on illiquid and esoteric asset classes to boost yield, as well as climate risk, was driving the rise in spending. Ninety-two per cent said they planned to increase their own spending in these areas.

■ **Canada** Pension Plan (CPP) Investment Board and Hamilton -Pyramid Europe have announced the establishment of a new joint venture focused on the European hospitality sector. CPP Investment Board has committed €475m to the joint venture. With initial equity commitments of €500m, the joint venture will focus on acquiring operating hotels in cities and resort destinations in Europe. It aims to capitalise on the growing tourism trends in Europe by targeting assets that have a strong appeal to leisure travellers, and offer "distinct and superior experiences".

■ The **Australian** Prudential Regulation Authority (APRA) has told the country's superannuation fund industry that it expects performance testing, in some shape or form, "is here to stay". APRA recently published its 2022 MySuper performance test, with five of the 69 products that were testing failing, down from 13 the previous year. The authority noted that, on the whole, the results were a positive reflection of where the industry was at and its progress since last year, despite a challenging 12 months.

Florida removes ESG considerations for state pension investments

GOVERNOR DESANTIS AND THE STATE BOARD OF ADMINISTRATION VOTED TO AXE ESG CONSIDERATIONS IN INVESTMENTS

Written by: Jack Gray

Governor Ron DeSantis and the trustees of the State Board of Administration in Florida have passed a resolution directing fund managers in the state to prioritise the highest returns and not take environmental, social and governance (ESG) factors into consideration.

This update to the fiduciary duties of investment managers and advisers defines the factors fiduciaries are to consider in investment decisions and ESG factors will not be included in the state of Florida's pension investment management practices.

The resolution specifies that investment decisions must be based only on factors that do not include the consideration of "the furtherance of social, political, or ideological interests" and instructs the board to conduct a comprehensive review and report of the governance policies over the voting practices of the Florida Retirement System Defined Benefit Pension Plan.

"Corporate power has increasingly been utilised to impose an ideological agenda on the American people through the perversion of financial investment priorities under the euphemistic banners of environmental, social, and corporate governance and diversity, inclusion, and equity," said Governor DeSantis.

Global pension assets hit USD 23.6trn

GLOBAL PENSION ASSETS REACH RECORD HIGH IN 2021

Written by: Sophie Smith

The combined assets under management (AUM) of the 300 largest pension schemes reached a record high of USD 23.6trn in 2021, having increased by 50 per cent since 2016, according to research from the Thinking Ahead Institute (TAI).

The survey showed that while total AUM has reached record highs, growth has slowed from 11.5 per cent in 2020 to 8.9 per cent in 2021.

However, the TAI suggested that this "was to be expected after a very strong performance in asset markets over 2020", pointing out that the latest performance is enough to take five-year cumulative growth to 50.2 per cent.

The survey also found that the United States was now home to almost half of the world's largest pension funds, up from 41.7 per cent at the end of 2020.

European pension schemes, meanwhile, accounted for 25.9 per cent, Asia-Pacific 25.5 per cent, while the remaining 4 per cent were based in Latin America and Africa.

North America's increased global share was attributed to the faster annualised growth in invested assets, which was up 9.2 per cent, compared to 8.3 per cent in Europe.

Defined benefit fund assets made up 63.5 per cent of the total AUM.

Diary dates 2022

The latest events occurring across the European pensions market

PENSIONS AGE AUTUMN CONFERENCE
NEW DATE: 31 October 2022
Waldorf Hilton Hotel London
This one-day conference, which is open to pension scheme managers, trustees, FDs, advisers, pension and HR professionals, will offer delegates the up-to-date knowledge and guidance they need to help them run their pension schemes and meet their members' needs, whether in the DB, DC or hybrid space. A firm favourite in the UK pensions sector, those working in the industry will have the opportunity to learn and network alongside their peers.
pensionsage.com/autumnconference

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

PENSIONS AGE SCOTLAND CONFERENCE
9 November 2022
Waldorf Astoria, Edinburgh
The Pensions Age Conference is coming to Edinburgh for the first time. This one-day event offers pension funds and those working in the pensions sector the opportunity to learn and network alongside their peers. With a series of presentations from leading pension professionals and policymakers from across the industry, the event will offer delegates the up-to-date knowledge and guidance they need to help them run their pension schemes and meet their members' needs.
pensionsage.com/scotlandconference

Not to miss…

PLSA ANNUAL CONFERENCE 2022
12-13 October 2022
Liverpool
plsa.co.uk/events

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21 March 2023
London
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May 2023 (TBC)
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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@pensionsage.com

CHLOE SMITH

Chloe Smith has been named as the Secretary of State for Work and Pensions in British Prime Minister, Liz Truss's, cabinet. The MP for Norwich North was previously Minister for Disabled People, Health and Work, and takes over from Thérèse Coffey, who has become Health Secretary and Deputy Prime Minister. Previously, Smith was Minister for the Constitution and Devolution and Parliamentary Secretary at the Cabinet Office.

MARIËTTE SIMONS

Dutch pension fund, PFZW, has reappointed Mariëtte Simons as a board member on behalf of pensioners. Simons started her second four-year term on 1 July 2022, having received more than 50 per cent of the 48,000 pensioner votes in recent elections. She is also a member of PFZW's investments committee, a business economist, and has held various positions in the pensions world.

CHRISTINE SAWYER

The UK Pension Scams Industry Group (PSIG) has announced the appointment of Christine Sawyer as chair of its Pension Scams Industry Forum. Sawyer, who is currently Invensys Pension Trustee Limited scheme manager, has over 20 years' experience. She takes over the role from Tommy Burns, who held the position since its inception, although Burns will remain in his role as PSIG deputy chair.

KRISTJÁN ÞÓRÐUR SNÆBJARNARSON

The Icelandic Confederation of Trade Unions (ASÍ) has named chairman of the Icelandic Electrical Industry Association, Kristján Þórður Snæbjarnarson, as president. He takes over as president from Drífa Snædal, who resigned on 10 August. He was elected second vice president in 2018, and became 1st vice president upon the resignation of Vilhjálm Birgisson, in April 2020, and will hold the role until ASÍ's next meeting in October.

PETER DORRESTIJN

Pensioenfonds PostNL has reappointed Peter Dorrestijn as board member for a four-year term. Dorrestijn has been a member of the board on behalf of the employer since 16 January 2015, and is a member of the finance committee. He is also an executive board member of the KLM Cabin Crew Pensioenfonds, and chairman of the board of Pensioenfonds ACNielsen Nederland BV.

SARA COOK

The UK Pensions Management Institute (PMI) has announced the appointment of Sara Cook as its next president, effective immediately. Cook, who succeeds Lesley Alexander, will also chair the Advisory Council, and sit on the board as a non-executive director (NED). Having begun her career in pensions administration, Cook has also worked in-house, as a pensions manager, and in consultancy.

SØREN LOCKWOOD

Danica Pension has named Søren Lockwood as managing director. He has more than 10 years' experience as a director at large pension companies, including five years as CEO of SEB Pension and four years as deputy CEO of Danica Pension. Lockwood, who has been acting managing director for four months, was appointed by the board following a "thorough" process, which included both internal and external candidates.

STURE NORDH

KPA Tjänstepensionsförsäkring AB has appointed Sture Nordh as its new chairman. Nordh has been a member of the board of the company since 2015, having also previously held the role of chairman of TCO and Förenade Liv Gruppförsäkring AB. Nordh was appointed chairman at the group's latest general meeting, after the former chairman, Anders Knape, announced that he would be leaving the position.

GEORG VON HINÜBER

The supervisory board for the German Evangelical supplementary pension fund Evangelische Zusatzversorgungskasse (EZVK) has appointed Georg von Hinüber as a board member, from 1 October 2022. He will be responsible for the insurance and stakeholders department. Von Hinüber replaces Hans-Rudolf von Campenhausen, who has headed the department as interim director since June.

PENNA URRILA

Penna Urrila has been elected as an ordinary member of the board of directors of Finnish earnings-related pension provider, Elo. At its meeting on 25 August 2022, Elo's supervisory board elected Penna Urrila, director of economic policy and chief economist, Confederation of Finnish Industries EK, as an ordinary member for a term lasting until 31 December 2022. He has served as a deputy member of the board since 2017.

JOONAS RAHKOLA

Finnish pension provider, Keva, has appointed Joonas Rahkola as chief economist. In his new role, Rahkola will monitor the long-term economic environment at home and internationally, and analyse other topics affecting the occupational pension sector, as well as communicating with key stakeholders. Rahkola will report to Keva communications director, Reija Hyvärinen.

COUNTRY SPOTLIGHT NETHERLANDS

A step forward

Sophie Smith considers the potential impact of recent market volatility on the introduction of the new Dutch pension system, and the steps the pensions industry should be taking to prepare

WRITTEN BY SOPHIE SMITH

The Dutch pensions system has long been a source of envy for many countries, maintaining an A grade in the *Mercer CFA Institute Global Pension Index* and having consistently placed at the top of global pension system rankings.

Yet despite its strengths, the Dutch pension system has been facing challenges, with growing concerns that existing pension rules were too limiting amid recent changes in the country.

"The demographics, economy and labour market are different," ABP spokesperson, Jos van Dijk, explains. "People are getting older. There are fewer working people compared to retirees. People no longer work for an employer all their lives, but more often change jobs or start their own business. Our current pension system is less suited to this changing society."

Research from De Netherlands Bank (DNB) also recently showed that while confidence in pension funds' ability to meet their commitments to pensioners has increased in recent years, Dutch savers have lower trust in pension funds than that of banks and insurers.

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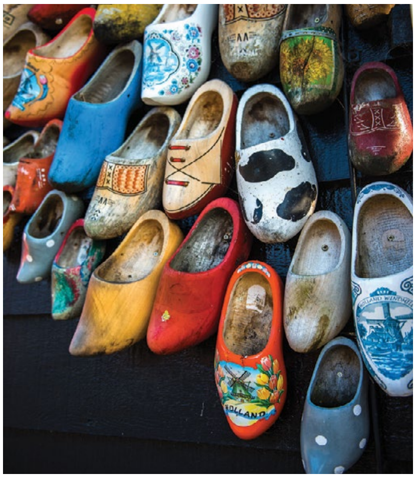

interest rates, which have driven up the funding ratios, making it simpler to transition to the new system.

"Higher funding ratios make it easier to set up a solidarity reserve or risk-sharing reserve at the start of the new system," he explains. "Of course, it remains a concern that despite the slightly higher interest rates, the inflation is significantly higher than the indexation. The new system creates other options for implementing risks in terms of investment policy that can lead to higher pension results. More specifically it will be possible to hedge the inflation risk in the new system."

Communicating these upcoming changes with savers is likely to prove crucial to the success of the new system, as Langejan suggests that while the new pension system can contribute to a higher degree in trust, communication will be needed to explain to individual members that 'defined benefits' no longer exist.

Work is already underway on this, with the Ministry of Social Affairs preparing a major public campaign. However, Der Kinderen suggests that communicating the detail of changes will also be an important task for pension funds and other pension administrators, as well as social partners.

ABP, for instance, has already informed its members of the broad changes, with plans to include more detailed communications once the changes have been finalised.

"Our participants especially want to know what it means to them individually," Van Dijk says, pointing out that this is not yet clear.

Despite the uncertainty, Van Dijk suggests that the new system can increase confidence and make pensions "easier to understand".

Future changes may still be needed though, as Mercer actuary, Marc Heemskerk, points out that the self-employed are not included in the current system, highlighting this as an "important task for the government".

"At present, we estimate that there are 1.1 million self-employed people, a group that is constantly growing," Heemskerk continues. "This is approximately 12 per cent of all employed people. They are at risk of poverty later in life." ■

Reaping the rewards

PENSION SAVERS ARE already benefiting from some changes to the system, as new rules were recently introduced to allow pension schemes to increase pensions if their funding ratio is above 105 per cent, instead of 110 per cent.

Aon Netherlands Wealth Solutions CEO, Frank Driessen, points out that various pension funds have seized this opportunity to index pensions higher than would be possible with the indexation rules based on the 110 per cent funding ratio.

"Due to the recently higher interest rate, it is possible for various pension funds to index pensions in combination with the 105 per cent-indexation rules," Driessen explains.

According to Pension Federation adviser, Marcel Lever, the increases in 2022 have typically been around 2 per cent, in line with inflation between autumn 2020 and autumn 2021.

Despite this, Driessen says that recent indexation appears to be insufficient to mitigate the sharp inflation, with many raising concerns that purchasing power will fall sharply not only for retirees, but for everyone.

In addition to this, he points out that while pension fund boards are being pressured to index "earlier and higher" now that inflation is so high, indexation will immediately lead to a lower funding ratio.

"Pension fund boards have to make balanced decisions to increase indexation based on the 105 per cent funding ratio-indexation rules in the light of the upcoming transition to the new system," he says.

This is echoed by Lever, who warns that pension funds will now have to consider whether large increases in 2023, in line with the high inflation in 2022, is appropriate amid the current volatility and the planned transition to the new pension system.

These concerns are reflected in the conversations being had at scheme level too, as ABP spokesperson, Jos van Dijk says: "ABP has made use of these relaxed rules to be able to index in 2022. We increased pensions by 2.39 per cent in July. In making such a decision, which is subject to DNB rules, the board always takes the long-term consequences into account. It considers it its responsibility to maintain a healthy financial position.

"In such a decision, the interests of the various groups are weighed in a balanced way and, of course, economic expectations also play a role. At the end of this year, we will reassess all these factors to see whether indexation in 2023 is possible and justifiable."

Lessons from the Dutch

Railpen head of product development, Matthew Hall**, explores the key challenges and opportunities for the UK pensions industry as it ventures into multi-employer CDC schemes and the lessons it can learn from the Dutch pension system**

WRITTEN BY RAILPEN HEAD OF PRODUCT DEVELOPMENT, MATTHEW HALL

The official opening of collective defined contribution (CDC) applications in August of this year represented a landmark moment for innovation within the UK pensions industry. CDC is a new type of pension scheme in the UK where savers collectively pool their retirement savings into a single fund that shares risks and pays members a targeted income in retirement.

CDC presents a great opportunity to deliver a superior alternative to traditional defined contribution (DC) schemes. The Department for Work and Pensions (DWP) is also working towards a consultation later this year, extending its CDC policy framework to unconnected multi-employer arrangements.

Whilst CDC models are at a nascent stage in the UK, collective risk-sharing pension arrangements are well-established in other countries, including Denmark, Canada and the Netherlands. As the UK explores the possibilities of multi-employer CDC solutions, some critics point to the Netherlands as potential pitfalls for the UK market. While the Dutch landscape is very different to the UK, there are three lessons that the UK can take on board from the Dutch experience:

No guaranteed benefit: The majority of CDC plans in the Netherlands originated from defined benefit (DB) schemes that transitioned to look more like CDC. When these schemes encountered economic shocks, they were forced to cut benefits. This caused confusion and frustration amongst members who understood their benefits to be guaranteed. The UK model for CDC has deliberately distanced itself from DB, with CDC legally sitting within the DC framework. CDC is a solution for future service only and DB schemes cannot 'transition' to become CDC.

Effective communication with members is key: The Dutch experience highlights the importance of clear communication with members from the outset and on an ongoing basis, to maintain high levels of education and engagement between schemes and their members.

CDC schemes target a certain level of benefit, but the actual benefit can be adjusted up or down to keep the scheme in balance. By establishing CDC schemes as a new type of benefit, the UK has a stronger platform to build effective communication channels.

Within UK collective pension arrangements, we are more accustomed to communicating transparently with members. So, whilst the challenge of effective CDC communication cannot be underestimated, CDC arguably presents much less of a challenge than communicating the uncertainty surrounding DC benefits.

Funding arrangements: CDC schemes in the Netherlands operate under a tight funding regime that is similar to DB. This means that scheme valuations incorporate prudence when determining benefits. In this context, Dutch members found it difficult to understand why their benefits were lower than expected when the scheme had delivered strong returns. It also led to criticism that schemes were intergenerationally unfair, as benefits were being 'held back'.

In contrast, CDC proposals in the UK will not incorporate any prudence, and valuations will be performed on a 'central estimate' basis. The funding regime will not follow a solvency style framework and schemes will be encouraged to invest in long-term growth assets that deliver better outcomes to members.

Next steps for CDC

Despite the opportunity, the market for single-employer CDC is likely to be limited to very large employers. Multi-employer models are the most viable route to entry for most employers. It is therefore important that the pensions industry continues to work with the DWP and The Pensions Regulator ahead of the consultation later this year. Key issues under discussion include fairness, member understanding, and demonstrating scheme robustness. There is no reason why these challenges cannot be addressed through scheme design, strong governance, and effective communication with members.

The consultation on multi-employer CDC is an important path on the UK's CDC journey. If CDC can be delivered at scale, it has the potential to fill a void and bring the benefits of collective pensions to the next generation of retirees. ■

IRELAND

In with the new

Following the unveiling of the details for Ireland's new auto-enrolment system earlier this year, Jack Gray **assesses the framework, its aims, and whether the measures go far enough**

WRITTEN BY JACK GRAY

As the only OECD country without a mandatory or quasi-mandatory retirement savings system, Ireland is playing pensions catch-up with most of the developed world. The details of the new auto-enrolment (AE) system, which has been in planning since 2018, were announced in March.

From 2024, employees aged 23-60, and earning over €20,000, who are not already enrolled in an occupational scheme will be auto-enrolled into one. The Department of Social Protection (DSP), which is leading the development of policy and legislative design, estimates that around 750,000 workers will be enrolled into a new workplace scheme.

Contributions will start at 1.5 per cent for both employees and employers, with a 0.5 per cent top-up from the state, and will gradually increase to 6 per cent for employees and employers and 2 per cent from the state in 2034, up to €80,000 of earnings.

"The principle of a phased contribution rate is a good one," argues Irish Life Corporate Business director of products, Shane O'Farrell. "We believe the gradual contribution rate increases are too slow, however, it is critical to start with something rather than nothing at all."

The DSP predicts that the new system will account for approximately €21 billion in funds, excluding investment returns, after 10 years. Members can choose a preferred fund or be enrolled into a default fund, with a pot-follows-member approach to be adopted.

Seeking coverage

"Despite the considerable efforts of government and the pensions industry over many years, a good coverage level has not been achieved," says a DSP spokesperson.

"If measures are not taken to address the low rates of supplementary pension coverage now, many future retirees will experience unwanted and severe reductions in living standards when they reach retirement. The department's policy aim is for AE to reverse that long-standing trend."

O'Farrell states that AE has delivered "fantastic results" in other countries and should be seen as a socially progressive and forward-thinking option for Ireland.

Furthermore, Irish Association of Pension Funds (IAPF) CEO, Jerry Moriarty, believes that the ambition of AE, particularly with total proposed contributions of 14 per cent, will go a long way towards achieving the DSP's aim: "There are elements of the design that still need further clarification and the timelines proposed are ambitious. Providing a direct payment from the government, rather than tax relief, will complicate a pensions system that needs simplification.

"Phasing in the contributions allows employees and employers to plan and adjust to AE. With contribution levels of 6 per cent for employees and employers it would be very difficult to introduce those immediately without a significant impact on the cost of business and employees' take home pay.

"However, if we want to have a system that provides coverage and adequacy it is also important that the staging of the contribution increases happen as planned."

Central processing

As part of the system, a new body will be established to oversee the scheme and facilitate the pot-follows-member approach. The Central Processing Authority (CPA) will be established prior to the launch of AE on an administrative basis within the DSP.

"Once the necessary legislation is enacted, the CPA will be a statutorily independent agency, regulated by the Pensions Authority," the DSP spokesperson explains. "However, in line with governance requirements, it is likely that the board of the CPA will be answerable to the Minister for Social Protection.

"The AE system and the CPA are designed to act in employees' best interests and to minimise the administrative burden on employers."

Moriarty notes that putting the infrastructure of the CPA together will "take time", while Tor Financial Consulting managing director, David Harris, cites cost concerns.

"They're saying it's only going to cost €20 million, that is the budget," Harris continues. "We estimated something more akin to €85 million. The positive is they're looking at doing AE, but politically it's a very aggressive timetable."

Department expectations

Employers and schemes will have some adapting to do amid the new requirements, but the DSP states that that simplicity and efficiency are key elements of the AE design.

Its spokesperson describes AE as a positive development for employers, as it levels the playing field in their efforts to attract talent to their companies. "It offers them a ready-made, easy-to-use pension scheme and is an important element in all employees' wellbeing," they add. "AE provides employers with a well-designed, automated system, removing almost all of the administrative burden from them. The CPA operational processes will be based on automated IT infrastructure, via payroll applications, that will assess employee data and determine if the employee meets the eligibility criteria for AE.

"The employers' obligations in the AE system will simply be to: Apply a payroll instruction for employees, provided by the CPA; calculate, deduct and remit employee and employer contributions; and follow all compliance regulations set out in legislation. The CPA will consult with employers' associations and providers of payroll systems and services to ensure smooth integration, safe execution and accurate processes."

"IF MEASURES ARE NOT TAKEN TO ADDRESS THE LOW RATES OF SUPPLEMENTARY PENSION COVERAGE NOW, MANY FUTURE RETIREES WILL EXPERIENCE UNWANTED AND SEVERE REDUCTIONS IN LIVING STANDARDS WHEN THEY REACH RETIREMENT"

Potential shortcomings

Despite the potential positives, there are concerns that certain demographic groups could be worse off than others under the new system.

In its submission to the initial consultation, the IAPF suggested that enrolling people as soon as they join the workforce was preferable to waiting until age 23. "Experiencing a drop in income at that age is likely to encourage opt-outs," Moriarty warns.

"Combining multiple incomes that people have will also ensure people with multiple lower paid jobs will benefit by not being excluded. There are concerns that the eligibility criteria will disproportionately impact on women, but affordability is also an issue for the lower paid."

O'Farrell echoes these concerns: "Irish Life believes the proposed new AE scheme could intensify the gender pensions gap, create more delay and expense in introducing the system and reduce the choice available to employees in Ireland.

"Limiting access to AE for people between the ages of 23-60 earning €20,000 will disproportionately exclude women and exacerbate the gender pension gap. The lack of flexibility to increase payments or make lump-sum contributions to cover any periods of unpaid leave or career gaps could mean worse retirement outcomes for women."

Harris adds that the age and earnings thresholds are not very progressive: "What happens to all those lower income people? What happens to women who are 18, who maybe get married at 20 and then leave the workforce at 21? They won't be covered.

"Are they encouraging voluntary contributions? Will they do it for the self-employed? The self-employed will still hurtle along but they won't have the ability to do these one-person schemes like a SIPP structure, because the costs will dramatically increase."

He also questions whether the system will be ready in time for the 2024 deadline. "They're going to run out of political time as well as regulatory time.

"They've got to draw up some legislation. AE is admirable based on the OECD report of 2012 and that is fine. It's the delivery or how it's being implemented that provides us with concern." ■

CASE STUDY

Raising the bar

AkademikerPension is a member-owned pension fund for 150,000 academics with DKK 1.5 billion in assets under management. It invests in around 7,000 companies and has undertaken active ownership engagement campaigns with firms such as Volkswagen, HSBC and Samsung.

Jack Gray **sits down with AkademikerPension chief investment officer,** Anders Schelde**, to discuss the scheme's active ownership engagement campaigns with car manufacturers and banks, among others, and responsible investment policy**

Can you describe your responsible investment policy and its aims?

Our sustainable and responsible investment policy covers all of our investments, that's the ambition, but it is more relevant to some investments than others and there are some areas where we are yet to find out exactly how to do it. We are committed to our policy and the ambition that it should cover everything we do.

We feel we have an obligation to align our funds with the views of our scheme members. We have a very democratic business model where the members select most of the board and we have annual general meetings (AGM) where we discuss matters of sustainability and responsibility. There is a lot of ongoing dialogue with our members. If you take our sustainable investment policy, you could probably find more or less the same policy in other Danish pension funds, but probably we exercise the policy a little more than others.

Our responsible investment policy has several strategies, including active ownership/engagement to promote positive changes, positive allocation and targets for financing climate solutions, and divestment from upstream oil, gas, coal and tar sand, and from sovereign debt issued by companies with systematic human rights abuses, controversial weapons and tobacco. We have a decarbonisation target of approximately 26.8 per cent by 2025 compared to 2019 levels and environmental, social and governance (ESG) ratings for external asset managers.

We also pursue collaboration with like-minded investors, and we are a member of the UN-convened Net-Zero Asset Owner Alliance, Principles for Responsible Investment, Investor Alliance for Human Rights, Climate Aware 100+ and the Institutional Investors Group on Climate Change, to name a few.

The key themes of our responsible investment strategy include climate and nature, lobbying, human rights, labour rights, diversity, tax, anti-corruption, good corporate governance and transparency.

Do you have any concerns about levels of return when investing responsibly?

Our mission is to not only create good returns for our members but, at the same time, we explicitly express that we want to do that in a sustainable manner. We believe those things go hand-in-hand. Many people still seem to think there is a trade-off between having good returns and a sustainable portfolio, but we find those things are mutually supportive.

Can you detail some of the notable engagement campaigns you have pursued?

We have initiated several engagement campaigns with companies on a variety of issues to try and create positive change. For example, we have engaged with car manufacturers Toyota and Volkswagen on climate strategy and climate-related policy engagement, HSBC on climate and coal phase-out, Danske Bank on climate strategy, transition plans and money laundering risks, and shipping company Maersk on climate and human rights issues.

We also engaged with Wizz Air on labour rights and collective bargaining, Samsung on climate, scope three emissions and coal-fired power plants, mining firm Vale on human rights and climate, Carlsberg on climate, tax transparency and CEO pay, and food industry company JBS on deforestation in the supply chain and its transition plan. Relative to our size and resources, we are quite sure we do more of this than others. There might be some that do more than us, but considering our size and resources we do a lot of engagement. This is because we feel obligated to do it with the background we have and the demographic of our members. One difference we have from other investors is, not only do we spend more time and resources on this, but we also have a bit of a different style: We are more willing to use the public arena to address these issues. We have a large Danish equity portfolio and for a number of years have had a close dialogue with the companies we invest in. That is something we have been doing for a few years and that hasn't changed, and we also started to do shareholder proposals a couple of years ago. Most of our equity portfolio is invested outside of Denmark and we are a small fund with limited resources, but what has changed over the past couple of years is we decided that we wanted to increase engagement on a select number of cases internationally. Cases on car manufacturers have been reported on and we have had a close dialogue for a while about their lobbying activities and how they will work with the transition to a more electrified future.

"ONE DIFFERENCE WE HAVE FROM OTHER INVESTORS IS, NOT ONLY DO WE SPEND MORE TIME AND RESOURCES ON THIS, BUT WE ALSO HAVE A BIT OF A DIFFERENT STYLE: WE ARE MORE WILLING TO USE THE PUBLIC ARENA TO ADDRESS THESE ISSUES"

What do you do to ensure members are aware of the actions you are taking?

We have a dialogue with our members on an ongoing basis. We have meetings with member groups from time to time, and there's a lot of formalised interaction going on and a lot of non-formal interaction going on. To give one example of how we engage with our members in regards to sustainability: Last year, a group of members made a proposal at our AGM that we should do more active ownership with financial institutions in regard to climate. It's something we have been doing quite a lot. We engage on cases such as those against HSBC, Barclays and Danske Bank, so several cases over the past couple of years. It's something we have been quite engaged with, but our members wanted us to do more, and they put forward a proposal at the AGM, which was approved and supported by our board. We are now working on a formalised policy for this specific area, an ambition policy that sets out a description of what we believe we can do, what we should do and how we should do it. That will then be put forward and presented at the next AGM. It is something we have been doing and we want to do more to make sure it is clear what the framework around it is and what the ambition is.

Does having a member demographic of academics mean that member engagement is higher at AkademikerPension than a typical pension fund?

That's most certainly a factor. Our members are academics and many teach at universities and higher education schools. They know a lot about the world, how it works, and they are very engaged, so that is something that is baked into our DNA. ■

PensionsEurope

Keeping pension funds in mind

PENSIONSEUROPE POLICY ADVISER, ANASTASIOS PAVLOS, DISCUSSES THE NEED FOR THE SPECIFICITIES OF PENSION FUNDS AND THE CREATION OF A GENERAL TAXONOMY TO BE "AT THE CORE" OF EU ESG POLICIES

"INVESTORS SHOULD HAVE THE TIME TO CAREFULLY IMPLEMENT THE BROADENED SCOPE OF THE TAXONOMY"

Over the past few years, there has been a clear trend in the pensions sector towards responsible investments. The EU Sustainable Finance Strategy was a major step in the European Commission's (EC) work as it contains many recommendations that will improve the scope of sustainable investments and expand the amount of information available to institutional investors on environmental, social and governance (ESG) aspects.

There is already a long tradition of pension funds aligning their investments with the values and preferences of their members and beneficiaries, and society at large.

The EC aims to increase the contribution of pension funds in the sustainability transition. For this reason, they presented several policies one year ago, such as the review of the fiduciary duty of IORPs, the upcoming extended and social taxonomy etc. In general, policymakers and society at large are increasing their expectations about pension funds' responsible investment policies.

Nevertheless, those policies should consider the specificities of pension funds. It is necessary to make sure that all proposals are suitable for the collective and mandatory setting of pension funds, which are very divergent from individual retail investment products.

Simply copying regulations for retail financial services without regard to the specificities of pension funds will lead to poor regulation.

Regulation should allow sufficient flexibility for pension funds' boards to incorporate the relevant ESG considerations.

It is vital to reflect on the representative structures of many IORPs in Europe, in which social partners or members/beneficiaries and sponsors are represented on the boards of directors.

In that case, the decision-making process incorporates the sustainability preferences of members by way of representation. Thus, this institutionalised collective way of covering individual preferences must be acknowledged.

Broadening the scope of the taxonomy

Enlarging the scope of the taxonomy to include more sectors in the green taxonomy is the second crucial element in the upcoming ESG policy.

Sectors that play a role in transitioning to a more sustainable economy (amber), sectors that do not have a significant impact on environmental sustainability (grey) and economic activities that significantly harm environmental sustainability (red) should be included as part of the green taxonomy. This will certainly lead to a "general taxonomy" that would provide more insight into the risk exposure of portfolios, allowing them to better advise asset owners on transition strategies.

Moreover, investors should have the time to carefully implement the broadened scope of the taxonomy, to benefit from its potential and data.

There is a clear sign that responsible investing, aside from being beneficial for societies, can also help pension funds fulfil their fiduciary duties in the best possible way under different adverse scenarios. Pension funds should continue adapting their investment policies on ESG to help the economy's transition.

However, to fulfil this role, the specificities of pension funds should always remain in the mind of regulators and the development of certain policies like the EU taxonomies should work to arrive at science-based definitions. This could provide pension funds, as investors, with a common framework for assessing transition paths, without having to develop their specific frameworks. Such a legitimised tool would stimulate standardisation, potentially even beyond the EU on a global scale. ■

Written by PensionsEurope policy adviser, Anastasios Pavlos

European Pensions AWARDS 2022

7 July 2022

London Marriott Hotel, Grosvenor Square

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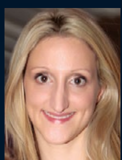
OVERVIEW



Global change and unpredictability have become the norm – whether it is in relation to politics, economics, global crises or weather patterns – and knowing how to deal with this in one's every day working life is challenging, not least when you are responsible for the retirement of thousands if not millions of pension scheme members. This is why awards such as these are so important, and this year's European Pensions event was another great celebration of the adaptability, dynamism and passion that those working in the European pensions sector continue to display.

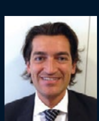
Hundreds of dedicated pension providers and pension funds from across Europe and beyond came together at London's stunning Marriott hotel to celebrate having made it through two challenging years not only unscathed but stronger, more resilient and certainly more technologically minded. Congratulations to all those who went home with trophies, and we hope everyone had a wonderful evening.

Francesca Fabrizi, Editor-in-Chief

2022 JUDGING PANEL

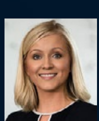
Rob Barrett
Pensions Industry Expert

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

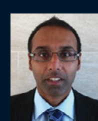


Francesco Briganti
Secretary General
CBBA-Europe

Evalinde Eelens
Executive Board Member, BPF Particuliere Beveiliging; Board Member, BPF Schilders; Board Member, PostNL corporate pension scheme



Snædís Ögn Flosadóttir
Managing Director Pension Funds
EFIA and LSBI



Chetan Ghosh
Chief Investment Officer
Centrica Pension Scheme

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 (IEBA)

Mike Smaje
Trustee Executive
BESTrustees

European Pensions AWARDS 2022

WINNERS 2022

EUROPEAN PENSIONS CONSULTANCY OF THE YEAR
WINNER: Mercer

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

EQUITIES MANAGER OF THE YEAR
WINNER: Columbia Threadneedle Investments

FIXED INCOME MANAGER OF THE YEAR
WINNER: M&G Investment Management

ALTERNATIVES INVESTMENT MANAGER OF THE YEAR
WINNER: AXA IM Alts

PROPERTY MANAGER OF THE YEAR
WINNER: CBRE Investment Management

INFRASTRUCTURE MANAGER OF THE YEAR
WINNER: KGAL Investment Management GmbH & Co. KG

PRIVATE EQUITY MANAGER OF THE YEAR
WINNER: Unigestion

ETF PROVIDER OF THE YEAR
WINNER: UBS

EMERGING MARKETS MANAGER OF THE YEAR
WINNER: Amundi

RISK MANAGEMENT FIRM OF THE YEAR
WINNER: Aon

CURRENCY MANAGER OF THE YEAR
WINNER: HSBC

LDI MANAGER OF THE YEAR
WINNER: Columbia Threadneedle Investments

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

MULTI-ASSET MANAGER OR PROVIDER OF THE YEAR
WINNER: Pictet Asset Management

INDEX PROVIDER OF THE YEAR
WINNER: MSCI

ESG OR SRI PROVIDER OF THE YEAR
WINNER: BNP Paribas Asset Management

ESG OR SRI PROVIDER OF THE YEAR (PENSION FUND)
WINNER: PensionDanmark

European Pensions AWARDS 2022

WINNERS 2022

FIDUCIARY MANAGEMENT
WINNER: Russell Investments

EUROPEAN PENSIONS LAW FIRM OF THE YEAR
WINNER: CMS UK

TRANSITION MANAGEMENT FIRM OF THE YEAR
WINNER: BlackRock

CUSTODIAN OF THE YEAR
WINNER: Northern Trust

PENSIONS INSURANCE FIRM OF THE YEAR
WINNER: Rothesay

PENSION SCHEME ADMINISTRATOR OF THE YEAR
WINNER: BTPS

PENSIONS TECHNOLOGY PROVIDER OF THE YEAR
WINNER: Previnet Outsourcing Solutions

EUROPEAN PENSIONS INNOVATION AWARD (TECHNOLOGY)
WINNER: Cardano

EUROPEAN PENSIONS INNOVATION AWARD
WINNER: SEI

MASTER TRUST OFFERING OF THE YEAR
WINNER: TPT Retirement Solutions

FACTOR INVESTING OFFERING OF THE YEAR
WINNER: AQR Capital Management

EUROPEAN PENSION FUND OF THE YEAR
WINNER: Railpen

BEST INVESTMENT STRATEGY AWARD
WINNER: Nest

PENSION FUND COMMUNICATION AWARD
WINNER: Standard Life

PENSION FUND INNOVATION AWARD
WINNER: AG2R LA MONDIALE

DIVERSITY AWARD
WINNER: Dalriada Trustees

MARKETING CAMPAIGN OF THE YEAR
WINNER: Legal & General

THOUGHT-LEADERSHIP AWARD
WINNER: NOW: Pensions

European Pensions
AWARDS 2022

ALTERNATIVES INVESTMENT MANAGER OF THE YEAR

AXA IM ALTS

The Alternatives Investment Manager of the Year award went to AXA IM Alts. Receiving the award was Gerard Webb and Mayuran Shanmuganathan, AXA IM Alts (centre). Presenting the award was John Woods, European Pensions (right) and host, Holly Walsh (left).

With alternatives continuing to play an ever-greater role in most European pension fund portfolios, the Alternatives Investment Manager of the Year Award looks to reward the leaders in the provision and management of alternative assets.

This year's winner – AXA IM Alts – proved itself as the best of the best in this field and displayed incredible commitment to the European pensions market with its product offerings. AXA IM Alts' strong performance, impressive environmental, social and governance (ESG) projects and innovative products made this a win-win for the judges.

The firm's innovative product launches included the expansion of its suite of secured finance solutions with the introduction of a new Global Secured Assets Strategy. This sees investments made through an open-ended vehicle across a wide range of assets in both public and private markets, providing clients with a diversified portfolio of global secured finance assets, delivering yield pick up over traditional credit, while focusing on capital preservation.

The launch of AXA IM Alts' eighth fund of its Partner Capital Solutions Strategy, which seeks to offer opportunities to clients wanting to gain exposure to performing credit and its fourth Impact Investing Fund, which focuses on financial inclusion and global health aligned with parts of the UN's Sustainable Development Goals, also stood out.

AXA IM Alts impressed the judges through the completion of market-leading real assets transactions. It partnered with Australian Super, Ivanhoé Cambridge and NSW Treasury Corporation, together with logistics developer and investor Logos, to acquire a direct investment in the world's first automated logistics facility in Sydney and acquired approximately 24,000 hectares of Australian woodlands and an associated forestry management business in one of the largest investments into the Australian forestry market in more than a decade.

The firm also displayed why it deserved this year's award through the launch of a European life science strategy, for which it had raised €1.9 billion as of July 2021, made possible via its acquisition of Kadans Science Partner platform.

The firm displayed its commitment to ESG through its holistic approach to selecting companies solving climate change and biodiversity loss. It has supported the acceleration of a range of projects that conserve natural capital and ecosystems, promote resource efficiency and sustainability, mitigate climate change, and improve the resilience of vulnerable communities.

AXA IM Alts also achieved continued commercial success, raising a record €18.2 billion of capital in 2021, including €10.2 billion of third-party commitments, reflecting the strong positioning and suitability of AXA IM Alts' offering. Revenues generated by third-party capital are increasing by 50 per cent year-on-year, while the firm raised €8.3 billion in private debt and alternative credit, and completed around €900 million of transactions in alternative real estate asset classes, as at Q3 2021.

Many congratulations to AXA IM Alts – worthy winners of this year's award.

AXA Investment Managers


AXA Investment Managers
Delivering sustainable returns in alternative investments
A truly long-term approach
Our Alternatives capability is structured around four investment pillars – Real Estate, Private Debt & Alternative Credit, Private Equity & Infrastructure and Hedge Funds – which, for over 30 years, have launched innovative products in the Alternatives space.
Our conviction is that long-term performance generation, demonstrated over multiple market cycles, can only be built on a fundamental understanding and proximity with the assets we manage, and by fully embedding best-in-class ESG practices in our investment processes.
This is why our clients entrust us with more than €190+ billion in assets under management [1].
Investments in financial markets involve a capital risk.
alts.axa-im.com

European Pensions AWARDS 2022

ESG OR SRI PROVIDER OF THE YEAR

BNP PARIBAS ASSET MANAGEMENT

The ESG or SRI Provider of the Year award went to BNP Paribas Asset Management (BNPP AM). Receiving the award was Gabrielle Kinder, BNPP AM (centre). Presenting the award was Jack Gray, European Pensions (right) and host, Holly Walsh (left).

As European pension funds become increasingly aware of the impact environmental, social and governance (ESG) considerations can have on their portfolio returns, this award aims to recognise leaders in this significant and increasingly sophisticated market.

In a highly competitive category, this firm was praised by the judges for truly putting sustainability at the heart of its offering, evolving its multi-disciplinary approach to suit changes in client needs. Congratulations to BNP Paribas Asset Management (BNPP AM)!

Over the past year, this firm has continued to act as a ‘future maker’, using its investments, voice and leverage to help shape a better future.

Sustainable investment beliefs lie at the heart of this conviction, with the firm having initially committed to sustainable investment in 2002, when it launched its very first sustainable fund and created a dedicated ESG research team.

The team has continued to strengthen this focus in the years since, with the research team evolving into the BNPP AM Sustainability Centre, which provides investment teams with research, analysis and data at company and sectoral levels.

In particular, BNPP AM has been using its influence to

“In a highly competitive category, this firm was praised by the judges for truly putting sustainability at the heart of its offering, evolving its multi-disciplinary approach to suit changes in client needs”

tackle three key issues: Energy transition, environmental sustainability, and equality and inclusive growth.

Progress has been made in all of these areas over the past year, with the provider committing to the Net Zero Asset Managers initiative in 2021, also launching a market-leading biodiversity roadmap, which details its plan to embed biodiversity considerations across all the pillars of its sustainable investment approach. Furthermore, in relation to equality and inclusive growth, the firm decided to innovate by launching an inclusive growth strategy to properly integrate and tackle social issues.

And results are being seen as BNPP AM’s robust and consistent approach has meant that 81 per cent of its public open-ended fund range was classified under the SFDR as Article 8 and 9 funds, as of December 2021. In addition to this, the firm has continued to tighten the carbon intensity threshold of its coal policy, and now excludes over 1,000 power generators and companies involved in the mining of thermal coal.

The firm’s sustainable approach is also a firm-wide one, as BNPP AM’s proprietary ESG scoring framework is applied across its investment strategies and when providing financial advice. Covering more than 13,000 issuers, it provides insights that help its portfolio managers pinpoint a company’s performance on material ESG issues, and integrate these into their investment decisions.

Its sustainable+ funds go even further, exceeding the pillars of BNPP AM’s firm-wide sustainable investment approach, by implementing more explicit ESG tilts or adopting a thematic or impact approach.

Congratulations again to all at BNPP AM on such an outstanding win!

BNP PARIBAS
ASSET MANAGEMENT

European Pensions AWARDS 2022

INVESTMENT MANAGER OF THE YEAR

LEGAL & GENERAL INVESTMENT MANAGEMENT

The Investment Manager of the Year award went to Legal & General Investment Management (LGIM). Receiving the award was Andrew Burke-Walsh, LGIM (centre). Presenting the award was Mike Smaje, BESTrustees (right) and host, Holly Walsh (left).

This award recognises excellence in investment management at one of the most challenging times in European pensions history. Rising longevity rates coupled with investment market turmoil have put pressure on investment managers to perform.

Innovation, dedication, sophistication and foresight have become the essential tenets of any investment manager hoping to succeed and this year's winner demonstrated all of these qualities.

The judges said this firm's entry displayed a strong capability tailored to the needs of both DB and DC pension schemes globally, as well as excellent environmental, social and governance (ESG) activity. Winning for the third consecutive year, congratulations go to Legal & General Investment Management (LGIM)!

Excellence can only be achieved with an outstanding team, and LGIM's solutions team is truly dedicated to providing exceptional service. In 2021, the team continued to deliver positive external net flows of £19.9 billion, driven by strong demand from UK and US DB clients as they continue to de-risk.

Furthermore, its DC business continues to attract new assets, with external net flows of £9.4 billion, supported by ongoing growth in its workplace pension business, which now has 4.4 million members. Total UK DC AUM was up 22 per cent over 2021 with total assets under management (AUM) of £137.7 billion.

Always striving to improve, LGIM has continued to innovate in the DC market; it recently launched a sustainable property fund in response to growing demand from DC schemes to align with members' ESG values.

Regarding innovation within its investment strategies, its commitment to ESG saw it win several mandates in 2021, including transitioning over £3 billion of a pension client's assets to a new range of Paris-aligned benchmarks.

One of its funds that focuses on industrial property raised £335 million in the past 15 months and another fund that focuses on alternative finance deployed £120 million of the £350 million seed capital.

Overall, its European business saw flows of £13.6 billion in 2021 from multiple clients across the region, with European institutional AUM reaching €100 billion. We believe its kudos in this area has delivered exceptional results.

As mentioned, LGIM is committed to ESG and is a founding signatory of the Net Zero Asset Managers Initiative. Furthermore, its default pension funds – representing over four million members across the L&G Workplace Pensions and L&G Master Trust – have set interim targets to support their 2050 net-zero ambitions and its parent group L&G is aligning its balance sheet to net-zero emissions.

To summarise, LGIM has been crowned the winner for three key reasons: client service, performance and responsibility. Richly deserved!

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

LGIM

European Pensions
AWARDS 2022

PASSIVE MANAGER OF THE YEAR

LEGAL & GENERAL INVESTMENT MANAGEMENT

The Passive Manager of the Year award went to Legal & General Investment Management (LGIM). Receiving the award was Andrew Burke-Walsh, LGIM (centre). Presenting the award was Chetan Ghosh, Schroders (right) and host, Holly Walsh (left).

The role of the passive manager cannot be underestimated in the European pensions space. Therefore, this award aims to celebrate the passive manager that we believe demonstrates robust returns, provides excellent customer service and shows a true understanding of the needs of their clients.

According to the European Pensions Awards 2022 judges, this year's winner stood out for its "impressive solutions, client focus, strong research and integration of environmental, social and governance (ESG) considerations", resulting in it "leading the way in the passive space". Congratulations to Legal & General Investment Management (LGIM).

Enjoying over 30 years' experience in managing index investments, offering everything from traditional market-cap based indices to factor-based solutions, LGIM's approach to index investing is based on four key attributes: Scale, expertise, simplicity and active ownership.

Its flagship factor-based offerings for DB and DC pension schemes can be tailored for clients with a range of requirements, from looking for a higher return than typical market indices with lower volatility, to varying factor exposures throughout schemes' lifecycles.

As integrating ESG considerations grows ever-more important to investors, LGIM aims to cater to their needs through its factor-based Future World strategies. Such strategies aim to tilt towards established factors in value, size, quality and low volatility and respond to climate change by tilting away from companies that hold high carbon reserves or produce high carbon emissions.

Recently, it designed a low carbon transition index equity fund suite for UK pension clients to reduce exposure to carbon emissions, in alignment with the Paris Agreement's 2050 net-zero goals, whilst also being aligned to LGIM's market-leading engagement and voting activities. One of its several mandate wins in 2021 included transitioning over £3 billion of a pension client's assets to this new range.

LGIM has also created an ESG equity fund that is Paris-Aligned aiming to offer broad ESG exposure to developed market equities, whilst integrating Paris-aligned reductions in carbon emissions and UN Sustainable Development Goals.

Beyond ESG considerations, LGIM believes that diversification across regions and currencies increases the prospects for long-term growth.

LGIM prides itself on its client-centric approach throughout its entire operations, strategy and service. It works continuously to provide clients with the information they need across different media, covering both educational pieces and in-depth research. LGIM also provides regular tailored investment commentary and hosts client events and training days with its investment specialists. Even during the pandemic it still launched virtual events for clients, such as its inaugural Sustainability Summit.

Congratulations again to LGIM on its much-deserved win!

For investment professionals only. Capital at risk. Past performance is not a guide to the future. It should be noted that diversification is no guarantee against a loss in a declining market.

LGIM

European Pensions
AWARDS 2022

PENSION SCHEME ADMINISTRATOR OF THE YEAR

BT PENSION SCHEME

The Pension Scheme Administrator of the Year award went to the BT Pension Scheme. Receiving the award was Michelle Esterkin and Alan Filtness, BTPS (centre). Presenting the award was Rob Barrett (right) and host, Holly Walsh (left).

The Pension Scheme Administrator of the Year award was launched to recognise those pension schemes or providers that have gone above and beyond with their pensions administration offerings in order to provide an exceptional service to their members.

This year's winner, the BT Pension Scheme (BTPS), has done exactly that by successfully bringing its pensions administration in-house in order to substantially improve its offering.

BTPS is one of the largest company pension schemes in the UK with c.275,000 members. In 2018, it made the bold decision to bring its scheme administration in-house, as it felt the outsourced approach was falling short of delivering the high standards of administration it wanted to offer its members.

This involved hiring over 50 permanent staff in the first-year post-transition. The new team had to be fully integrated, which meant overhauling management, structures, staffing, training and service protocols.

Following the insourcing, one of the first things BTPS did was to commence a programme of data cleansing, and, around the same time, it also had to administer the closure of the scheme to future accrual.

"In 2021, BTPS introduced Procentia's pioneering IntelliPen pension administration system and launched a new scheme website and member portal"

There was also appetite from its members for a UK-based call centre, so BTPS took the decision to bring the member call centre onshore in 2019.

In order to improve its online services, in 2021, BTPS introduced Procentia's pioneering IntelliPen pension administration system and launched a new scheme website and member portal. Since launch, over 100,000 members have registered for the portal and nearly 60 per cent of newly retired members have committed to confirming their retirement choice using the portal.

In 2021, BTPS also implemented a partial transfer option to increase flexibility for its members alongside introducing access to BT Group's financial adviser panel to help support members make good retirement decisions.

All of these decisions involved considerable upfront investment in people, processes and technology but were done in the strong belief that they would deliver better service for members and that, over time, would bring costs down from a purely outsourced model.

The process has clearly been successful. In 2018, BTPS' customer experience management (CEM) service score was 48, bottom of the peer group. In 2021, it was 79, second in the peer group with member satisfaction also increasing year on year. Additionally, BTPS' reliance on expensive external contract resource has reduced, while turnaround times have also come down considerably.

All in all, BTPS impressed the judges with its hard work and dedication to offering the best administration service possible. As one judge stated, "this pension scheme has worked hard to push the boundaries when it comes to administration to develop a fresh proposition that sets the bar high for the industry". Well done BTPS.

BTPS

European Pensions AWARDS 2022

Pensions administration to be proud of

Simon Langworthy, Chief Administration Officer, BTPSM

Getting pensions administration right isn't easy. The pensions industry has lagged behind the rest of the financial services sector when it comes to innovation and members have suffered.

While progress has been made in certain areas, overall, there are still too many manual processes, too much paper, not enough self-service and everything is far too slow. It's still not uncommon for routine questions to take several weeks to be answered and, usually, the answer comes in the post – even if you sent the request via email!

At BTPSM, we know about these challenges because we've lived them, but we were determined to make a change.

Getting to the point where BTPS was crowned Pensions Administrator of the Year has taken time, investment, commitment and hard work. But we're reaping the rewards of this investment with happier members, more options to self-serve and more efficient processes significantly reducing our administration costs.

How did we get here?

In 2018, we took the decision to bring the outsourced Scheme administration in-house. This was a bold decision which went against the industry trend at the time. But it enabled us to take control and move away from a traditional time-based SLA model. We developed our own key performance indicators based on service quality and member experience, helping us drive the 'member first' behaviours we want from our administration team.

In 2019 we repatriated the call centre onshore in response to member feedback. The biggest advantage of having the call centre in Chesterfield was being able to integrate it into our main administration office, allowing our experienced admin staff who know our Scheme inside-out to work more closely with our front-line staff. Having front-office and back-office teams working together has delivered all the benefits we expected and more.

While these changes were delivering improvements in member satisfaction, one of the areas where members continued to tell us there was room for improvement was our online services.

Our partnership with Procentia

The Scheme's member portal, launched in May 2021, is designed to be easy to navigate and is personalised to each member.

Unlike traditional member portals, Procentia's IntelliPen technology enables BTPS members to access advanced functionality previously only available to administrators and make data changes that update directly onto the main database, in real time.

Highly complex automated workflows encompass all the options available to members on retirement, built on a comprehensive suite of calculations. The platform also ensures members can model retirement plans and make better pension decisions based on full access to this information, drawing data on demand through the member portal.

One of the system's key features is a pension calculator which enables members approaching retirement to model their benefits, helping them decide when to take their pension by showing them its value at different retirement dates as well as modelling all the options available to them. A slider that moves between the minimum and maximum tax-free lump sum for an individual member shows them the impact changing their lump sum has on their annual pension, how they can use any Additional Voluntary Contributions (AVCs) and how that differs on any given date. A truly personalised retirement planner. Members can also view their transfer value instantly and turn this into a guaranteed quote at the press of button if they are interested in progressing this option.

Our priority now is on fully realising the benefits of the new Procentia administration system and continuously improving the service we provide, built on firm foundations. We do this certain that if we don't get it quite right, our members will be quick to tell us.

BTPS

European Pensions
AWARDS 2022

PRIVATE EQUITY MANAGER OF THE YEAR

UNIGESTION

The Private Equity Manager of the Year award went to Unigestion. Receiving the award was Andrew Blackman, Unigestion (centre). Presenting the award was Camilla Capece, European Pensions (right) and host, Holly Walsh (left).

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

Huge congratulations therefore go to Unigestion, winners of the Private Equity Manager of the Year award for the second year in a row. The firm showed that its commitment and passion in the private equity space continued from its win last year. The judges described the firm as a true leader in this space and were impressed by its strong commitment to private equity and the pensions market. They also said that Unigestion boasts commendable environmental, social and governance (ESG) credentials and showcased exciting and relevant new launches in recent months.

Unigestion has been a pioneer in the private equity markets. Over the past 18 months, private equity has become its largest asset base and now accounts for over half of the firm's total assets under management (AUM). The company set itself out from the crowd through its specialisation in the mid-market private equity space, with its deep knowledge of local markets and a comprehensive network of more than 500 leading private equity managers

"The firm showed that its commitment and passion in the private equity space continued from its win last year"

and other investment specialists, allowing Unigestion to review over 1,000 primaries, secondaries and direct investments annually.

The judges were particularly impressed by Unigestion's strong ESG credentials. The firm is a signatory of the UN Principles for Responsible Investment (PRI) and integrates ESG into its investment approach. This earned the firm an 'A' score for private equity in the 2020 PRI Assessment, highlighting its place as a market leader in this space. Unigestion also showed its passion for responsible investment through the integration of ESG considerations into all of its decision-making processes, such as its seven investment themes aligned with the UN's Sustainable Development Goals, exclusion criteria based on the UN PRI and full ESG risk assessment performed on its companies and GPs.

Unigestion also displayed its commitment to improving the private equity space through hosting and organising multiple educational and useful events for its clients during the year, including its first Private Equity Emerging Managers Conference.

The firm has showed that it is a pioneer in 'machine learning', with the integration of a machine-learning tool into its fund and company selection process. Its latest direct fund, Unigestion Direct III, has this AI tool as a core part of the due diligence process. Furthermore, the firm showcased why it deserved the title of Private Equity Manager of the Year for the second year running through fundraising for three new funds over 2020 and 2021, and developed a Climate Impact Fund following its 12 years' investment experience in this space. Furthermore, its latest Secondary Fund – USEC V – closed at its hard-cap of €900 million. Congratulations again to Unigestion, whose performance, innovations, AUM growth and ability to meet clients' needs highlight why it was the deserved winner of this year's award.

UNIGESTION


UNIGESTION
EXPLORE THE POTENTIAL OF PRIVATE EQUITY
WITH UNIGESTION'S WINNING TEAM
Unigestion is delighted to have been selected as Private Equity Manager of the Year at the European Pensions Awards 2022 – the fifth year we have won this prestigious accolade.
We provide our investors exposure to unique private equity opportunities across direct investments, secondaries, emerging & established managers and climate impact, with the following features:
Theme-driven portfolios, with a focus on long-term growth
Global exposure, through our exceptional access to private companies in Europe, North America and Asia Pacific
High conviction decision making, through a rigorous investment process supported by innovative AI-driven analysis
Full ESG integration, leading to enhanced risk-adjusted returns and positive change
Find out more at www.unigestion.com
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European Pensions
AWARDS 2022

EUROPEAN PENSIONS INNOVATION AWARD

SEI

The European Pensions Innovation Award went to SEI. Receiving the award was David Snowdon, SEI (centre). Presenting the award was Wei Ling Chung, Perspective Publishing (right) and host, Holly Walsh (left).

Amid ongoing market volatility, this award aims to recognise those firms that have responded to market pressures with originality and creativity, and have brought innovation to the pensions marketplace, be it through a particular product, service offering or overall business approach.

With a keen eye on the specific needs of the schemes it works with, this firm was praised by judges for its continued innovation to improve its offering, setting a high bar for others in the pensions industry to aim for. Congratulations to this year's worthy winners – SEI!

Innovation has been much needed in recent years, with DB pension schemes' funding positions hit by volatility, as the Covid-19 pandemic took its toll on economies, markets and schemes' asset prices.

This emphasised the diversification risks that investing only in traditional asset classes can present for pension scheme trustees, with many looking to alternative investments as a possible way to gain greater diversification and the potential for higher yield.

However, 2020 also presented challenges for schemes without enough liquidity in their portfolio, as employers cut pension contributions amid the financial strains and

"Congratulations to this year's worthy winners"

many members also looked to transfer their pension, creating additional demand for cash, with transfer values experiencing demand of 2-5X more than the normal volume.

SEI was quick to react though, evolving its offering to ensure that clients were not impacted by these concerns and had the right access to alternative assets amid market volatility, by utilising its liquidity framework to first analyse the specific needs of each scheme.

And whilst many advisers may stop short of providing an analysis in this area, SEI has gone a step further, by shocking client portfolios and stress testing for economic scenarios that are expected to pose a liquidity challenge to investors, such as higher interest rates and significant drawdowns in equity markets.

This allowed the scheme to provide clients with the comfort they needed, so they could have confidence that, even in extreme scenarios, they will have ample liquidity in their portfolio to meet their scheme's cash needs.

Every client is different however, with SEI working hard with each client to explore additional considerations, such as the level of transparency of alternative investments and the fees in this area. The firm's scale also places SEI at an advantage, as it is able to directly negotiate terms for managers on its platform, including lower fees, and give clients access to specialised managers that may not otherwise be available to them.

Against an exceedingly challenging backdrop, SEI has worked to innovate and adapt to ensure pension schemes have access to the latest opportunities within alternatives, and the chance to balance that opportunity with managing their liquidity needs appropriately.

Congratulations again to all of the team at SEI on a very worthy win!

sei

European Pensions
AWARDS 2022

MASTER TRUST OFFERING OF THE YEAR

TPT RETIREMENT SOLUTIONS

The Master Trust Offering of the Year award went to TPT Retirement Solutions. Receiving the award was Paul Murphy, TPT Retirement Solutions (centre). Presenting the award was Sophie Smith, European Pensions (right) and host, Holly Walsh (left).

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

The winning entry stood out as "leading in all respects" according to the judges, demonstrating a market-leading, dynamic offering with excellent client testimonials. Well done, TPT Retirement Solutions (TPT)!

Its master trust is truly an all-rounder, covering DB, DC and hybrid schemes, and as a not-for-profit, TPT is unique in that it has no shareholders or investors to satisfy, so any surplus can be reinvested for the benefit of its clients and members.

On the DB side, TPT offers DB Complete, an innovative solution that significantly reduces scheme running costs without compromising on quality of service. Currently used by 58 schemes, with c.£11.8 billion* in assets under management (AUM), DB Complete provides all the governance, investment and cost benefits of consolidation. Crucially, each scheme is ring-fenced, with its own bespoke funding and investment strategy.

TPT's DC offering is also impressive; the master trust currently looks after around 300,000 members, 94 per cent of whom are invested in TPT's default target date funds, with c.£2.3 billion* in AUM. One of the most important aspects of

"TPT has found innovative ways to connect with members, and in 2021 it completed phase one of its multi-year DC-engagement initiative, which has three overarching objectives"

the scheme's service has been increasing engagement with members.

TPT has found innovative ways to connect with members, and in 2021 it completed phase one of its multi-year DC-engagement initiative, which has three overarching objectives: Help members optimise their pots and achieve 'good outcomes', enable informed decision making and manage members' expectations in relation to their pension savings.

The hard work paid off and in 2021 its DC-engagement initiative resulted in a 25 per cent increase in the number of members registered for online access to their Retirement Savings Account (RSA) – with 21,096 account activations over the year.

The most recent addition to TPT's offering is the ability for DB members to obtain transfer values and retirement quotations directly through DB Online. These are usually available for the member to view within 24-hours of request – sometimes even sooner. Digitalisation of TPT's DC services is now complete where members can get in touch digitally and securely upload and send in documentation. Member engagement communications are delivered digitally and members have access to a secure online account where they can check, track and manage their TPT pension savings.

The new portal also gives employers secure 24/7 online access to all scheme information. Key details are displayed in the DB and DC dashboards. Employers can then drill down to see membership details, track work in progress, and much more. All this makes it clear why TPT is this year's winner. Richly deserved!

**as at 30 September 2021*

tpt
Retirement Solutions

European Pensions
AWARDS 2022

PENSIONS INSURANCE FIRM OF THE YEAR

ROTHESAY

The Pension Insurance Firm of the Year went to Rothesay. Receiving the award were Katie Overton and Yuxian Su, Rothesay (centre). Presenting the award was John Woods, European Pensions (right) and host, Holly Walsh (left).

"All in all, said the judges, this firm has clearly thought about ways in which to enhance its offering, to the benefit of its clients, as opposed to just being innovative for innovation's sake. An impressive entry and clearly a worthy winner in a complex and competitive space"

The Pensions Insurance Firm of the Year category celebrates some of the most important players in the pensions space. Bulk annuities have become a major part of the UK pensions scene, and only the most sophisticated and knowledgeable firms can excel in such a competitive and complex arena.

This year's worthy winner was Rothesay – a firm that, stated the judges, is not only "thorough, professional and innovative", but one that is "clearly passionate about what it does, with the results to prove it".

Rothesay is truly committed to the bulk annuity market, and since it was founded over 15 years ago has established an exceptional reputation to get to where it is today – at the end of last year it had built up a back-book of over £60 billion in assets, paying the pensions of 830,000 individuals, totalling on average £240 million each month, making it the largest pensions insurance specialist in the UK.

Rothesay also prides itself on maintaining the highest levels of service and governance and, whilst over the years it has worked and continues to work well with a small group of external administration specialists, more recently it has shown it is not afraid to evolve its approach in order to best meet the needs of its clients. As such, it has worked hard to establish its own in-house administration capabilities for the data cleanse stage of its buy-in to buy-out transactions and today provides schemes with a full in-house service for longer term buy-ins. Launching this was no small task, but with the right approach Rothesay believed it would enhance its business model by bringing more direct oversight of governance and procedures.

The results speak for themselves as in 2021 alone, Rothesay's new in-house administration team successfully administered five buy-in policies, covering £5 billion of liabilities, highlighting how as a firm it is committed to developing its expertise if it feels this will enhance its offering in the pensions marketplace. An additional highlight was that, for the very largest transaction, the majority of the data cleanse work was completed from scratch, with support from the team, in record time.

By using its dedicated, specialist in-house team during the data cleanse, Rothesay can give trustees and policyholders the best possible customer service, with the key individuals from its in-house team being involved right at the start of the transaction and retaining responsibility throughout the data cleanse period. Meanwhile, its in-house systems are robustly automated, with minimal manual intervention, which increases efficiency and improves accuracy.

All in all, said the judges, this firm has "clearly thought about ways in which to enhance its offering, to the benefit of its clients, as opposed to just being innovative for innovation's sake".

An impressive entry and clearly a worthy winner in a complex and competitive space. Congratulations to Rothesay!

Rothesay


LTA
TENNIS
FOR BRITAIN
Rothesay
Official Partner
Looking to the future.
It’s what this partnership does best.
At Rothesay, we’re committed to securing the future of our pension policyholders across the country. Which is why we’ve teamed up with the LTA, who show the same commitment to the future of British tennis.
Find out more at Rothesay.com
Rothesay
Purpose-built to protect pensions
Rothesay Life Plc is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

European Pensions
AWARDS 2022

DIVERSITY AWARD

DALRIADA TRUSTEES

The Diversity Award went to Dalriada Trustees. Receiving the award was Judith Fish and Adrian Campbell, Dalriada Trustees (centre). Presenting the award was Melissa Moody, Charity Times (right) and host, Holly Walsh (left).

This award goes to the pension provider that has shown a true understanding of the importance of diversity in today's climate, either in the way it has shaped its business, its product offering or otherwise.

The winning entry set itself apart as, according to the judges, it demonstrated great diversity policies, practices, and initiatives, covering a wide bandwidth. Congratulations go to Dalriada Trustees, this year's winner!

The ever-widening variety of personal, educational and professional backgrounds of its team reflects the Dalriada culture. Its team consists of over 150 pensions professionals across a range of disciplines, including specialists in actuarial, administration, fund accounting, IT, investment and employer covenant, with experience across DB, DC and hybrid arrangements.

Its 48 professional trustees are all salaried employees in their primary career and range in age from 27 to 70, with an almost 50/50 gender split, and include those of BAME heritage, those whose first language is not English and those from the LGBTQIA+ community.

Dalriada is tackling diversity and inequality in professional trusteeship by providing its trustees with salaried careers, rather than recruiting on a franchise or self-employed basis.

"Dalriada's approach to diversity means its trustees can make better decisions for the many different types of members it works for, that better reflect their varied demographics and ultimately provide them with better outcomes"

This means it can attract a younger, more diverse workforce than competitors who use a 'freelance' remuneration model. It commits to taking part in initiatives to help improve the diversity of the pensions industry, including the 10,000 Black Interns Programme, which seeks to transform the horizons and prospects of young black people in the UK.

Dalriada has also this year developed a 'Voices' campaign, where it encouraged colleagues to write 500 words to share insights from their life and career journey in the pensions industry. Dalriada's aim was to increase awareness among its colleagues internally, and in the wider industry, of what it's like to walk in someone else's shoes, so that they can understand a little more about the challenges and issues others have overcome.

Its campaign has seen colleague stories published in industry press dealing with a variety of issues including age awareness, mental health stigma and educational background, baby loss, balancing work and faith, and racial discrimination. Dalriada has acknowledged that these are tough subjects to address and is proud of its colleagues for the way in which they have used their campaign to highlight the real people, and the real issues, that often lie behind the professional demeanour.

Dalriada's approach to diversity means its trustees can make better decisions for the many different types of members it works for, that better reflect their varied demographics and ultimately provide them with better outcomes. Congratulations to the team at Dalriada, this year's worthy winners!

Dalriada.
A better way

Professional independent trustees for pension schemes

Dalriada Trustees winner of the Diversity Award

The European Pension Awards 2022

Dalriada.
A better way

European Pensions
AWARDS 2022

CURRENCY MANAGER OF THE YEAR

HSBC

The Currency Manager of the Year award went to HSBC. Receiving the award was Marc Tuehl, HSBC (centre). Presenting the award was Francesco Briganti, CBBA-Europe (right) and host, Holly Walsh (left).

"For its dedicated work to the needs of its clients, HSBC has again proved itself a worthy winner"

Effective currency risk management plays an increasingly important role within pension fund portfolios today as we see investments continue to pour into overseas assets such as equities, fixed income, credit and private assets.

This year's winner tackles this requirement by partnering with its clients through consultative dialogue, to understand their objectives and potential constraints around managing currency risk. The focus can then shift to the core components of the solution – strategy, calculation, execution and post-trade services.

Impressing the judges once again with the excellent approach it takes, along with its knowledge, skill and dedication to the vital role currency management plays within pension fund portfolios, is HSBC, the European Pensions Awards Currency Manager of the Year for the second year in a row.

HSBC's FX Overlay business, a division within HSBC Global Intermediary Services (GIS), provides bespoke services to help clients achieve their FX objectives. This it achieves through its three pillars of transparency, automation and added value, which helps clients identify, understand and manage their currency risk effectively.

HSBC caters to the varying needs of its pension fund clients by offering a range of solutions, including passive currency overlay, a static ratio FX risk management lifecycle service that utilises a centralised hedging approach. FX Overlay manage the currency exposure as the sole counterparty, providing operational efficiency, reducing costs and increasing oversight, this is governed by pre-agreed parameters which are implemented using a robust and automated infrastructure.

In addition, it can provide dynamic currency overlay, which aims to provide outperformance versus a static hedging strategy. For this, HSBC FX Overlay has partnered with stakeholders in the industry to launch an open platform, meaning pension funds can benefit from both HSBC proprietary as well as external provider dynamic strategies which can vary the percentage of FX risk to be hedged using model signals.

HSBC has also invested heavily into the optimisation of post-trade services in anticipation of growing client demands. There are offerings from custom transaction reporting and transaction cost analysis, to sophisticated analyses such as FX risk/return effects and causalities in the portfolio. HSBC put its supreme service into action recently for a European pension fund that was concerned about FX risk in its portfolio across multiple investment vehicles, requesting both passive and dynamic hedging with a particular focus on hedging costs at an investment level.

Therefore, HSBC defined a hedging solution that met the pension fund's risk/return profile whilst taking liquidity and regulatory constraints into consideration. By collecting raw data at the investment level, HSBC closed information gaps that would else have prevented the pension fund from efficiently steering its asset allocation. HSBC has again proved itself a worthy winner. Congratulations!

HSBC

European Pensions AWARDS 2022

PENSIONS TECHNOLOGY PROVIDER OF THE YEAR

PREVINET OUTSOURCING SOLUTIONS

The Pensions Technology Provider of the Year award went to Previnet Outsourcing Solutions (Previnet). Receiving the award was Martino Braico, Previnet (centre). Presenting the award was Richard Poole, Royal Mail (right) and host, Holly Walsh (left).

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

The judges handed the 2022 Pensions Technology Provider of the Year award to Previnet. The judging panel commended the firm for being "truly European" and having a "member-focused proposition that displays clear passion for meeting the European pensions industry's needs". Congratulations to the team at Previnet!

With over 25 years of experience, Previnet is a leader in its field providing a range of services to pension funds across Europe: ten countries are already managed. As an independent pension scheme administrator, Previnet offers full member record-keeping, web functionalities and IT solutions, internally developed, for members, HR offices, multinationals and plan sponsors.

As part of its innovative offering, Previnet has developed its new digital platform (Kathy), which aims to create a cognitive core equipped with artificial intelligence, combined with an intelligent notification engine to address personalised and targeted content to pension affiliates.

"With over 25 years of experience, Previnet is a leader in its field providing a range of administrative and IT services to pension funds across Europe"

From a technical perspective, the challenging complexity of this project as a whole made it necessary to identify three separate streams: The cognitive core – composed of a series of cognitive agents that, leveraging on different knowledge bases, identifies and directs user interactions by mediating them with a virtual agent.

Secondly is the virtual assistant, also available in 3D, – which proposes on its own initiative, without commands, valuable and relevant content for each of the situations where the user needs advice and support; and, the gateway – that orchestrates the intelligent and proactive addressing of the wide range of services to the user through digital channels and allows interaction with the conversational agent.

Prior to the launch of this digital platform, communication sent by Previnet, on behalf of pension schemes, used to take place through traditional channels such as SMS and email.

The new platform introduces smart notifications for members, a new communication channel for members who are now alerted to notifications on their mobile phone. Smart notifications also enable users to not only engage with the specific notification but it also triggers a chatbot to increase interactions.

The notification service means users have constant and continuous updates on events and operations relating to their pensions. The platform is an all-rounder, benefitting both the member and the pension scheme. For example, members are provided with up-to-date information, which significantly reduces requests to the pension fund via traditional means of communication such as email or telephone. All this makes it clear to see why Previnet has been crowned this year's winner. A fantastic achievement!

Previnet® Outsourcing solutions

European Pensions
AWARDS 2022

PENSION FUND COMMUNICATION AWARD

STANDARD LIFE

The Pension Fund Communication Award went to Standard Life. Receiving the award was David Pascoe, Standard Life and Kevin Coulson, BT (centre). Presenting the award was Jack Gray, European Pensions (right).

The European Pension Awards serve to highlight the excellent pensions offerings that are being developed by the industry, but this work would be wasted if pension schemes' all important member communications fail to deliver.

This category therefore aims to recognise those pension funds that have used innovation and flair to get their member communication proposition the best it can be and have the results to prove it.

The judges praised this year's winner for its well-planned, thoughtful and truly impactful communication campaign, which has set a high bar for the rest of the industry to aim for. Congratulations to the worthy winner, Standard Life!

Working with its client, Standard Life was able to demonstrate the impressive results that a well-designed communications campaign can have, with its work for the BT Retirement Saving Scheme (BTRSS) securing a 200 per cent increase in mobile app downloads over the past two years, with around 5,000 active monthly users.

Standard Life placed member insights and research at the heart of its campaign for BTRSS, utilising metric-led targets to encourage digital engagement, and give members the best opportunity to harness the information available to ultimately help manage and reach their savings goals.

"Listening and adapting to the needs of members, this provider has truly demonstrated the power of a well-thought-out strategy"

Adapting to the needs of members, the provider placed a focus on digital communications after member insights revealed an overwhelming preference for digital engagement. This included personalised video content, content for the BT workplace Facebook page, as well as nudge emails and newsletters.

With face-to-face events off the table amid the pandemic, Standard Life was quick to ensure that it was able to optimise attendance at online webinars, even switching to new software to increase the number of attendees allowed to a single session. The provider produced bespoke webinars and recordings to suit client needs, covering a number of different life stages and topics around pensions, including essential facts for new joiners and pre-retirement considerations for high-earners.

In addition to the tailored communications, Standard Life also enabled BT to dive into engagement trends autonomously via its online client analytics tool, which provides self-serve, data-driven insights to inform decision making.

And the results of the campaign speak for themselves, with 80 per cent of its events securing more than 500 registrations, while emails had a 55 per cent average open rate, compared to an industry average of 23 per cent, and screen views of its dashboard rose 50.7 per cent year-on-year.

Further innovations and improvements are also on the horizon, with work underway to enhance the already impressive scheme messaging over the next year.

Listening and adapting to the needs of members, this provider has truly demonstrated the power of a well-thought-out strategy that utilises insightful techniques to ensure that communications are targeting the right people, at the right time, in the right way about their pensions.

Congratulations to the team at Standard Life!

Standard Life
Part of Phoenix Group

European Pensions AWARDS 2022

EUROPEAN PENSION FUND OF THE YEAR

RAILPEN

The European Pension Fund of the Year award went to Railpen. Receiving the award was Adam Golton RPS Trustee (centre). Presenting the award was Martin Davies, Nuveen (right) and host, Holly Walsh (left).

Pension provision across Europe has never been more challenging, with the current unpredictable markets, increasing longevity, and a spotlight on governance and risk management. This award recognises those pension funds across Europe who tackle these challenges head-on, in innovative and inspirational ways.

This year, the judges praised the winning pension fund for its "strong focus on the long-term needs of its members", its "excellent investment processes", and its "keen eye on risk management and environmental, social and governance (ESG) issues".

Congratulations to Railpen, the European Pension Fund of the Year for 2022!

Railpen is responsible for the safekeeping and investment of over £37 billion in assets on behalf of its members, predominately from the rail industry. Railpen cares about its people and scheme members, but also about the wider world. Its expertise and passion mean it leads in developing best practices, including a thoughtfully designed investment strategy, good governance, ESG integration and stewardship, fee transparency, and digital member engagement – leading, supporting and collaborating with the global industry to improve outcomes for all pension scheme members.

The scheme constantly evolves – comprising open and closed DB schemes (final salary and CARE), DC and hybrid schemes, over 600 benefit structures and more than 100 investment strategies, all under the umbrella of the railways' pension schemes.

Railpen prides itself on its rich heritage of innovation, managing change, anticipating or responding to changes within the scheme, its members and employers and the world around us.

This, it demonstrated over the past year, responding to the developing legislative landscape. Railpen has also significantly enriched its DB funding risk management, developing an in-house Funding Risk Factor Model that enables rigorous analysis of asset-liability risk throughout the investment journey. It considers the security of benefits, clients' risk appetites and objectives, and affordability – focusing on the objective of paying benefits.

Its focus on ESG concerns is also clear to see, as its Sustainable Ownership team not only works to engage with companies and policymakers through stewardship activity, but to share information with members about how their pensions are invested, running member focus groups to ensure it retains a deep understanding of their attitudes to responsible investment.

In fact, ESG is part of Railpen's DNA, integrated into its investment process for decades. ESG considerations are integrated across all asset classes in both listed and private markets, with advanced private and non-listed investment capabilities. Railpen was one of the first UK pension scheme to publish its voting policy and records, and is a UK climate leader with the publication of its detailed net-zero roadmap in 2021.

It also remains unusual amongst UK pension schemes in managing many of its assets in-house, with the support and oversight of an in-house fiduciary team. Congratulations to Railpen, leading the way in the European pension space.

RAILPEN

European Pensions AWARDS 2022

Keeping our members on the right track

At Railpen, members are paramount, and innovation is the key to ensuring we help them reach their destination. In an ever-changing world, we must stay ahead of the curve to ensure that we are consistently delivering the best possible outcomes for our members. Landscapes are forever changing, whether sociological, political, or financial…what cannot change is that we manage and invest members' funds in the best ways possible.

Our purpose is to secure our members' future. To us, that's bigger than providing a pension. It's about providing quality, caring and empowering administration and communication and investing in ways which not only protect and enhance the value of member savings but also help improve the world and communities our members will retire into.

We are guided by a set of investment principles – our investment beliefs. We carefully and fully integrate them into all of our practices and decisions, ensuring that time and time again, we renew our commitment to doing the best we can for our members.

Our priority is delivering on our fiduciary duty to members. We do this through robust and innovative risk management approaches, with a Funding Risk Factor Model which prioritises the protection of the fund. We also prepare for change – keeping a finger on the pulse of economic, political, social and environmental factors which could impact the scheme.

We believe ESG integration is the right way to invest capital to support members' best interests. ESG is part of Railpen's DNA, and we have successfully integrated ESG into the investment process for decades. We make sustainable investments into bio-mass plants and wind farms, shopping centres (with added bee hives!), new homes and communities, clean air initiatives, and healthcare innovators. We believe that financial and sustainability outcomes are not mutually exclusive – they are complementary and integral to protecting members' interests over the long term. We co-create and chair global initiatives like the Investor Coalition for Equal Votes and are active members of, and contributors to, several ESG bodies because we are pioneers for change and advocates for parity with a reach that is international and action-orientated.

We also believe that listening to our members and empowering them with communications and education that address their needs is key to supporting them to achieve the best possible outcomes. To achieve this, we work with members to develop content and innovative online solutions that help increase their understanding of their benefits, their options and ultimately, their decision-making.

Our teams are highly qualified, strategically aligned and driven by personal values.

We have the best minds in the business working with us. We are agnostic about how we implement portfolios (internal or external) and always seek the best outcome for our clients and members. Over the past decade, we have bolstered our in-house capabilities while leveraging external partners where appropriate. Our hybrid model ensures investment decisions align with member needs while maintaining sufficient coverage of the investment universe through well-resourced internal investment specialists. In addition, positive outcomes for our clients and members go beyond raw investment returns; our strong in-house capabilities also allow us to challenge external provider fees, where needed, to maintain an appropriate cost base and ensure value.

The Railpen team is united through their commitment to putting our members first. We are here to support our members' lives and ever-evolving lifestyles and always consider their financial and future wellbeing. We are proud to have built from and maintained solid foundations on our fiduciary activities, investment beliefs, ESG principles, stewardship, advocacy and member communications and education. Our members are at the heart of everything we do.

We are honoured to receive this prestigious accolade and strive to keep innovating and delivering for our clients and members.

Written by, Roxie Andrew, Brand Communications Manager

RAILPEN

European Pensions
AWARDS 2022

FIDUCIARY MANAGEMENT AWARD

RUSSELL INVESTMENTS

The Fiduciary Management Award went to Russell Investments. Receiving the award was David Rae, Russell Investments (centre). Presenting the awards was Melissa Moody, Charity Times (right) and host, Holly Walsh (left).

The European Pensions Fiduciary Management award aims to give recognition to those firms that are leading the way in this space, tailoring their offerings to today's pension funds' needs.

The judges praised the winning entrant's reference to impressive case studies, and thought the firm demonstrated how it has boosted client funding levels, won new mandates, heightened its environmental, social and governance (ESG) focus, and launched new reporting and online tools. Congratulations to this year's winners Russell Investments!

In 2022, Russell Investments rattled off a string of accomplishments. For example, it added five new clients (mandates ranging from £20 million to £13 billion in size) and £15.16 billion assets in total, taking its European FM business to 56 clients and £29.3 billion.

It also improved its clients' funding levels by 3.5 per cent on average, innovatively used its implementation capabilities to decarbonise a client's portfolio and created Task Force on Climate-related Financial Disclosures (TCFD) reports for its largest clients and enhanced its reporting and online tools.

In 2021, the £13 billion National Grid UK Pension Scheme (NGUKPS), with 50,000+ members, partnered with Russell Investments in a transformational deal within the UK FM market. Russell Investments was successful for three key reasons: Empowerment and cost control, world class implementation, and knowledge retention.

Also in 2021 it prioritised development in five areas to best serve its clients, namely ESG, private markets, buy-in/buy out advice, client experience, and commitment to talent.

Across its European clients, Russell Investments pioneered bespoke ESG reports detailing drivers of ESG metrics. Proactive integration of climate modelling tools, in partnership with a trusted external climate risk data provider, ensured it is amongst the first tier of fiduciary managers implementing TCFD reporting.

When prioritising private markets, it formed a strategic partnership with Hamilton Lane, further augmenting its private markets capabilities to include customised portfolio analysis, automate diligence reports, flexible data visualisations, automated visual reports and risk analytics.

Given the importance of embracing strategic de-risking opportunities at the right time, Russell Investments further enhanced its capabilities with a strategic partnership with K3 Advisory when working on its buy-in/buy out advice. This detailed understanding of insurance markets has helped it develop innovative designs of sequential buy-in structures.

In addition, the development of its front-end client technology goes beyond enabling clients to know all their exposures, all the time. Russell Investments' enhancements, through the use of fresh, daily funding level and positions data, allow interactive querying of asset/liability data within customised data boards in a format that works best for them.

Russell Investments' successful client outcomes are enabled by maintaining one of the lowest 'client to client team' ratios in the industry (2:1) and it added experienced talent to its global senior leadership and FM team. Congratulations again to Russell Investments for its victory this year!

Russell Investments

European Pensions AWARDS 2022

ETF PROVIDER OF THE YEAR

UBS

The ETF Provider of the Year award went to UBS. Receiving the award was Andrew Walsh, UBS (centre). Presenting the award was Wei Ling Chung, Perspective Publishing (right) and host, Holly Walsh (left).

"Specifically of note, UBS is one of the largest providers of currency-hedged ETFs in Europe, which the judges commented was of particular relevance given the market volatility pension funds are increasingly faced with today"

ETFs have established themselves as a highly useful investment tool for pension funds. The European Pensions ETF Provider of the Year category aims to recognise those ETF providers that continue to stay ahead of the market, while tailoring their offerings to meet pension fund demands.

This year's winner was UBS which, stated the judges, is a firm that is "not afraid to move with the times", having showcased the launch of "new solutions that meet the needs of investors in an ever-changing investment landscape".

In its submission, UBS stood out against its peers for a number of reasons. First, its ETF assets under management have continued to grow significantly in recent years, demonstrating strong investor confidence in the firm's ETF offerings.

It also boasts an extensive product range, with over 300 ETFs for investors to choose from, 35 of which have over US$500 million in assets under management (AUM) as of February 2022 and track an array of different sub-asset classes. Additionally, it boasts a high calibre, experienced portfolio management team, many of whom have been with the firm for a considerable number of years.

Specifically of note, UBS is one of the largest providers of currency-hedged ETFs in Europe, which the judges commented was of particular relevance given the market volatility pension funds are increasingly faced with today.

Sustainability also featured heavily in UBS' submission – not only was UBS one of the early movers in this space with the launch of its first sustainable ETF in 2011, but is today one of the largest providers of sustainable ETFs in Europe. Even then, noted the judges, this firm continues to innovate in order to develop new best-in-class solutions for its clients, as highlighted by the launch of its UBS MSCI Socially Responsible Low Carbon Select ETFs.

Additionally, UBS leads the way in the sustainable fixed income ETF arena having built, commented the judges, an "impressive track record" in sustainable fixed income ETFs.

The judges were particularly impressed with the UBS Sustainable Development Bank Bonds UCITS ETF – a strategy which invests in bonds issued by international organisations, such as the World Bank and has seen impressive growth in AUM since launch.

Innovation at the firm was also evidenced by the launch of UBS' suite of Paris-Aligned ETFs for those looking to meet the SFDR Article 9.3 framework, which has seen great interest; as well as its best-in class UBS CMCI Composite broad commodities ETF, the largest diversified UCITS commodities ETF in Europe, which continues to deliver superior returns relative to peers, while helping investors to hedge against rising inflation.

All in all, this firm clearly leads the way in the ETF space. Congratulations again to all the team at UBS for such an outstanding win!

UBS

ETF solutions across market conditions

Partner with one of the leading ETF managers in Europe with the expertise to meet your needs

What sets us apart

1. Choice
In just one transaction, investors can access numerous markets through our broad selection of ETFs across equity, fixed income, commodity, precious metals, and real estate asset classes.

2. Expertise
We offer high quality index replication strategies and are one of Europe's leading providers of sustainable and currency hedged ETFs.

3. Recognition
ETF Provider of the Year 2022 at the European Pension Awards was the latest in a stream of accolades for our ETF capabilities in recent years.

To find out more contact us at **ol-etf-sales-uk@ubs.com**

UBS

European Pensions AWARDS 2022

INFRASTRUCTURE MANAGER OF THE YEAR

KGAL INVESTMENT MANAGEMENT GMBH

The European Infrastructure Manager of the Year award went to KGAL Investment Management GmbH (KGAL). Receiving the award was Kerstin Hartmann, KGAL (centre). Presenting the award was Tim Reay, IEBA (right) and host, Holly Walsh (left).

At one of the most challenging times in pension fund investment, infrastructure is now being taken seriously as an asset class among European pension investors. This award recognises those players that understand this complex asset class and are working hard to help pension funds reap the potential rewards.

The judging panel praised the winning firm for displaying strong performance, and a sharp focus on the needs of pensions funds across Europe. The judges described it as "excellent all round". Winning for the second year in a row, the Infrastructure Manager of the Year award went to KGAL Investment Management GmbH!

KGAL's focus on infrastructure investing is on helping European pension schemes address climate change. It does this by taking advantage of opportunities generated by the transition to renewable energy generation, whilst also accessing attractive risk-adjusted returns and benefitting from asset diversification.

KGAL's latest sustainable infrastructure fund, KGAL ESPF 5, is its fifth renewable energy fund for institutional investors and is registered as an impact fund in line with article 9 of the Sustainable Finance Disclosure Regulation (SFDR). By autumn 2021, it had already received 50 per cent of its

"KGAL's focus on infrastructure investing is on helping European pension schemes address climate change"

target size with equity commitments of €260 million.

Not resting on its laurels, KGAL is also developing a new green hydrogen strategy building on the need for sector coupling and the decarbonisation of energy-consuming sectors beyond the electricity market. Aligned with many institutional investors, since the start of 2021, KGAL has been a climate-neutral asset manager in relation to its direct business operations by reducing and offsetting CO2 emissions.

As part of its goal to be net zero, over the course of 2021, wind power and solar power projects with a total capacity of around 1.5 gigawatts entered development, construction or operation. Prior to that, KGAL's entire renewable energy portfolio had a capacity of around 1.2 gigawatts.

KGAL's successful asset management approach within renewable energy sees it blend different pricing mechanisms while minimising embedded volatility. For example, one method is to ensure a high proportion of fixed price agreements, to support stability and resilience, allied with residual exposure to the more volatile merchant pricing, which provides optionality and flexibility.

For European pension fund investors, accessing a blend of offtake solutions provides a stable and long-term income stream. With its ESPF series, KGAL has built up diversified and resilient portfolios for European investors and pension schemes that continue to provide clients with strong returns. KGAL's results highlight its success; for example, the net total cash yield of its renewable energy all fund composite is 6.8 per cent over five years. All this makes it clear to see why KGAL has taken home the crown for the second year in a row. Congratulations!

KGAL REAL INVESTMENTS


KGAL windpark Bäckhammar, Sweden

European Pensions
AWARDS 2022

BEST INVESTMENT STRATEGY AWARD

NEST

The Best Investment Strategy Award went to Nest. Receiving the award was Elizabeth Fernando, Nest (centre). Presenting the award was Olivia Richards, Perspective Publishing (right) and host, Holly Walsh (left).

Getting the investment strategy right is one of the biggest challenges a pension fund needs to overcome, and this is particularly true in the current economic environment. This category therefore looks to reward those of Europe's pension funds that have implemented an investment strategy that sets a high bar for the rest of the industry to follow.

This year's winner was praised by judges for being a true trailblazer in this arena, demonstrating a clear strategy with ambitious priorities. Congratulations to all at Nest!

Nest has been at the forefront of the push to net zero, being one of the first UK pension providers to commit to transitioning its funds to a net-zero carbon strategy. The provider has set its sights high, acting as a benchmark for others in the industry, with a number of large UK pension schemes publicly announcing their own net-zero commitments in response.

Whilst many schemes have been quick to make net-zero targets, however, Nest has worked hard to ensure that it was following through and taking genuine action, committing to a number of short-term steps in an effort to help move the economy towards a more sustainable footing.

The results of this action can already be seen, as an example the scheme divested from thermal coal, oil sands and arctic drilling with more than 20 per cent of revenues from these activities and is planning to divest from all companies with more than 10 per cent of revenues from these activities by 2023.

"Whilst many schemes have been quick to make net-zero targets, however, Nest has worked hard to ensure that it was following through and taking genuine action, committing to a number of short-term steps in an effort to help move the economy towards a more sustainable footing."

With the transition to a low-carbon economy requiring huge amounts of investment, the provider has been quick to look for new investment opportunities, especially in supporting green infrastructure. Nest has looked for innovative new ways to invest more funds directly in green infrastructure, building on the £100 million it has already invested in renewable projects across the UK and Europe.

It also became the first UK DC scheme to invest directly in private infrastructure equity in the past year, appointing Octopus Renewables to boost its investment in clean energy infrastructure. While new partnerships with CBRE Caledon and GLIL Infrastructure will help invest nearly £3 billion into infrastructure equity by the end of the decade, both in the UK and around the world.

Nest continues to diversify its investment strategy by entering new asset classes, while ensuring that all of its fund managers are aligned with its values and goals.

Nest has remained transparent and accountable in its efforts, publishing its climate change roadmap, which outlines the long- and short-term goals that the scheme is targeting, and committing to reviewing and updating this annually to ensure that the scheme remains on track. Well done Nest!

nest

European Pensions AWARDS 2022

PENSION FUND INNOVATION AWARD

AG2R LA MONDIALE

The Pension Fund Innovation Award went to AG2R La Mondiale. Receiving the award was Jean-Louis Charles, AG2R La Mondiale (centre). Presenting the award was Georgie Gifford, Perspective Publishing (right) and host, Holly Walsh (left).

Innovation has been rife in the European pensions space, be that in the area of investment, product design, de-risking or any other area. This award aims to reward those pension funds across Europe that have truly added value to the pensions space with their originality and innovation.

Congratulations to this year's winner AG2R La Mondiale, which has demonstrated several innovations over the years. In 2009, AG2R La Mondiale set up the 'Finance Autrement: Investissement - Solidarités – Responsabilités' chair at the Kedge Business School in Marseille, opening an original academic and pedagogical adventure that has lasted more than eight years.

The academic aspect of the chair has resulted, among other things, in two PhD theses, an expert report and the publication of a book, which includes the work and contributions of the chairholder and the members of its scientific committee.

One of the ambitions underlying the chair has been, almost from the outset, to duplicate its content within the framework of a master's level teaching dedicated to sustainable finance; an ambition that was first set up in 2017 and has flourished since then at Kedge Business School "Ingénierie ESG-Finance for a new growth".

"Congratulations again to AG2R La Mondiale, this year's deserved winners"

In 2011, AG2R La Mondiale created its Social Innovation Fund which has hitherto invested €32 million in 27 projects in line with the four areas of action of the group's social engagement policy: Prevention, employment, habitat and helpers.

This is the path taken by Solifap, created by AG2R La Mondiale and the "Abbé-Pierre" Foundation in 2014 to fight against poor housing, which with €45 million of capital has financed 277 social housing projects and since the end of 2018 has made a public offering.

Solifap provides tenants living below the poverty line (78 per cent of them) or having known the street, shanty towns and emergency centres (for 36 per cent of them) with a roof in the vicinity of a work area, thereby increasing their chance to access decent work; in this sense, Solifap contributes to eliminating poverty everywhere in France.

Most recently in 2019, AG2R La Mondiale launched an investment vehicle dedicated to innovation and research and development called ALM innovation. Its primary objective was to accelerate the group's digital transformation through minority stakes investments of between €300,000 and €1 million in young French and European companies

ALM Innovation, which targets start-ups specialising in the businesses that will make the insurance and pension industry of tomorrow, has already made seven investments including DreamQuark, Saggie, MoneyTrack, MySofie, Fasst, Wandercraft, and RollingFunds.

With all these achievements it is no wonder that the judges described AG2R La Mondiale's entry as showing how a passion for innovation can truly make changes for the better. Congratulations again to AG2R La Mondiale, this year's deserved winner!

AG2R LA MONDIALE

ALTERNATIVES

Searching for new opportunities

The world is facing huge macroeconomic uncertainty but how can pension funds make use of alternative assets to protect their members' pensions? Sandra Haurant **reports**

WRITTEN BY SANDRA HAURANT, A FREELANCE JOURNALIST

Russia's invasion of Ukraine, tensions between China and the West, an intensifying climate crisis, an ongoing pandemic; global markets are facing quite an impressive list of challenges – and, of course, that list is by no means exhaustive. It's no surprise that pension fund managers are thinking seriously – and differently – about the next steps to take in order to best protect their members. As AQR principal and co-head of the portfolio solutions group, Dan Villalon, says: "Macroeconomic uncertainty is one of the biggest concerns for pension funds today."

Navigating such a raft of uncertainties requires skill, tenacity, and an ability to look beyond the traditional approaches to investment – because, Villalon says: "This year has shown that asset classes and strategies that performed well in the past economic cycle have fundamental weaknesses in the current environment – one with elevated risks to inflation and growth."

Looking elsewhere

There is, of course, nothing new in looking beyond the traditional mix of equities and bonds for pensions. Over the past years, funds have preferred to seek out a combination of assets that will be better suited to riding out the inevitable storms they encounter.

"For several decades, defined benefit (DB) pension schemes have invested in alternative assets like real estate, infrastructure, hedge funds, private equity and alternative credit," says BlackRock head of strategic UK pension clients, Andrew Reid. "This has enabled them to take advantage of attractive returns and diversification benefits, compared with traditional investments in equities and bonds." What's more, says Reid, some of these asset classes also provide access to an illiquidity premium, while some give interest rate and inflation exposure.

This broader approach is not restricted to DB schemes; access to 'liquid alternatives' through exchange-traded funds (ETF) or mutual funds with alternative investment strategies has allowed the defined contribution (DC) sphere greater exposure to diversification, too. That 'illiquidity premium' – higher returns that act as a kind of compensation for assets being more difficult to sell – has so far been harder to reach. But, says Reid, this is set to change: "Thanks to the new Long Term Asset Fund (LTAF) investment vehicle structure, they will soon be able to invest in illiquids much more easily."

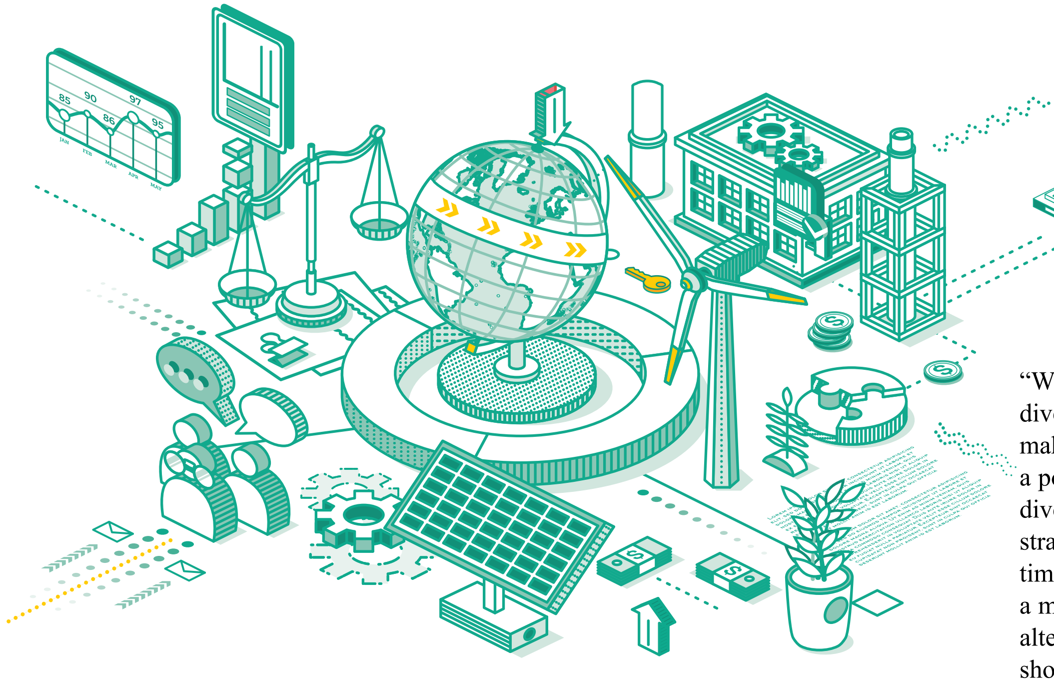
The UK's Financial Conduct Authority (FCA) finalised the rules for LTAFs in October 2021. The new funds are designed to invest efficiently in long-term, illiquid assets. The introduction of the LTAF should help facilitate an environment where investors that wish to invest in productive finance assets can do so. And, Reid argues, the move "gives members the ability to get the return and diversification benefits of alternatives, together with the illiquidity premium, at a stage of life when many are probably well-suited to taking it".

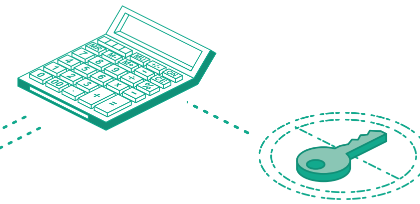
Investing in a positive future

Pension funds are increasingly recognising their role in investing in a cleaner, greener future. According to research by Aeon Investments, some 95 per cent of pension funds and other institutional investors believe that alternative credit investments can be used to make positive social and environmental impacts.

According to Reid, the wide range of sustainable options in the alternatives sphere makes this a good fit for schemes' requirements when it comes to sustainability and net-zero carbon emissions targets. And, says Reid: "Such investments conform with the UK's productive finance agenda. For example, BlackRock's Renewable Income UK Fund's investments have produced enough renewable energy to remove 50,000 cars from the road and power over 200,000 homes with clean energy each year."

Meanwhile, Cardano investment manager, Geordie Cox, says the role that private market investments can have in bringing more purpose to pension portfolios, both DB and DC, is an area about which the firm is "particularly excited". It is, says Cox, about "providing clients with attractive risk-adjusted returns, alongside measurable real-world





impact." Cox adds: "This is an area we are actively investing in – looking to provide clients with a private income and impact portfolio."

Some of the most appealing 'alternative' areas for pensions include energy infrastructure, social housing, impact credit or lending and certain forms of natural capital, says Cox. "They are all interesting in today's inflationary, volatile, environment – providing resilient income, with good inflation protection," he says. "We also believe investing in these areas will help drive a fairer society and a faster energy transition – two key investment themes for us."

Cambridge Associates managing director in the firm's pension practice, Joshua Featherby, agrees, saying that Cambridge also "remains excited about the potential for alpha generation in sustainability-oriented sectors, including renewable infrastructure and sustainable real estate, as well as more niche strategies, such as sustainable agriculture and forestry".

After all, it follows that sustainable returns should come from sectors that are, by their nature, durable. "Private markets, and in particular impact investment

"MAINTAIN A LONG-TERM FOCUS AND DO NOT MAKE DRASTIC BUDGETING DECISIONS BASED OFF A VOLATILE MARKET"

solutions, will see a continued strong demand into the future, driven by investors' needs to source secure and recurring income streams, and as a reflection of asset owners' net-zero commitments," says Tikehau Capital's head of UK institutional business, Simon Males. "The latter will see a marked increase in allocations being made – first and foremost to target competitive financial returns – to strategies that mitigate environmental, social and governance (ESG) risks, seize ESG opportunities and especially those investment solutions that focus on delivering and reporting measurable impact."

Diversification counts

A wide range of alternative assets are available to pension schemes, and one of the most important tactics is to make good use of a broad spread of them, says Villalon: "We believe the future is diversification – more specifically making sure the diversifying parts of a portfolio are themselves diversified. Different alternative strategies have good times and bad times and can be hard to stick with – a multi-strategy approach to alternatives is one that pensions should increasingly consider as the most effective long-term solution."

Of course, some highs and lows are always to be expected, but deciding whether or not to persevere with a given strategy in such tumultuous times is perhaps even more difficult.

However, Featherby says that it is important to "maintain a long-term focus and do not make drastic budgeting decisions based off a volatile market. This is particularly important as investors may find themselves overallocated to private markets, due to a meaningful fall in value in the wider portfolio over the first half of 2022".

He adds: "However, it takes longer than expected for any short-term budgeting decisions to have an effect on private market portfolios, and knee jerk reactions can do more harm than good."

To call these uncertain times may feel like an understatement, but it remains crucial for pension funds to adhere to clear strategies, making use of all the avenues available to them; creating sustainable pathways towards returns through a well-diversified range of alternative investments is an important part of that approach. To make use of that well-worn cliché – perhaps it's time to keep calm and carry on. ■

EMERGING MARKETS

Rising stars

Emerging markets have done better than their developed peers but investors have to tread carefully. Lynn Strongin Dodds **reports**

WRITTEN BY LYNN STRONGIN DODDS, A FREELANCE JOURNALIST

The emerging markets label has always been misleading for such a heterogenous group of countries and regions. However, like their developed counterparts, they have, all to varying degrees been hit by the ongoing war in Ukraine, supply chain issues in China, high inflation and a stronger US dollar. There are opportunities but investors need to be more discerning than ever.

The impact was reflected in the first half results with the MSCI Emerging Markets index sliding 17.63 per cent. This was better than its MSCI World counterpart, which lost 20.51 per cent, but the picture was decidedly mixed. Russia remains out in the cold while some countries in Latin America have lost their commodities boost from the start of the year. Meanwhile, Eastern Europe is struggling due to a weaker macroeconomic picture as well as fears that Russia could turn off its natural resources tap.

Not surprisingly, these figures were accompanied by investors withdrawing money from emerging markets for the fifth consecutive month in July, the longest streak of outflows recorded in data going back to 1995, according to figures from the Institute of International Finance. They pulled almost USD 40 billion from emerging-market assets since March, with July seeing USD 9.8 billion in losses compared to USD 35.1 billion of inflows in July 2021.

A degree of caution

"What we are seeing is a degree of caution," GIB Asset Management global emerging market equities portfolio manager, Kunal Desai, says. "From the big picture view, there is a reason to be cautious due to higher inflation and whether the Federal Reserve will be more hawkish. However, there are bright spots. Valuations are cheaper and there is potential for outsize returns, but investors have to look at the individual markets."

GAM investment director, Tim Love, echoes these sentiments: "Right now, there is a tremendous contrarian opportunity to invest to capture less or equal downside to developed markets and materially more upside as markets recover. Rarely have price-to-earnings ratios in emerging market equities concertinaed to such low levels. Valuations are similar to those seen for emerging market equities in 2003-2004, which then outperformed developed market equities in the four years to 2008."

J.P. Morgan Funds – Emerging Markets Sustainable Equity Fund (SICAV) strategy managing director, Amit Mehta, also thinks there is a strategic investment case for emerging market equities. "They remain strong with the rewards outweighing the risks over the long term," he says. "Potential alpha as well as diversification opportunities, and stronger growth may offset relatively higher volatility for long-term investors."

He notes that they also offer a compelling hunting ground for investors in search of growth. "Urbanisation continues to transform emerging markets," he adds. "This will fuel productivity and at the same time feed the growth of domestic consumer bases. A growing middle class of increasingly wealthy consumers is already driving changes in consumption patterns that, over time, are independent of market cycles."

Standout countries

In terms of specific countries, Love points to companies in South Korea and Vietnam giving investors exposure to global growth opportunities, while those in Mexico and Qatar, for example, benefit from domestic demand. "We also see value in South Africa, Brazil, Chile and Saudi Arabia, where companies are benefitting from higher commodity prices," he adds.

Schroders emerging markets investment director, Alan Ayres, is also a proponent of Brazil. "High inflation has led to a rapid and material tightening in monetary policy, but inflation should be peaking and is expected to fall, allowing the central bank to ease monetary policy in 2023," he says. "Political risk stemming from the presidential election in October looks largely priced in and the equity market is cheap."

The election is between incumbent far-right President Jair Bolsonaro, who has been heavily criticised for his handling of the Covid-19 crisis and attacks on Brazil's voting system, and former president Luiz Inacio Lula da Silva, who left office with record popularity but was convicted of bribery in 2017.

Ayres agrees that Korea looks interesting but on a medium-term view. "Although it is one of the more open emerging market economies, some of the larger technology related companies are trading at close to historic low valuations. Certain areas of technology are being impacted by a negative inventory cycle, but once this ends the sector should experience a strong cyclical rebound."

Meanwhile, the Middle East is on Pictet Asset Management head of emerging markets, Kiran Nandra's, radar: "It continues to provide solid investment opportunities and is also nicely geared into the commodities cycle and the dollar and in this respect is a less volatile way to gain exposure to energy."

"WE ALSO SEE VALUE IN SOUTH AFRICA, BRAZIL, CHILE AND SAUDI ARABIA,WHERE COMPANIES ARE BENEFITTING FROM HIGHER COMMODITY PRICES"

Views are more mixed on India and China. Goldman Sachs Asset Management head of fundamental equity client portfolio management, Luke Barrs, believes that India offers long-term growth opportunities due to progress on domestic reforms, pent up demand, growing middle class and a more efficient workforce.

Estimates are that the country will grow by 7.1–7.6 per cent in the fiscal year (FY) 22–23 and 6–6.7 per cent in FY23–24. This is partly because businesses have seen a steady net profit-to-sales growth over the past year and are cash rich, according to figures from Reserve Bank of India, which analysed 10,000 listed companies. Although investments are growing sporadically partly due to supply chain disruptions and global uncertainties, industry and service activities are expected to remain robust.

There are fears though by some fund managers that the Indian markets may be getting too frothy. "Whilst still expensive versus the broader emerging market region, we have been looking at increasing exposure to what still remains a pool of high quality and well-run companies," says Nandra. "However, we still remain sensitive to valuations."

Ayres, on the other hand, thinks that India looks challenged. He notes that growth in recent years has been hindered by the introduction of the goods and service tax, demonetisation, Non-Bank Financial Companies (NBFC) funding issues and bank bad asset resolution.

He adds that the currency may face pressure given elevated energy prices and relatively loose monetary policy. The RBI is behind the curve and may need to tighten policy further. "Although India represents one of the best structural growth opportunities in emerging markets, much has been priced into current market valuations and India currently trades at a significant premium to emerging markets," he says.

As for China, it is difficult to ignore as it is the second-largest economy and roughly 32 per cent of the MSCI EM index. However, its zero-Covid policy, property crisis and US House Speaker, Nancy Pelosi's, visit to Taiwan has stifled growth and rattled investors. In the second quarter of this year, growth was 0.4 per cent compared to the forecast of 1.2 per cent and a drop from 4.8 per cent in the first quarter.

The government has responded with the People's Bank of China recently cutting its lending rate for one-year loans to banks and issuing low interest rate loans to help restart stalled property developments. This comes after a backlash from homebuyers, some of which have been due to make mortgage payments for unfinished homes.

"WHAT WE HAVE SEEN ON THE EQUITY SIDE IS A GREATER DEGREE OF AWARENESS ON HOW TO NAVIGATE RISKS AND OPPORTUNITIES RELATED TO CHINA"

Ashmore Group equity portfolio manager, Edward Evans, says the real estate sector has continued to struggle, contributing to the growth slowdown, which is leading to a much more constructive domestic policy stance. Total social finance growth has accelerated to the highest level since June 2017, infrastructure investment has increased, and regulation normalised. "The importance of China to emerging markets, and the world, means the investment outlook has brightened, although this view needs to be tempered by the need for China to stabilise its domestic economy, including resolve a loss of confidence in its real estate market," he says.

GSAM managing director and lead of its UK fiduciary business, Ed Francis, says: "What we have seen on the equity side is a greater degree of awareness on how to navigate risks and opportunities related to China. There are some who are optimistic while others who are concerned. Geopolitical factors do feed into allocation decisions but the country may still offer attractive opportunities in terms of productive and profitable growth."

On a sector level, Carmignac Investment Committee member, Gergely Majoros, says that the firm aims to benefit from the rapid development of the so-called New Chinese economy. "As a result, we tend to favour investments in companies benefiting from long-term growth trends like technological innovation, new ways of consumption, medical innovation and energy transition.These are also in line with the Chinese leadership's long-term goals, which reduces the political risk in our portfolios." ■

FINTECH

Fintech solutions have been adopted more slowly in the pensions world than in some other sectors, but they are now being used more widely by people working within the industry. David Adams **reports**

WRITTEN BY DAVID ADAMS, A FREELANCE JOURNALIST

Behind the scenes: Fintech's role in pensions

The term fintech is very flexible: It may refer to many different types of technology solution, and can also be applied to some of the companies that develop them. But we can make some useful generalisations about these solutions. They often incorporate technologies including artificial intelligence (AI), cloud computing and big data tools. They can be developed by small, innovative companies devising new ways of working, or they may be co-opted, acquired or developed in-house by more established pensions companies and organisations.

There is often a certain amount of hype attached to them, which is not always justified. And in pensions, while they have attracted attention when used in member/saver-facing applications, it may be their use in internal business processes that ends up having a more significant impact on the European pensions landscape.

WTW head of software and retirement technology solutions, Arne Hoffman, thinks the most notable uses of fintech within pensions companies, schemes and other organisations are as a means of improving investment processes; to support member or saver engagement and education; and to a lesser extent in administration. He also believes these impacts are usually more significant within individual countries, rather than across the continent, "because [*fintech companies and developers*] are able to be close to those markets and to react quickly to changing aspects of those markets".

There are some fintech solutions being used in multiple countries. For example, Smart provides its Keystone retirement platform on a white label basis to governments, financial institutions and large organisations in a number of different countries, and runs the Smart Pension master trust in the UK. For Smart director of international, Dan McLaughlin, the most important attributes of fintech tools in the pensions world are their potential uses in efficiency improvements and risk reduction, often through use of automation to reduce the opportunity for human error.

One longstanding fintech company working in the investment space is Inalytics, which has been using data and behavioural analysis to benchmark the skill of investment decisionmakers, for global institutional investors including pension funds, since the late 90s.

"Asset owners across Europe [*are*] using our analysis as part of their initial due diligence on prospective managers," says Inalytics CEO, Rick Di Mascio. "Many pension schemes have grown frustrated with legacy models and attribution frameworks that fail to give them meaningful insights into the way asset managers run money today. Technology can provide far greater visibility into managers' investment processes and abilities."

Other examples of fintech use in the investment space include the launch earlier this year by Ada Fintech (owned by Redington) and another fintech company, Tumelo, a stewardship data platform. It allows investors, including pension schemes, to monitor investment or fund managers' voting records as shareholders in the companies in which they have invested – so helping to support schemes' environmental, social and governance (ESG) programmes.

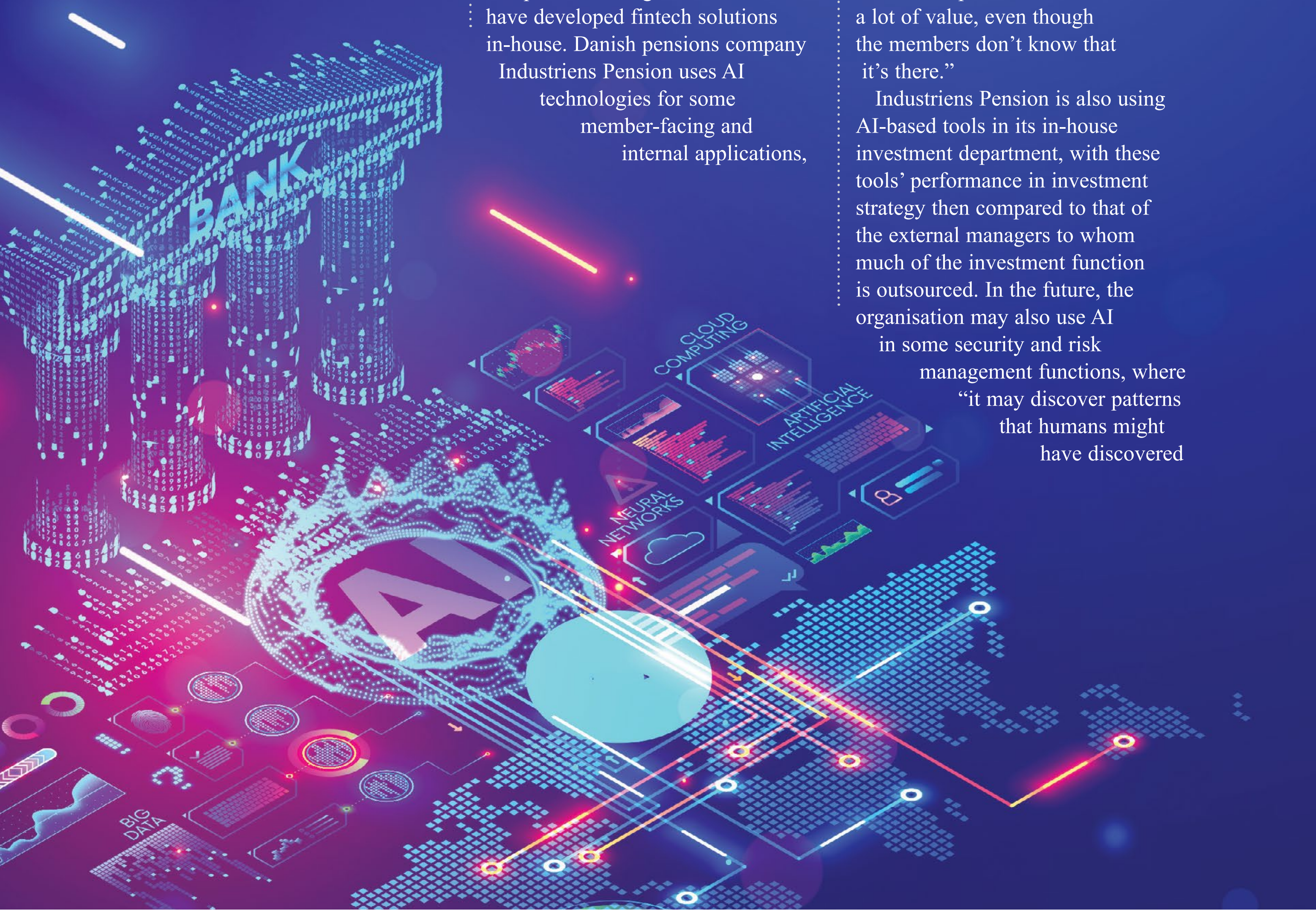
"TECHNOLOGY CAN PROVIDE FAR GREATER VISIBILITY INTO MANAGERS' INVESTMENT PROCESSES AND ABILITIES"

The appliance of AI

Growing numbers of pensions companies and organisations have developed fintech solutions in-house. Danish pensions company Industriens Pension uses AI technologies for some member-facing and internal applications, including a member-facing chatbot that uses natural language processing (NLP) to learn from and improve online interactions; and a more widely used internal, AI-based solution that offers assistance to advisers answering member enquiries.

The latter solution has been used and refined over the course of several years. "It's a real time tool that listens to telephone conversations and among other things works out which are the relevant regulations for advisers to mention to members, to ensure compliance," says Industriens Pension head of innovation, architecture and new solutions, Camilla Høpner. "It creates a lot of value, even though the members don't know that it's there."

Industriens Pension is also using AI-based tools in its in-house investment department, with these tools' performance in investment strategy then compared to that of the external managers to whom much of the investment function is outsourced. In the future, the organisation may also use AI in some security and risk management functions, where "it may discover patterns that humans might have discovered



too late," Høpner states.

Of course, there are some pitfalls that pension providers, schemes and employers must avoid when working with fintech companies and solutions. McLaughlin points out the need for these solutions to be scalable. "With DC now the dominant pensions vehicle across the world, we are talking about the need for tech to meet the challenges of entire populations," he says. "That is millions of employers and tens if not hundreds of millions of new customers leading to millions upon millions of investments per hour."

Security considerations are also hugely important. Solutions need to be robust, with risks managed effectively and strong business continuity measures in place. "The more complex a tech offering becomes, the more potential points of weakness that could be exploited by bad actors," McLaughlin warns.

Security risks are also linked to compliance risks, such as the need to comply with GDPR requirements. This means that any scheme, company or organisation using fintech solutions that store data in the cloud will need to consider exactly how data will be processed and where it will be stored. WTW senior director, Craig Heasman-Riley, who works in the company's operations and technology leadership group, stresses the importance of "asking the right questions, about security, data protection and data residency, especially as we move to the cloud".

"Clients need to get their consultants and independent trustees to ask these questions for them; and get their providers to ask those questions to their technology experts as well," he says.

He also emphasises the importance of an excellent user experience as a factor that will determine the success of a fintech-based application, whether for internal users, scheme members or employers.

"Whenever you are purchasing [*these technologies or services*] it's extremely important to think about the user," he says. "You need to think about the problems they're trying to solve and the information they need."

"I WOULDN'T EXPECT FINTECHS OR START-UPS TO BROADEN OUT ACROSS MANY DIFFERENT COUNTRIES IN EUROPE, DUE TO THE RADICALLY DIFFERENT PENSIONS SYSTEMS IN EACH COUNTRY "

Ensuring effectiveness

But Swedish Pensions Agency (Pensionsmyndigheten) market analyst, Ann-Christine Meyerhöffer, highlights another risk: The danger of over-reliance on these technologies. "The pensions industry and individuals may rely on the services and the outcome without investigating what is behind it, leading to misunderstandings and decisions that they wouldn't take otherwise," she warns.

In 2021 her organisation suggested that robot-based advice services might introduce extra risk into long-term planning for pension savers, both because such services are not generally standardised, but also because they may not adequately consider individuals' specific requirements.

All of these issues need to be considered by a company considering using or developing fintech solutions. Solution selection or design processes must take into account the fact that solutions might be in use for a long time, so will need to be adaptable, says Hoffman. "You want your solutions to evolve as the pensions market evolves," he says. "You need to be sure you have a provider you can trust to stay around and that will allow the way you use the technology to evolve as your schemes evolve."

He is certain that fintech will become an ever more important part of the pensions landscape during the next 20 years: "Fintech will continue to be a driver for innovation and fresh ideas," he says – although he also still expects the greatest impacts to be felt at a national level.

"I wouldn't expect fintechs or start-ups to broaden out across many different countries in Europe, due to the radically different pensions systems in each country," Hoffman explains. "But I would expect fintechs and start-ups to be disruptive and to be innovators in their local markets."

"Fintechs should improve the parts of the industry in which they operate," says Di Mascio. "That could be to make them more efficient, cheaper, easier or more insightful to the user. Whatever it is, [*a solution*] should solve problems rather than create them."

But above all, says Hoffman, the selection and use of fintech solutions must be focused on the need of the scheme or company. "You want to know the value proposition first," he says. "You need to know what you want to achieve." The technologies can be impressive and will surely become even more impressive in future – but they can only be effective if they are used to achieve those goals.■

Strength lies in differences

DIVERSITY

While diversity in broad terms is now on the agenda for most pension scheme trustee boards, some aspects, such as gender, are prioritised over others. Christopher Marchant **reports**

WRITTEN BY
CHRISTOPHER MARCHANT,
A FREELANCE JOURNALIST

Diversity is increasingly at the forefront of considerations for pension trustee boards across Europe. The European Commission has recently added more fuel to the debate by setting targets in June 2022 for gender balance and diversity on boards, echoing existing laws in Norway, Spain, France and Iceland.

Within their roles, trustees must make decisions for pension schemes that directly impact on member outcomes. This can be a wide-ranging role from deciding who to award discretionary death benefits to, to developing the long-term journey plan for the scheme. And according to Dalriada Trustees accredited professional trustee, Sarah Brennan, such decisions are often based on unconscious biases.

"Diverse memberships of trustee boards can, therefore, challenge our own thoughts and help us to ultimately make better decisions, for the benefit of the schemes' members," says Brennan. "Of course, the challenge can only happen if you have an inclusive trustee board, where individuals feel safe and empowered to share their views. In turn, a diverse and inclusive board reduces risks and increases the chance of the trustees paying the right pension, and at the right time."

For Brennan, age and gender continue to be the focus points for pension providers, with disability and race increasingly moving up agendas. At the present time, issues like civil partnership, pregnancy, and maternity receive less priority. However, Brennan argues that there may be other diverse characteristics that should also be considered, such as neurodiversity.

The UK's Pensions Management Institute director of policy and external affairs, Tim Middleton, sees another advantage to promoting a wide range of backgrounds within a trustee board. "Diverse boards avoid the pitfalls of groupthink as they are more likely to consider issues from a wider range of perspectives," he says. "Diversity and inclusion on the trustee board is not only socially progressive but is more likely to achieve the highest standards of scheme governance."

And when it comes to showing others the way on diversity and inclusion, the boards of European-headquartered companies appear to be out in front.

European leaders

Women comprise one-third (33 per cent) of board members in STOXX Europe 600 companies, according to the European Women on Board Gender Diversity Index. Companies in the UK, Norway, France and Sweden are closest to having gender-balanced governance, with Switzerland one of the worst-performing countries in the index.

In the Netherlands, its diversity drives in the pension space are underpinned by regulation. Norm 31 of the Code of the Dutch Pension Funds states that "the board of trustees will ensure appropriate suitability, complementarity and continuity in its own composition, taking account of education, background, personality, gender and age."

"To perform optimally, a board

requires a range of skills, cultures and views." says Federation of the Dutch Pension Funds chairperson, Ger Jaarsma. "Norm 31 means that attention should be paid to the composition of the bodies to ensure their members have competencies and approaches which complement one another."

UK-based Punter Southall Governance Services sits on one of the diversity and inclusion workstreams at The Pensions Regulator in the UK. Even though the UK ranks relatively highly for gender balance on boards, the firm's client director, Simon Lewis, suggests there is still progress to be made in other aspects of diversity:

"Looking at the schemes we work on, I can see that there is some gender balance, but the nature of UK pensions is such that legacy defined benefit schemes tend to struggle with generational representation, whereas live schemes, which are typically defined contributions arrangements, have a better balance. Ethnicity balance is still less visible."

Priority areas

While gender disparity on boards has been a topic of keen interest in recent years, other areas, as suggested by Lewis, are more overlooked. For example, European nations are considered to lag some US pension providers when it comes to factoring in racial diversity into investment decisions and may even turn down opportunities if that criterion is lacking.

"We are seeing trustees focus on gender and age diversity on their boards, most likely because this is information HR departments will have to have to hand more easily," says Ross Trustees trustee director, Manni Sohal.

"While ethnicity is now also becoming more commonly considered as a diversity criterion for boards, there is still limited focus on other indicators including disability, sexual orientation, socio-economic and education. That is not to say these are less important in terms of a scheme's D&I initiatives, but it is typically more challenging to obtain this information about individuals in a GDPR-compliant way."

For Hymans Robertson head of governance consultancy, Laura Andrikopoulos, the gender make-up of trustee boards is often a first consideration when diversity is discussed, but increasingly wider concepts of diversity are now being considered too.

"Age is particularly important, given that the ages of different savers will often have a strong impact on their view of the pension scheme," says Andrikopoulos, who points out that younger generations, for instance, may struggle to prioritise saving into a pension scheme, the benefits of which they will not see for many decades, over saving for a house deposit while also having to cope with the growing cost of living crisis. "A trustee board that has sufficient grasp of the concerns of different groups of members is important for communications and engagement strategy in particular," she adds.

Data quality

Of course, one challenge for scheme trustees, and companies broadly, is getting quality data to measure progress on all aspects of environmental, social and governance (ESG) factors, including diversity. This is an area still beset by issues such as a lack of standardisation, and differing levels of materiality and granularity.

Sohal notes that the lack of mandatory reporting in the trustee space does not aide the situation. "As trustee boards are not currently required to disclose their diversity indicators, there is currently not a huge amount of data available. That is not to say we cannot, and should not, be taking steps to proactively collect this information, and it is likely that institutions including TPR will want to start taking steps to see how things stand for their own D&I initiatives and understanding."

Responsible governance v. fiduciary duty

As trustee boards embrace diversity more energetically across Europe, they risk encountering the same objections of boards members at some US-based pension funds, including in Texas and Pennsylvania, who have taken the position that the sole responsibility of board members is to maximise returns for pension investors and any action straying from that mission is irresponsible.

Pension Danmark head of ESG, Jan Kæraa Rasmussen, disagrees. "With a balanced view, also taking into account what is realistic in the short term, we don´t see these challenges. On the contrary, diversity can help boards make better decisions."

Likewise, Jaarsma's believes that promoting diversity will only serve to secure scheme participants' trust in Dutch pension funds and in the pensions system.

And in a sign of the future trajectory of the diversity journey in the Netherlands, the chair of the Federation of the Dutch Pension Funds has held meetings with all pension funds that are yet to fully comply with Norm 31 and issuing the dictat: "The board of trustees shall include at least one woman and one man, and will include people both under and over 40 years of age. The board of trustees must also prepare an action plan to promote diversity on the board."

Other jurisdictions will surely follow suit. ■

PENSION SYSTEMS

The good and the bad

Try as they might, no country has a 'perfect' pensions structure. Therefore, *European Pensions* asks: What do you consider to be the best and worst aspects of your country's pension system?

The Netherlands

The Dutch pension system has been considered one of the best pension systems in the world for many years. In comparative studies it consistently ranked in the top 10 or even the top three. So why is The Netherlands on the brink of the biggest change of the pension system ever?

A good feature of the Dutch pension system is the fact that a lot of funds are saved up for future pensions, in total €1,600 billion. So funding is ensured for second pillar pensions, and there is only limited dependency on politics or other future developments. Furthermore, the level of the second pillar pensions can be considered sufficient and most employees accrue second pillar pensions. However, this system has not been able to keep up with developments in society. Employees don't normally work for one employer for life anymore, but instead hop between jobs, such that one employee often has several different pension benefits that are difficult to combine. The solidarity in the current system was under pressure as well. Younger people increasingly do not want to sponsor older people, and vice versa.

With the move to the new system, the standard pension plan will have a DC character and each participant will have their own personal pension capital. The system will, therefore, become more simple and transparent. However, some elements of collectivity and solidarity, and the ambition level of the second pillar pensions, remain in place. This is a major change. From a 'defined benefit (DB) country', the Netherlands will become a 'defined contribution (DC) country'. The standard approach is that the accrued entitlements in the current DB plans will move to the new system. This transition is complex and difficult to explain. This transition will be the biggest challenge for the pension industry in the Netherlands.

FRANK DRIESSEN AND CORINE REEDIJK, Aon Wealth Solutions CEO and senior ALM consultant, respectively

Ireland

The state pension is generally seen as providing a good bedrock to help avoid poverty in old age, particularly as home ownership was historically high. It has a myriad of issues, e.g. inconsistent qualification criteria, ad hoc increases, interaction with private sector employment and sustainability. The Pensions Commission published a detailed report on this in 2021. However, this has been politicised since the 2020 election and it is not yet clear what, if any, actions will be taken.

Meanwhile, Ireland's occupational and private pensions have low levels of coverage, as just over a third of workers have nothing beyond a state pension, despite a long-running campaign to change this. There is an ambitious target to have auto-enrolment up and running by 2024 – currently Ireland is the only OECD country that does not already operate such a system.

However, we have good pensions from DB schemes for public sector (ongoing) and private sector (historically, with adequacy concerns emerging as we move to DC). Yet there is a lack of protections for DB compared to the UK as there is no Pension Protection Fund equivalent or debt on employer. There will be a significant increase in governance standards required by end 2022 from IORP II.

Ireland has some history of innovation, e.g. the drawdown product has been available for many years – but confusion and inefficiencies do arise from multiple products. In addition, fees for DC schemes and private pensions are likely higher than other countries, perhaps due to the small size of the market. Consolidation (master trusts) and auto-enrolment may improve this.

PAUL TORSNEY, Law Debenture director

Denmark

The Danish pension system has been developed over many years, with major steps taken in 1964 with ATP as part of pillar 1 (basic pension) and in the early 1990s with the implementation of wide covering second pillar pensions companies, securing DC pension schemes for the vast majority of employees across public and private employers. Today all Danes will receive a public pension from the official retirement age, and nearly all also a guaranteed lifelong ATP pension, which is a DC pension, based on a DKK amount, specified through labour markets negotiations – generally with one-third paid by the employee and two-thirds by the employer. These are the basic pension payments, also known as the first pillar in the Danish system. The second pillar is the labour market pension schemes, which are DC schemes with annual contributions of typically 12–18 per cent of the annual salary, again normally with one-third paid by the employee and two-thirds by the employer. Today these schemes are typically investment vehicles with the resulting pension depending on the accrued market returns over time, i.e. products with no or little guarantee. The third pillar is individual savings for instance through bank deposits etc.

The Danish system is highly regarded as one of the best in the world, and works well because of the different pillars supporting each other. The lifelong guarantee in the first pillar for instance allows a higher risk taking in the second pillar system.

KIM KEHLET JOHANSEN, ATP chief risk officer

Italy

Pros: The public pay as you go (PAYG) system has been very generous for former generations and current pensioners. Indeed, the replacement ratio is still one of the highest in the OECD countries (above 80 per cent). However, the system was changed into a notional DC, which will make it more sustainable, but quite less generous.

Cons: Too strong a dependency on the PAYG system. The cost of public pensions is one of the highest of the OECD countries. Contributions to the PAYG state scheme amount to 33 per cent of gross salary. This means that further additional contributions to private/workplace pension funds are quite expensive for both companies and for employees. Only 30 per cent of Italian workers are covered by funded pensions. Soft forms of compulsion (through collective agreements) provide for very low contributions. Tax incentives will not suffice to increase the coverage of private pensions; probably a radical reform should be needed to gradually reduce the dependency from PAYG pensions by shifting part of those contributions to private/funded pensions, at least for the younger cohorts.

FRANCESCO BRIGANTI, CBBA-Europe secretary general

The UK

Recognition from UK pension schemes that climate change can have a significant impact on financial markets as well as the environment and our livelihoods has helped to shape investment strategies, with UK schemes embedding environmental, social and governance (ESG) considerations into investment processes. An integrated approach enables schemes to improve investment returns, reduce investment risk and have a positive effect on the world people retire into.

Whilst UK pension schemes view ESG as part of their fiduciary duty, UK policymakers also support schemes in protecting members against climate change risk. For example, the UK was the first country in the world to put into law recommendations of the Task Force on Climate-related Financial Disclosures. UK pension schemes are ahead of the curve in developing rigorous investment frameworks to manage ESG risks.

Although we've come a long way in some areas, such as ESG integration, the UK pension system has potential to innovate further. This is particularly true in developing new pension products which suit the changing needs of individuals whilst providing a level of financial security. A positive move comes with the introduction of CDC as an alternative to DC, where the UK can learn from similar schemes in Europe, Canada and further afield.

MADS GOSVIG, Railpen chief fiduciary officer

CYBER CRIME

The invisible enemy

With cyber attacks on pension schemes on the rise, Tom Dunstan investigates how the threat has developed and what protections are available to schemes

WRITTEN BY TOM DUNSTAN

Moore's law, first observed in 1965, states that technology becomes twice as sophisticated and half as expensive every two years; in the 67 years since, technology has indeed continued to develop at a rapid pace. Whilst the spoils of this development are plenty, the dangers that have been created are serious, with one of the most serious being cyber attacks.

Cyber attacks have become an increasingly significant issue for pension schemes in recent times, something that can be seen in Aon's *Global Pension Risk Survey 2022*, which reported that the proportion of schemes impacted by cyber incidents increased by four percentage points over two years, from 3 per cent in 2019 to 7 per cent in 2021.

There has also been an observed increase in different varieties of cyber attacks such as phishing, which involves sending emails impersonating reputable organisations to gain personal information. Phishing has seen a "huge increase" in the past two years, according to Aon Germany head of cyber solutions D-A-CH, Thomas Pache, along with ransomware attacks, which involve cyber criminals illegally obtaining data and encrypting and freezing it until a ransom is paid. According to Crowe partner and national head of forensic services in London, Jim Gee, "70 per cent of attacks at the moment are ransomware attacks".

The onus of these risks, according to the UK's Institute and Faculty of Actuaries (IFoA), lies with pension scheme trustees. Its paper on *Pension Scheme Crime Risk*, states that "for a trust-based scheme, trustees are ultimately accountable for managing cyber risk, as the 2004 Pensions Act requires trustees to establish and operate adequate internal controls".

With the risk of cyber attacks continuing to rise and the expectation on trustees to be prepared for cyber attacks in the future, it is worth asking what has happened in the sphere of cyber security in the recent past and how can schemes prepare themselves for this ever-pressing issue.

After the plague

One of the biggest developments in the cyber security sphere has been the pandemic and a lot has changed for cyber security in the time since the pandemic began. The 2022 *Aon Global Pension Risk Survey* detailed that there had been a noticeable rise in the number of actual cyber attacks since its previous survey in 2019.

Aon stated that "in 2019 much of the talk around cyber threats was theoretical, it was rare to hear about a specific incident involving a scheme. That has changed in the past two years and there are numerous examples of how schemes, sponsors and providers have been impacted in a way that has direct consequences for the scheme".

One of the reasons for this is the pandemic's most enduring legacy, working from home. Due to the increase in people working from home, the pandemic has "accelerated the digital transformation", according to the European Insurance and Occupational Pensions Authority (EIOPA) and this has, according to Pache, "caused more weaknesses for companies" as a result.

This has led to pension schemes being an increased target for cyber attacks, as detailed in the 2021 *Winmark Pension Chair Remuneration* report by Barnett Waddingham. The report found that 18 per cent of schemes "definitely" expect increased cyber attacks due to the hybrid work model and an additional 46 per cent say an increase is "likely".

This transition seems set to grow over the years as EIOPA projects the European cyber insurance market to double in size between 2020 and 2025.

Not all news in relation to pension schemes' cyber security has been negative, however, as Aon's 2022 survey also identified a "maturing of schemes' approaches to the risk".

The survey detailed that, of the schemes it spoke to, 52 per cent had done cyber training, 30 per cent were planning on conducting the training, 28 per cent had implemented a cyber security policy, 34 per cent were planning on doing so, 13 per cent have an expert on retainer and 20 per cent have plans to do so.

The Aon survey also reported that the preparation of an incident response plan is the single area that has seen the biggest change from 2019 to 2021, increasing from 30 per cent to 40 per cent of schemes having one in place.

Top-down protection

Another major development identified in Aon's survey was

"the changing regulatory environment" as legislative attempts are being made to address the threat of cyber attacks. In the UK, The Pensions Regulator's (TPR) new *Code of Practice* will include a section on cyber controls and is "very helpfully drafted", according to Gee.

TPR's section on cyber security offers insight on how to prepare against cyber threats and has been described by the IFoA as a "good starting point for considering the strength of cyber risk controls".

Another legislative development has been the Digital Operation Resilience Act (DORA), which covers Europe in a broader context.

The act, according to PWC, provides a very specific set of criteria, templates and instructions that "will shape how financial organisations manage ICT and cyber risks" with the European Union's (EU) aim to "strengthen" the financial sector's resilience to ICT-related incidents and introduce specific and prescriptive requirements that are homogenous across EU member states.

A spokesperson for the Netherlands' Federation of the Dutch Pension Funds offers an optimistic view of DORA: "This is a field that had not been explored yet on a European level and just needed some harmonisation in terms of data security."

Whilst DORA has been described by PWC as a "milestone in the right direction" and "inevitable" in light of the evolving cyber threat landscape, it has stated that it can "appreciate" the uncertainty that such regulation can bring upon organisations.

The Federation of the Dutch Pension Funds spokesperson continues: "From the Dutch perspective, it has been about bringing cyber security regulation up to where it already is at the Dutch level."

There also appears to be future developments on the horizon as, in the report, *The European Union Cyber Security, and the Financial Sector: A Primer*, Jan-Phillip Brauchle, states that "during the next four years, the current European Commission (EC) administration plans to evolve legislation on cyber security in four fields of action, including building frameworks for cyber resilience testing, direct oversight of third-party service providers, a digital finance strategy, and an emphasis on operational resilience".

Preparing a defence

Whilst legislation continues to develop one of the biggest dangers of cyber attacks remains, namely its ever-changing nature. Gee warns that legislation is "always behind, that's to be expected. One of the problems with cyber crime is that it develops so quickly that it's extremely hard for legislation to keep up with it".

He adds: "There is no technological magic bullet about cyber crime because it evolves and changes so rapidly. There is nothing that will keep you 100 per cent protected. You have to be prepared

"CYBER ATTACKS POSE A CLEAR AND PRESENT DANGER TO PENSION SCHEMES "

to manage an attack when it happens and to recover and mitigate any damage."

He argues that protection against cyber attacks "needs to be much more dynamic" and that schemes need to prepare to deal with the consequences of attacks, adding "the answer is making yourself as well protected as you can be, then being ready to manage an attack if it happens and recover".

A spokesperson for EIOPA recommends measures for protecting against cyber attacks such as informing and raising awareness among members and beneficiaries by IORPs and setting up an early detection system for cyber attacks.

Pache identifies a broader solution for pension schemes stating that "pension funds would benefit from setting up a project. Starting from the beginning and identifying and quantifying the issue. It would be helpful to have a look at this new type of risk because it's about information which is held in a large amount by pension schemes".

Cyber attacks pose a clear and present danger to pension schemes, which show no signs of slowing or stopping anytime soon. However, it is encouraging to see more schemes recognising the danger cyber attacks pose and are taking steps to prepare for them. Hopefully, more will prepare for future attacks before the invisible enemy strikes again. ■

In their own words...

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

On the new Irish auto-enrolment system

"Limiting access to AE for people between the ages of 23-60 earning €20,000 will disproportionately exclude women and exacerbate the gender pension gap. The lack of flexibility to increase payments or make lump sum contributions to cover any periods of unpaid leave or career gaps could mean worse retirement outcomes for women."

Irish Life Corporate Business director of products, Shane O'Farrell

On ESG considerations

"There is a clear sign that responsible investing, aside from being beneficial for societies, can also help pension funds fulfil their fiduciary duties in the best possible way under different adverse scenarios. Pension funds should continue adapting their investment policies on ESG to help the economy's transition."

PensionsEurope policy adviser, Anastasios Pavlos

On diversity

"Diverse memberships of trustee boards can challenge our own thoughts and help us to ultimately make better decisions, for the benefit of the schemes' members. Of course, the challenge can only happen if you have an inclusive trustee board, where individuals feel safe and empowered to share their views. In turn, a diverse and inclusive board reduces risks and increases the chance of the trustees paying the right pension, and at the right time."

SARAH BRENNAN
Dalriada Trustees accredited professional trustee

On alternative investments

"For several decades, defined benefit pension schemes have invested in alternative assets like real estate, infrastructure, hedge funds, private equity and alternative credit. This has enabled them to take advantage of attractive returns and diversification benefits, compared with traditional investments in equities and bonds. What's more, some of these asset classes also provide access to an illiquidity premium, while some give interest rate and inflation exposure."

ANDREW REID
BlackRock head of strategic UK pension clients

On the gender pension gap in the UK

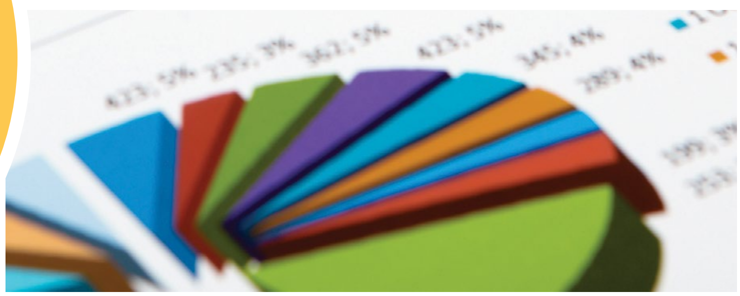
"It is particularly frustrating that despite being more focused on putting money aside for the future, women find themselves worse off in retirement. The disparity often leaves women in search of ways they can augment their retirement income, especially as more and more over-55s are looking to gift funds to loved ones to help them on the property ladder, or to deal with rising costs of living."

LEE PICK
More2life director of manufacturing and adviser proposition

On pension schemes being well hedged despite inflation

"Many schemes have already reallocated to certain asset classes in order to help inflation-proof their portfolio, and more are looking to do so in the next 12 months, as they predict future turbulence and inflation rises in the next 12 months."

MARNIX ENGELS
Ortec Finance pension strategy managing director



On investment in property

"With declines in stock markets around the world, and seemingly persistent volatility, it is only natural that many of us are considering alternative options to fund our retirement. Among these, investing in property is popular as it is a solid and tangible asset that can be easily understood, but we should always be careful of putting all our eggs into one basket, especially if the basket is starting to show cracks."

Mercer UK wealth trustee leader, Tess Page

On the changing Dutch pension system

"People are getting older. There are fewer working people compared to retirees. People no longer work for an employer all their lives, but more often change jobs or start their own business. Our current pension system is less suited to this changing society."

ABP spokesperson Jos van Dijk

6 THEMES.
5 YEARS.
1 OUTLOOK.

CAPITAL MARKET ASSUMPTIONS: 2023 EDITION

Download the full report.

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