

LV

# Investing in Iceland's next chapter

Iceland's Lífeyrissjóður Verzlunarmanna (LV) chief investment officer, Arne Vagn Olsen, tells Paige Perrin about how the fund has been shaping Iceland's pension landscape with strong governance, sustainable investments, and long-term financial security



## Please give us an overview of the Lífeyrissjóður Verzlunarmanna (LV) pension fund.

■ LV is one of Iceland's largest pension funds, managing assets exceeding €10 billion. Established in 1956, LV serves over 80,000 members, providing a robust and sustainable pension system that ensures financial security for its beneficiaries. Our fund operates under a collective defined ambition scheme, which blends elements of DB and DC pension plans. This approach aims to provide a degree of income security while ensuring long-term financial sustainability. It balances a forward-thinking investment strategy with a prudent risk overlay. We take a long-term approach to asset allocation, investing in a well-diversified portfolio spanning domestic and international equities, fixed income, and alternative investments.

We actively engage with

policymakers, corporate leaders, and industry peers to shape the future of pension management in Iceland. Our fiduciary duty demands high governance standards.

## LV has urged Icelandic companies it invests in to enhance board candidate reporting. Why is this important to the fund, and what does it aim to achieve?

■ Strong corporate governance is fundamental to protecting and growing long-term value, and as a responsible investor, LV actively engages with domestic companies to drive best practices. Our recent letter to Icelandic companies highlights the need for increased transparency in board nomination processes – an essential component of sound corporate oversight.

The purpose of the initiative is to broaden the work done by nomination committees of listed

companies. In Iceland, the tendency has been that individuals interested in a board seat submit their names to the nomination committee of a particular company. If the nomination committee decides to nominate someone else, the applicant often withdraws and thus never becomes visible to shareholders voting for the board at the annual meeting. This occurs even when the committee acknowledges that the individual has valuable skills but may not fit the immediate composition needs of the board.

LV wants to change the culture around this by opening the process and encouraging individuals to keep their applications visible. This will provide shareholders with more opportunities to choose from, which becomes particularly important in instances where shareholders disagree with the nomination committee's results.

We believe that by advocating for these governance enhancements, we are not only protecting the interests of our members but also contributing to the overall health and resilience of the Icelandic economy. A well-governed corporate sector translates into better long-term investment outcomes.

### How did the Supreme Court's recent ruling on LV's pension liability adjustments impact the pension fund?

■ The ruling provided crucial legal clarity regarding pension liability adjustments due to the increased longevity of our members. Specifically, the ruling upheld LV's right to make actuarial adjustments based on updated life expectancy projections, ensuring compliance with Icelandic pension regulations and international accounting standards. This decision reinforced the principle that pension funds must proactively manage longevity risk to maintain financial sustainability. This was an issue that had been under debate for some time. The decision confirmed that LV's adjustments complied with regulatory and actuarial principles, reinforcing the robustness of our financial position.

The ruling allowed us to move forward confidently with our pension liability recalibrations, ensuring that we continue to meet our obligations in a financially sustainable manner.

More importantly, it underscored the importance of having a stable and predictable legal framework in pension fund governance, which is essential for long-term investment planning.

### What have been the fund's biggest successes in 2024?

■ 2024 has been a defining year for LV, marked by several key accomplishments:

- Investment performance: Despite market volatility, our diversified portfolio delivered resilient returns, exceeding the benchmark performance in both our pillar 2 portfolio (95 per cent of assets) and our pillar 3 portfolios (private pensions). Based on preliminary numbers, our returns for the past year, five years, and 10 years are among the highest in Iceland.
- Investment infrastructure: We changed our global custodian last year after a lengthy process. This new custodian will ensure we are well equipped to tackle upcoming changes in our portfolios.
- ESG leadership: We intensified our responsible investment efforts by expanding engagement with both domestic and international companies on climate-related disclosures and sustainable business practices.
- Regulatory adaptation: Following the Supreme Court ruling, we swiftly adjusted our liability models, ensuring full compliance with legal and actuarial standards.
- Operational efficiency: Leveraging technology and data analytics, we improved fund administration and enhanced member services.
- Industry influence: By strengthening partnerships with policymakers, businesses, and institutional investors, LV has reinforced its role as a thought leader in Icelandic pension fund management.

### What are your key objectives for the year ahead?

■ Looking forward to 2025, LV's priorities remain firmly centered on securing sustainable, long-term returns for our members. We anticipate navigating a landscape shaped by persistent inflationary pressures, shifts in global interest rate policies, and geopolitical uncertainties.

Additionally, ongoing regulatory developments and the evolving ESG landscape will require adaptive investment strategies to maintain resilience and capitalise on emerging opportunities. Our key objectives include:

- Expanding global investments: Given the limited scale of Iceland's capital markets, we aim to further diversify internationally, ensuring a balanced and resilient portfolio.
- Advancing ESG integration: We will continue to push for stronger corporate sustainability practices while increasing investments in sustainable asset classes.
- Enhancing governance standards: LV will maintain its focus on corporate governance, advocating for greater transparency and accountability in Icelandic companies.
- Embracing technological innovation: We are investing in digital solutions to streamline operations, improve service delivery, and enhance decision-making processes.
- Risk-optimised growth: Our investment strategy will remain firmly rooted in risk-adjusted growth, balancing long-term performance with financial security.

At LV, we are committed to evolving alongside the ever-changing financial landscape. Our proactive, forward-thinking approach ensures that we continue to serve our members with excellence, resilience, and a clear vision for the future.

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**“STRONG CORPORATE GOVERNANCE IS FUNDAMENTAL TO PROTECTING AND GROWING LONG-TERM VALUE. LV ENGAGES WITH DOMESTIC COMPANIES TO DRIVE BEST PRACTICES”**