Insurance Asset Management

Summer 2023

A green world
The key sustainable insurance investment developments

Real estate debt
How this asset class can aid returns in insurers' portfolios

Asset allocation drivers
The main factors affecting investment decisions among insurers

A war for expertise

The ongoing battle for ESG talent within the investment management industry

AROUND THE GLOBE
The latest insurance developments happening around the world

SUSTAINABLE INVESTMENT SUMMIT
An overview of the one-day conference for institutional investment delegates

A SECURER ENVIRONMENT
The major de-risking pension scheme deals

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Editorial Comment

> There is certainly an attraction to be found within these real estate debt markets

Summer seems to have finally arrived as I pen this editorial comment, and what better way to spend it than by sitting in the garden or by the beach with this latest copy of *Insurance Asset Management*! Our cover feature for this issue (p.20) looks at whether there is an ongoing battle for ESG talent within the investment management industry. Finding and integrating the right ESG staff could indeed be hampering asset managers' efforts to improve their impact and responsible investing credentials. We analyse what can be done about this and whether the situation is only going to get worse before it gets better.

Carrying on the theme of ESG, we also provide an in-depth review (p.42) of our recent Sustainable Investment Summit, held at the Waldorf Hilton, London. This is a one-day conference providing the latest views on sustainability within the institutional investment space. Sessions covered many different angles of the sustainable investing sphere, from dealing with the energy transition, to introducing opportunities in the securitised market and in gold, to covering the roles of stewardship and governance on climate-related issues. The Summit once again provided all delegates with a valuable opportunity to both learn and network at an increasingly critical time for the world's financial ecosystem, and I encourage as many of you to look out for our advertising around this for next year's event.

On the raw investment front, we examine the growing opportunities for European insurers in US and European real estate debt (p.26). As insurers are constantly looking to diversify their investment portfolios given the economic climate we find ourselves in, there is certainly an attraction to be found within these real estate debt markets.

This issue also covers some of the major pension de-risking deals that have taken place over the past couple of months, detailing the insurers involved in these. Furthermore, we summarise the latest insurance developments from all across Europe and beyond, whether it be M&A deals, financial results or product development and innovation.

There's so many great things happening in the insurance space at the moment, so let's enjoy these moments, and of course the sunshine!

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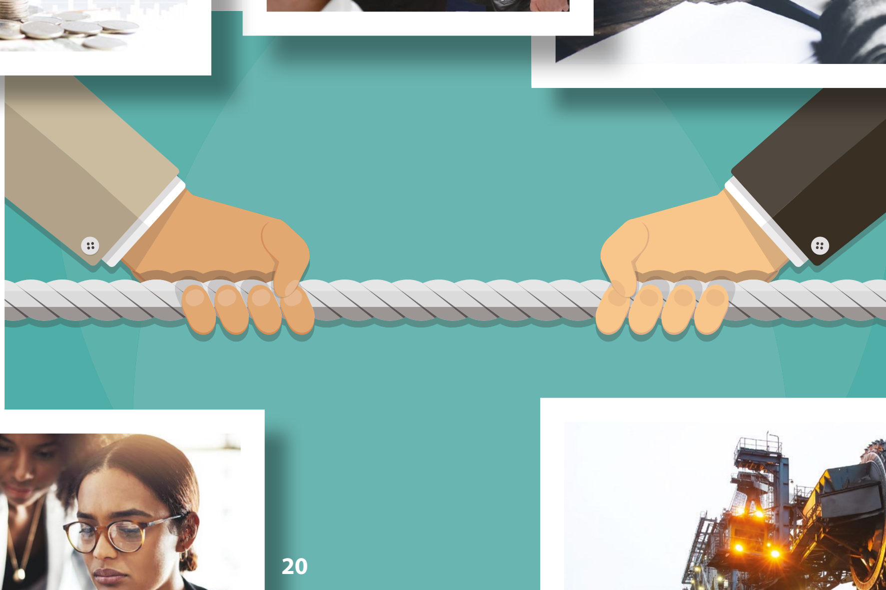
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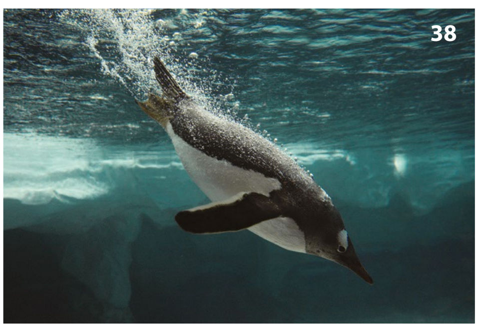
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Summer 2023

News focus

Yield opportunities ranked most important factor driving asset allocation decisions among insurers

More than half of global insurers to increase investments in private assets

Written by **Adam Cadle**

Global insurers have ranked increasing yield opportunities in the current environment as the most important factor driving asset allocation decisions (68%) for the first time in Goldman Sachs Asset Management's latest survey, nearly triple the percentage of those who say they are decreasing risk due to concern with equity or credit losses (25%).

> Private corporate debt is the top asset class that insurers plan to allocate more to over the next year

The firm's survey, *Balancing with Yield on the Inflationary Tightrope*, revealed that more than half of global insurers (51%) plan to increase their allocation to private assets over the next 12 months. Across all asset classes, "private corporate debt (41%) is the top asset class that insurers plan to allocate more to over the next year," the firm said. Twenty-nine per cent of respondents plan to allocate more to private equity, and 28% plan to increase their allocation to infrastructure equity and infrastructure debt. In contrast to 2022, net 28% of insurers plan to significantly increase duration exposure, consistent with the market pricing in rate cuts following a year of intense hiking.

Hopes of transitory inflation are waning, as 81% of insurers believe inflation will remain through the medium (2-5 years) or long term (5-10 years). Insurers cite deglobalisation (44%) as the top factor driving structurally higher inflation, followed by energy disruptions (33%).

Most insurers (82%) believe an economic recession in the US will occur within the next three years. Views have carried over from the 2022 survey, in which 65% of respondents said they felt an economic recession was forthcoming in the next three years.

> Most insurers believe an economic recession in the US will occur within the next three years

Separate research published by Coalition Greenwich has shown that increasingly complex and challenging market conditions are causing US asset owners to seek higher levels of support from investment consultants. Asset owners' need for advice on topics like asset allocation, investment products, portfolio construction, and market events has changed their expectations for their investment consultants. Increasingly, asset owners are looking for consultants who are available for discussion and responsive to requests.

The Goldman Sachs survey said that despite recession risk and rising geopolitical tensions, 29% of global investors plan to increase overall investment risk in their portfolio. A potential renaissance for fixed income is underway as 34% of insurers plan to increase their allocation to US investment-grade corporates in 2023. In a reversal from the prior years, credit quality deterioration was cited as a primary investment risk by insurers (39%). Conversely, low yields were the least concerning investment risk noted by insurers (10%) for 2023 given the persistent elevated-rate environment.

ESG factors continue to be at the forefront of portfolio considerations, with 90% of respondents considering these factors throughout their investment process.

The survey incorporated the views of 343 insurance company CIOs and CFOs representing over $13trn in global balance sheet assets. Their responses were collected from 1-17 February 2023.

News in brief

- AIG is to sell Validus Re for a total transaction value that is expected to exceed $4.5bn. The sale is expected to close in Q4 2023, subject to regulatory approvals. Following the closing, AIG said it expects to make significant investments in RenaissanceRe's DaVinci Reinsurance and Fontana Re managed funds through AIG's investment portfolio.

- BlackRock, Conning and New England Asset Management (NEAM) ranked the most popular asset managers for US insurers in 2022, according to research published by the National Association of Insurance Commissioners (NAIC). BlackRock maintained the top listing for most used investment manager, followed by Conning and NEAM. The NAIC said about half of US insurers in 2022 reported outsourcing investment management to an unaffiliated firm. P&C companies accounted for almost 60% of US insurers outsourcing to unaffiliated investment managers.

- The US bulk annuities market is expected to finish Q1 2023 with around $6bn in total market volume and surpass last year's record of $5.3bn, according to Legal & General Retirement America's (LGRA) Q1 2023 Pension Risk Transfer (PRT) Monitor. LGRA said it was the largest first quarter on record.

- Mayfair Capital Investment Management, the specialist UK real estate investment arm of Swiss Life Asset Managers, has rebranded as Swiss Life Asset Managers UK. The rebranding follows the acquisition of Mayfair Capital by Swiss Life Asset Managers in November 2016.

UK insurers should approach growing BPA market 'with moderation', PRA says

'Significant hedging programmes' will need to be deployed

Written by **Adam Cadle**

The Prudential Regulation Authority (PRA) has said UK insurers should approach the growing opportunities in the bulk purchase annuity (BPA) market "with moderation".

Speaking at the 20th annual conference on bulk annuities, PRA executive director for insurance supervision, Charlotte Gerken, said there is "considerable temptation to capture business opportunities" this year within the annuity sector.

"One industry estimate, suggests that the UK life insurance industry could onboard more than £500bn of pension liabilities – and associated assets – over the coming decade," she stated. "This is a big structural change in the control of long-term investments in the UK, and the decisions that insurers make now will have long-term consequences for the performance and development of the broader economy. Taking on new BPA business in volume, over a relatively short period, will also involve significant hedging programmes via interest rate, cross currency and inflation swaps, more complex investment arrangements, and will increase interconnectivity with the wider financial market. Insurers, therefore, need to understand, as they take on these vast sums of assets and liabilities, how they may become greater sources or amplifiers of liquidity risk.

> This is a big structural change in the control of long-term investments in the UK

"In this context, insurers need to focus on the feasibility of their own management actions under stress. Our 2022 Life Insurance Stress Test feedback noted that concurrent reactions in stress can reduce the effectiveness of any assumed management actions."

China's insurers enhance risk management awareness

CBIRC conducts on-site assessments on 70 insurance companies

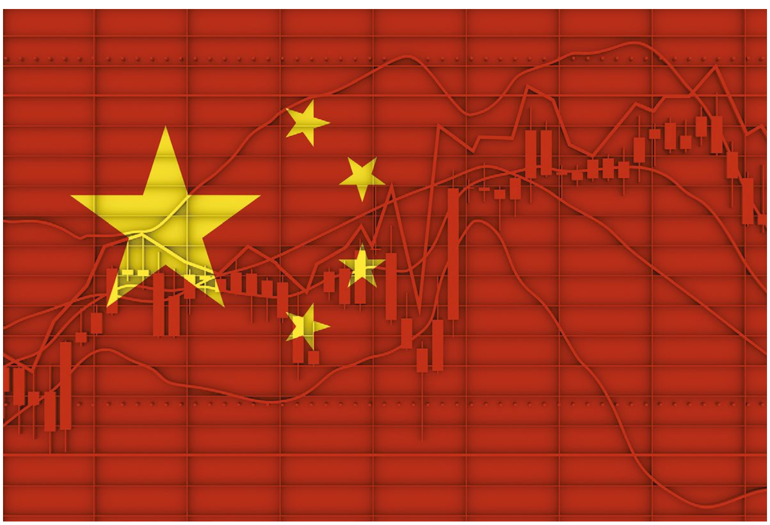
Written by **Adam Cadle**

Chinese insurance companies continue to enhance their risk management awareness, strengthen their responsibilities for risk management, and make continuous progress in risk management, according to the Solvency Risk Management Requirements and Assessment (SARMRA) conducted by the CBIRC, with an average score of 77.44 points recorded.

The CBIRC conducted SARMRA on-site assessments on 70 insurance companies, including 27 P&C insurance companies, 31 life insurance companies, eight reinsurance companies, and four group companies. The average score was an increase of 1.41 points from the previous assessment.

PICC Group, CPIC Group, Ping An Insurance Group and China United Group were evaluated for the first time. Among the remaining 66 companies, 40 companies scored higher than the previous assessment accounting for 60.6%; 26 companies scored lower, accounting for 39.4%. In terms of scores, 29 companies scored above 80, accounting for 41.4%; 34 companies scored between 70 and 80, accounting for 48.6%; seven companies scored below 70, accounting for 10%.

> The average score was an increase of 1.41 points from the previous assessment



Total assets of Chinese insurance companies at ¥29.4trn

Figure rises by ¥1.22trn from beginning of year

Written by **Adam Cadle**

Total assets of Chinese insurance companies were ¥29.4trn at the end of Q1 2023, an increase of ¥1.22trn from the beginning of the year, according to the China Banking and Insurance Regulatory Commission (CBIRC).

Total assets of property insurance companies were ¥2.8trn, an increase of 5.1% from the start of the year, and total assets of life insurance companies were ¥24.3trn, an increase of 4% from the beginning of the year. Total assets of reinsurance companies were ¥702.3bn, an increase of 4.5% in the same period.

The average comprehensive solvency adequacy ratio of the 181 insurance companies included in the meeting's review was 196%, and the average core solvency adequacy ratio was 128.4%.

Forty-nine insurance companies were rated as Class A in the comprehensive risk rating, 105 insurance companies were rated as Class B, 16 insurance companies were rated as Class C, and 11 insurance companies were rated as Class D, according to the CBIRC's latest figures on the sector.

US insurers' ETFs drop by 23.5% to $36.6bn, figures reveal

Latest value is first substantial drop in ETF assets since insurance companies started buying ETFs in 2004

Written by **Adam Cadle**

The amount of ETFs held by US insurance companies in their general accounts dropped by 23.5% (or $11.2bn) in 2022 to US$36.6bn, latest figures published by S&P Dow Jones Indices have shown.

This represents the first substantial drop in ETF assets since insurance companies started buying ETFs in 2004.

> In 2022, insurers withdrew US$4.1bn from ETFs

"However, two factors complicate analysing the drop in ETF assets," the firm said. "The first is the unusual bear market we had in 2022, with both equity and fixed income markets showing sharp declines—the S&P 500® dropped 19.4% and the S&P US Investment Grade Corporate Bond Index dropped 14.3%. In 2022, insurers withdrew US$4.1bn from ETFs, so valuation declines explain approximately two-thirds of the drop in AuM. Also in 2022, two mega insurers decided to exit all public equites, including ETFs. This represented US$3.5bn of all the withdrawals. Excluding these two companies from the analysis, insurer ETF AuM declined by 16.5%—or in line with market results."

Even though most US insurer assets are in fixed income, insurers typically invested in equity ETFs. This continued to be the case, even with the large amount of equity ETFs sold by the two mega companies. Outside of these two companies, flows into equity ETFs and away from fixed income ETFs were seen.

Elsewhere, figures published by the NAIC have shown that US insurers' investment in residential mortgage-backed securities (RMBS), including both agency-backed (agency) and private-label, totalled about $341bn in BACV as of year-end 2022, about 4% of total cash and invested assets, a 1.5% increase from 2021.

Total assets of euro area insurance corporations rise by €201bn to €8,267bn

Debt securities account for 34.3% of the sector's total assets

Written by **Adam Cadle**

Total assets of euro area insurance corporations amounted to €8,267bn in Q1 2023, €201bn higher than in Q4 2022, according to figures published by the European Central Bank.

Debt securities accounted for 34.3% of the sector's total assets in Q1 2023. The second largest category of holdings was investment fund shares (30.2%), followed by equity (14.3%) and loans (6.9%).

Holdings of debt securities increased to €2,835bn at the end of Q1 2023 from €2,778bn at the end of the previous quarter. Net purchases of debt securities amounted to €37bn in Q1 2023; price and other changes amounted to €17bn. The year-on-year growth rate of debt securities held was -1.8%.

Holdings of investment fund shares increased to €2,497bn in Q1 2023, from €2,427bn in the previous quarter, with net purchases of €20bn and price and other changes of €48bn. The year-on-year growth rate in Q1 2023 was 0.5%.

The annual growth rate of euro area money market fund shares held by insurance corporations was 1.0% in the first quarter of 2023, with net purchases in the quarter amounting to €11bn.

Total insurance technical reserves of insurance corporations amounted to €5,918bn in the first quarter of 2023, up from €5,769bn in Q4 2022.

Life insurance technical reserves accounted for 88.1% of total insurance technical reserves in the first quarter of 2023. Unit-linked products amounted to €1,505bn, accounting for 28.9% of total life insurance technical reserves.

Euro area insurance corporations' total written premiums rose to €1,219bn in 2022 (corresponding to 17.5% of total insurance technical reserves at end-2021), up from €1,196bn in 2021 (17.5% of total insurance technical reserves at end-2020).

In the same period, figures also revealed that claims increased from €885bn (12.9%) to €931bn (13.4%) and acquisition expenses rose from €126bn (1.8%) to €136bn (2.0%).

“Holdings of debt securities increased to €2,835bn

Over 200 global financial institutions now with coal exclusion policies

> We aim to live up to our responsibilities and play our part in ensuring a sustainable future

Number doubles in just over three years after taking six years for first 100 to adopt strategies

Written by **Adam Cadle**

Over 200 global financial institutions have established coal exclusion policies, with divestment momentum away from coal accelerating in the last two years despite record profits being enjoyed by coal companies on the back of the energy crisis.

In its latest report, the Institute for Energy Economics and Financial Analysis (IEEFA) has found financial institutions including insurance companies, banks and asset managers divesting away from coal at a quicker rate as climate change becomes a priority globally. It took almost six years for the first 100 institutions to adopt coal exclusion policies, but since then the number has doubled in just over three years.

Europe leads the way with the highest number of financial institutions divesting from coal (114) and with more stringent exclusion policies compared to other regions.

Asia has shown a significant increase in divestment, jumping from only 10 financial institutions with coal exclusion policies between 2013 and April 2019 to 41 within the next three years.

IEEFA's debt markets leader for Asia Pacific, Christina Ng, said: "Interestingly, it's not the largest asset managers who are leading the way. It's more the medium-sized ones who recognise their duty to clients. This is a reflection that the market is learning and learning fast amid regulators getting tough on greenwashing. Collectively, the whole finance ecosystem is working together to find where the issues are."

Talanx recently announced that it has drawn up a multi-state reduction path detailing the group's withdrawal from thermal coal by 2038.

"Sustainability is a core component of our group strategy: we aim to live up to our responsibilities and play our part in ensuring a sustainable future," Torsten Leue, chairman of Talanx AG's board of management, said. "As an insurer and investor, we are actively supporting our partners in the industry as they transition."

58% of US asset managers believe SEC should be responsible for setting ESG standards

Fed Governor, Christopher Waller, says issue of climate change does not pose 'significant or material' financial stability risks to be treated separately in overall supervisory of US financial system however

Written by **Adam Cadle**

Fifty-eight per cent of US asset managers believe the SEC should be responsible for setting standards around asset managers' ESG standards and product definitions, according to Cerulli research.

Furthermore, 58% of US asset managers consider ESG a top product development initiative.

Cerulli said the findings show that asset owners and managers remain focused on ESG initiatives, despite heightened scrutiny surrounding 'greenwashing' and negative investor perception.

"Overall, Cerulli's research reflects an industry largely unswayed by negative rhetoric surrounding the topics and concepts related to ESG investment," Cerulli associate director, David Fletcher, said.

> Asset owners and managers remain focused on ESG initiatives

"By and large, sustainability and the overarching themes of ESG investment are already ingrained in the asset management industry. The challenges firms face in implementing ESG investment initiatives are pain points that will likely be viewed in retrospect as necessary steps in the legitimisation and long-term success of these goals."

However, Fed Governor Christopher Waller said the issue of climate change does not pose such "significantly or material" financial stability risks that the Federal Reserve should treat it separately in its supervision of the financial system

Speaking at an economic conference in Spain, Waller said climate change "is real", but said he does not believe "it poses a serious risk to the safety and soundness of large banks or the financial stability of the United States".

"Risks are risks… My job is to make sure that the financial system is resilient to a range of risks. And I believe risks posed by climate change are not sufficiently unique or material to merit special treatment."

Most European institutional investors in favour of fining greenwashing asset managers

Investigations by regulators have found multiple examples of asset managers' environmental, social and governance claims not being consistent with their underlying investment strategy

Written by **Adam Cadle**

Fining asset management firms that engage in greenwashing has widespread support among European institutional investors, according to Cerulli research.

Eighty-five per cent of asset owners polled across seven markets favour fines for transgressors.

"Investors in the Netherlands and France are the most adamant that fines should be imposed," Justina Deveikyte, director, European institutional asset management research, said.

"All the Dutch and 97% of the French investors were in favour, while a much lower proportion of UK and Nordic respondents agreed."

Amid numerous accusations of greenwashing, investigations by regulators in some countries, including France and Sweden, have found multiple examples of asset managers' environmental, social, and governance (ESG) claims not being consistent with their underlying investment strategy. Yet, few managers across the region have been fined. Instead, most regulators have merely asked managers to alter ESG-related funds or website disclosures, according to Cerulli.

> "Investors in the Netherlands and France are the most adamant that fines should be imposed

However, the implementation of the Sustainable Finance Disclosure Regulation (SFDR) Regulatory Technical Standards (RTS) in January has raised expectations of more fines being issued.

Within the asset management industry, the two most common greenwashing practices, according to more than 50% of the European institutional investors Cerulli surveyed, are managers overstating or providing unclear messaging about the level of their commitment to sustainability and a lack of alignment between the product's sustainability name and its investment objectives.

Some 56% of the investors located in the Netherlands, France, the Nordics, Switzerland, the UK, Italy, and Germany, are either extremely concerned or moderately concerned about greenwashing. Levels of concern vary by market. For example, in the Netherlands, 80% of respondents are either extremely or moderately concerned about greenwashing, whereas in Germany, only 40% of institutions expressed such concerns.

French, Dutch, and Italian asset managers are most concerned by potential greenwashing allegations. Managers based in Switzerland are least concerned about such allegations.

Lack of ESG definition creates confusion, APPG warns in latest report

'Clearer rules and definitions required'

Written by **Adam Cadle**

The All-Party Parliamentary Group on ESG (APPG) has published its report on the definition of ESG and warns that confusion about the term risks the UK failing to accurately engage with the issues.

The *Defining ESG* report suggests that clearer rules and definitions are required as the term currently is "beset with confusion". In particular, a precise definition is needed as varied ESG-related finance products and ESG ratings become more mainstream. The report provides an overall definition of ESG and a set of principles, although not a set of metrics. The APPG also calls for the Government to launch an ESG strategy to maximise the benefits of ESG practices, while also strengthening the market in ESG-related products and services. The report backs using "relatively light" intervention to steer the adoption of ESG principles and frameworks onto a much stronger course and says that such a strategy would link together the existing policies and strategies. The APPG fears that current understanding of the term is used at times interchangeably with other issues.

“Current understanding of the term is used at times interchangeably with other issues

NZIA loses more members as insurers take fright at US political pressure

Swiss Re, Tokio Marine and Hannover Re among the latest names to leave

Written by **Adam Cadle**

Tokio Marine, MS&AD Insurance Group, and Catalana Occidente are among the latest insurers to leave the Net-Zero Insurance Alliance (NZIA), it has been revealed.

Some Republican politicians have mounted a campaign against financial institutions collaborating to try to curb carbon emissions, and a group of Republican attorney generals have turned their focus on insurers by accusing them of potentially breaching antitrust laws in the United States.

MS&AD Insurance Group said it would "continue our journey to achieve net-zero by 2050 with our stakeholders".

In a recent statement, the NZIA said "in light of the recent discussions within the United States, some members of the NZIA, particularly those with significant US business and exposure, have made the individual and unilateral decision to either remain or withdraw from the NZIA".

"As a voluntary initiative convened by the United Nations Environment Programme (UNEP), every company has the freedom to join or withdraw from the NZIA at any point in time and for any reason. Regardless of the situation, UNEP reaffirms its conviction ever since it initiated, convened, and launched the NZIA—that in order to successfully tackle the climate emergency, there is a fundamental and urgent need for collaboration, not just individual action."

People on the move

BRITTON VAN DALEN

Executive Director, Alpha FMC

Alpha FMC has announced it is launching a dedicated US insurance consulting offering, and has hired Britton Van Dalen as executive director to lead the firm's US insurance consulting business. Van Dalen has spent the last 17 years in Deloitte's insurance practice, and has worked in the industry for over 25 years, both for insurance companies and consultancies in the insurance market.

VANESSA WANG

Head of Asia Pacific, DWS Group

DWS Group has appointed Vanessa Wang as head of Asia Pacific (APAC). She takes over from Holger Naumann, who will return to Frankfurt as part of a planned retirement. Wang joined DWS as head of client coverage, APAC, in September 2021. Before this, she held senior leadership roles at Amundi where she was responsible for the institutional business in North Asia and the USA.

DANI HRISTOVA

CEO, Independent Investment Management Initiative

The Independent Investment Management Initiative (IIMI) has appointed Dani Hristova as its new CEO. Hristova joins from Nordea Asset Management where she was director, institutional distribution, and has also worked at Schroders Investment Management in the insurance and pension spaces, and Legal and General Investment Management.

RALF OBERBANNSCHEIDT

Global Head of Thematic Investing, Robeco

Ralf Oberbannscheidt has been appointed as global head of thematic investing at Robeco. He will oversee the further development of the active thematic investing offering. Oberbannscheidt will report to Mark van der Kroft, CIO fundamental and quant equity, and be based in Zurich. Oberbannscheidt joins from Global Thematic Partners, New York (GTP).

CHRIS PRICE

Director, Insurance Solutions, Muzinich & Co.

Muzinich & Co. has hired Chris Price to lead the firm's insurance channel in Europe. Price will work with Muzinich's institutional teams across the UK and Europe as well as with Lloyd Ayer, director of insurance advisory in the US. Prior to joining Muzinich he was an adviser to asset management, private equity and fintech firms, and before that he was head of insurance solutions UK at AXA IM.

SIMON TIGHE

Group Head of ESG, Chaucer

Chaucer has promoted Simon Tighe to become its group head of ESG, in addition to his role as group head of investments & Treasury. Tighe has played a crucial role in the development of Chaucer's major ESG initiative which it developed in partnership with Moody's. The ESG Balanced Scorecard enables businesses to measure their ESG performance, across up to 158 distinct metrics.

Opinion

On APAC insurers considering regulatory adoption as highest priority area

"We see regulatory adoption and ESG integration as high priority focus areas for regional insurers amid the current market conditions. The key to gaining a competitive advantage for regional insurers would be to move away from a reactive, compliance-driven mindset to a proactive one, leveraging RBC, IFRS 9/17, and ESG as strategic differentiation points. The rising digital savviness of customers and the limitations of the agent network in effectively pitching ILP products to target customers also suggests that insurers should further digitalise their ILP businesses."

Xiong Jian
Senior insurance solutions director
abrdn

On UK life insurers buying more illiquid assets to match their growing long-term liabilities

"The current weak economic outlook is eroding the credit quality of some illiquid assets, but we still see them as beneficial to insurers overall, as illiquid assets still deliver attractive returns and remain a good match for long-dated liabilities."

Helena Kingsley-Tomkins
Vice President & senior analyst
Moody's

On the effects of the SII framework for Mexican insurance

Fitch Ratings

"Overall the Mexican insurance market demonstrated its ability to maintain capital strength while withstanding the effects of the coronavirus pandemic and subsequent macroeconomic stress. Mexican insurance regulation is the most sophisticated in the region, with robust capital requirements, and Fitch classifies the country as a "group solvency" regulatory environment."

On EU watchdogs' assessment on greenwashing across the financial sector

European Securities and Markets Authority (ESMA)

"The assessment confirmed that misleading claims may relate to all key aspects of the sustainability profile of a product or an entity such as ESG governance and resources. Cherry-picking, omission, ambiguity, empty claims, misleading use of ESG terminology such as naming and irrelevance, are seen as the most widespread misleading qualities."

On Chinese equity funds attracting flows in Europe

Fabrizio Zumbo
Director
Cerulli

"The mixed outlook for China has arguably strengthened the case for active management, with investors believing they will benefit from more selective and flexible stock picking. Another trend has been the popularity of funds investing in China A-shares. These onshore equities are more domestically focused."

A war for expertise

WRITTEN BY **MAREK HANDZEL, A FREELANCE JOURNALIST**

Finding and integrating the right ESG staff could be hampering asset managers' efforts to improve their impact and responsible investing credentials

Is there an ongoing battle for ESG talent within the investment management industry?

Cerulli Associates certainly thinks so. In a study conducted of European asset managers for its latest financial services update publication, *Cerulli Edge & Global Edition*, the market intelligence firm has found that an estimated 61 per cent of asset managers across Europe believe that there is a war for expertise in the ESG sales domain.

ESG assets have increased significantly over the past few years. Cerulli Associates calculates that European ESG assets under management increased from €4,078 billion in 2018 to €6,942 billion in 2021, with net new flows increasing year on year during the period. And although ESG assets declined to €6,063 billion at the end of 2022, by February 2023 ESG assets had again increased to €6,340 billion.

As the ESG market expands and products gain in sophistication, regulators and investors are demanding greater transparency and requiring expertise from asset managers, particularly in areas related to sustainable development goals (SDGs). In response, managers are having to upskill existing employees or recruit talent. But investment firms are all struggling to some extent in this area, whether that be in initial recruitment, assimilation and implementation, or staff retention.

Not enough talent?

For a number of observers, the problem is not necessarily one of simple numbers.

"There's good talent out there," says Ian Povey-Hall, global head of sustainable finance and impact investing at Acre, which specialises in sustainability recruitment.

"But [clients] do need quite a lot of advice and consultation around who they hire, what they ask candidates to do, and then what sort of structure you place them in to to be able to do that. It's not a market where you can, for example, just pick ten people who are sustainable investment analysts and select the one with the best calibre. It's a more nascent market, there are a lot of nuances and the targets are constantly evolving in terms of physical risks and megatrends that you're trying to stay on top of."

Taking the City of London as a microcosm, Mark Holbrook, a director at AMC Executive Search, says that there has been a focus on four areas of recruitment for AMC in the last three years: regulatory change (in particular SFDR); client data and analytics; asset allocation (including impact investing); and governance and oversight. Each of these, he says, has their own characteristics when it comes to supply and demand.

"The wall of ESG recruiting that started five years ago in the city initially focused on governance and oversight, [as well as] data and analytics, and this has, perhaps unsurprisingly, lessened a little now, albeit demand for these people

is still high," explains Holbrook. "What is helpful with these [four categories] is that in the climate and TCFD [Task Force on Climate-related Financial Disclosures] groups there is an ongoing flow of individuals from a corporate and academic background into those functions. Likewise, for governance and oversight there has been a steady trickle [of candidates] that have audit or legal backgrounds that have been reinventing themselves and entering the industry. This gives the effect of balancing out demand and supply."

The real difficulty, argues Holbrook, lies in finding individuals that have proven investment capability and can deliver a genuine impact orientated investment strategy, whether that be as a strategist, portfolio manager, or other specialist type of role. These individuals remain in short supply. And in the real asset field, they are in an extreme shortage.

"The key is separating candidates who have an interest in ESG and candidates who have a more qualified experience and understanding of theory," says Holbrook's colleague, associate Adam Garrod. "Even then, candidates may have a theoretical understanding, but the ability to implement is harder to find."

Paul Young, a partner at the financial services executive search team within McLean Partnership, identifies communication as one of the main problem areas in SDG hiring in particular. "It's fine being academically very bright and having all the qualifications in whatever area of specialism you are in, but not every person coming from outside financial services knows how to talk to a fund manager, or to translate their knowledge in a way in which fund managers will understand," he says.

A recent climate environmental specialist search highlighted the problem for Young, where he and his colleagues identified 300 potential recruits from within and outside the financial services industry and ended up only selecting three that they thought had enough quality and the ability to engage with a fund manager on the same wavelength. This does not require new hires to be able to immediately plug in to all the jargon and cliches that dominate investment management discourse, however. Sometimes, says Young, it simply comes down to being able to view the landscape on "both sides of the fence". "[It means] being able to understand what a fund manager is trying to achieve and understanding the effect that decisions can have on funds and company share prices. Sometimes there is a disconnect there with talent coming from outside financial services being able to adjust."

"Not every person coming from outside financial services knows how to talk to a fund manager

Changing skill set

This communication barrier is being further exacerbated by the changing role of ESG within investment management houses.

As Povey-Hall points out, there has been shift of focus from "arts to science" when it comes to ESG roles. For some ten years or so, up to about 2016, those working in investment companies with an ESG remit were mainly "waving the flag", trying to encourage colleagues to take responsible investing seriously. Now, with everyone on board with ESG integration, there has been a flip from "observation to execution".

"Providing climate data analytics in time targets in response to model cashflows is quite a different skill from headline research and influencing senior management or trying to get people to start considering climate risks in portfolios," he says. "The skill sets required in this market has changed significantly, because there's elements of the function now that are more akin to classic investment strategy, as opposed to policy, thematic research, and advocacy."

Where are the candidates coming from?

The main issue with being able to fit into investment management settings for many candidates comes down to their background.

Plenty of investment management ESG staff now come from NGOs or think tanks as they feel they can gain closer access to the large amounts of capital being deployed and also be in a position to try and change behaviour at a corporate level. As Young says, the investment management sector is now a magnet for individuals who have perhaps worked in the United Nations or a similar type of NGO for a few years and gained experience on the ground, but are becoming frustrated as they struggle "to move the needle" from the outside.

Nevertheless this problem could gradually seep away. More professionals from financial services backgrounds are temporarily leaving the sector — either to study for a Master's degree or by going to work for a not-for-profit organisation, before returning to investment management once they have built up a whole new set of skills and a formidable knowledge bank.

Some recruits come from even more unusual fields, says Povey-Hall. "One of the sectors with the longest track record in social impact type investing in terms of human health and welfare has actually been the extractive industries operating in emerging markets. They have a population they need to be responsible for, in order to have a licence to operate. So sometimes you get surprised in terms of where you find pools of experience that they can be extrapolated in different ways.

"You have to look in a lot more different places than you would traditionally do in sourcing for these roles and then support organisations to actually transition those candidates."

Leading to greenwashing?

A case could be made that a lack of ESG talent within investment management is leading to an absence of meaningful impact investing, a slower-than-ideal perceived pace of portfolio decarbonisation — and a temptation to dabble in greenwashing.

> Correlation seems low between ESG ratings across providers

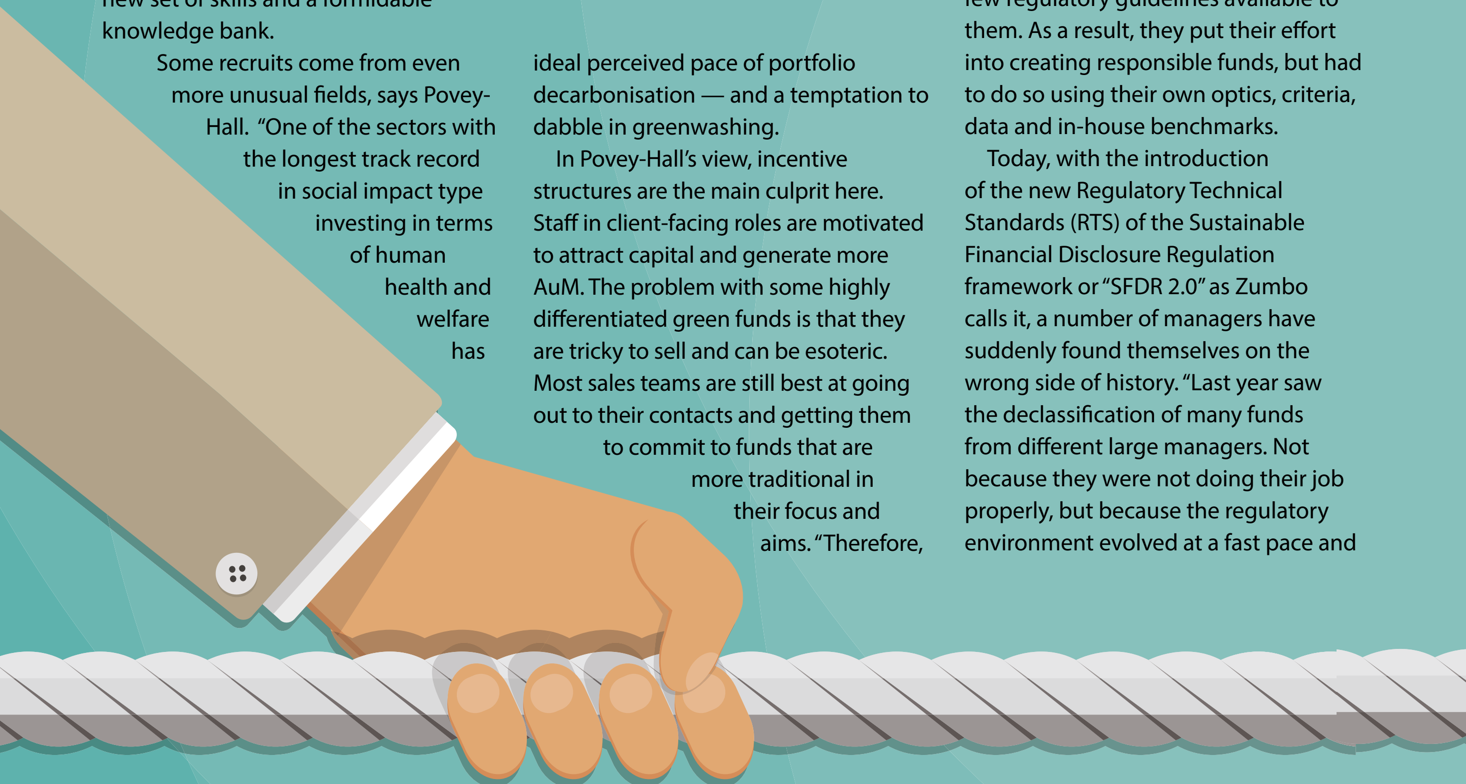
In Povey-Hall's view, incentive structures are the main culprit here. Staff in client-facing roles are motivated to attract capital and generate more AuM. The problem with some highly differentiated green funds is that they are tricky to sell and can be esoteric. Most sales teams are still best at going out to their contacts and getting them to commit to funds that are more traditional in their focus and aims. "Therefore, instead of building a really deep green decarbonisation product, some managers will construct a vehicle that is very similar to, for example, their normal global equity fund and then put an ESG screen on it and call it 'sustainable [or] ESG global equity'," he says.

"Thinking about how you incentivise and structure staff to develop and scale sustainable and impact investing focused funds remains a challenge."

For Fabrizio Zumbo, head of the European retail and wholesale asset management research practice at Cerulli Associates, it is somewhat unfair to throw the greenwashing label entirely at asset managers — even if that is technically what they have been found to be doing under a rapidly evolving regulatory regime.

The issue should rather be framed in a broader historical context. To start with, he says, when managers began building ESG vehicles, there were very few regulatory guidelines available to them. As a result, they put their effort into creating responsible funds, but had to do so using their own optics, criteria, data and in-house benchmarks.

Today, with the introduction of the new Regulatory Technical Standards (RTS) of the Sustainable Financial Disclosure Regulation framework or "SFDR 2.0" as Zumbo calls it, a number of managers have suddenly found themselves on the wrong side of history. "Last year saw the declassification of many funds from different large managers. Not because they were not doing their job properly, but because the regulatory environment evolved at a fast pace and



> One of the difficulties with impact investing is that the market is looking for proven investors who can build products in this area

the diverse methodologies they were using to classify Article 8 and Article 9 funds clashed with the new regulatory requirements."

On top of this, says Zumbo, the different ESG data providers with their own different data sets, models and methodologies have created further problems when it comes to standardisation. "If you look at a certain security on an ESG data provider it can be classified as being very green," he says. "But if you view the very same security on another ESG data provider it is not as great as you would expect it. Correlation seems low between ESG ratings across providers. Why? Because ESG is a concept based on values that are diverse and evolving. Standardisation could be problematic, and while financial reporting standards have matured and converged over the past century, ESG reporting is in its infancy.

"You can be a Catholic and I can be Islamic and our view on what is ESG, or what is sustainable or responsible, is completely different. For the French, atomic energy is sustainable and is responsible — for the Germans, it is not."

Disenfranchised

Whatever the truth is when attempting to correlate a lack of ESG talent with either deliberate or unintentional historical greenwashing practices, it is hard to argue that it will be easier to avoid falling foul of the regulators in the future with fewer appropriately qualified staff.

Recruiting the right personnel is only half the battle, however, says Young. Staff retention is also becoming an issue for some larger managers.

"We've had particular success moving some talented fund managers from the larger asset managers or some of the insurance-led asset managers to smaller boutiques," reveals Young. "This is because the large ones let so much bureaucracy and admin get into the day job, that the managers are really struggling to be custodians of their customers' money. They're not getting to spend enough time on the day job researching and analysing companies.

"We therefore find it far easier to get their attention of people who are very talented, particularly in the sustainable sphere, as they're not perhaps pure thoroughbred capitalists as those in other parts of the investment management industry may be. They do have a duty of care and their moral compass is high."

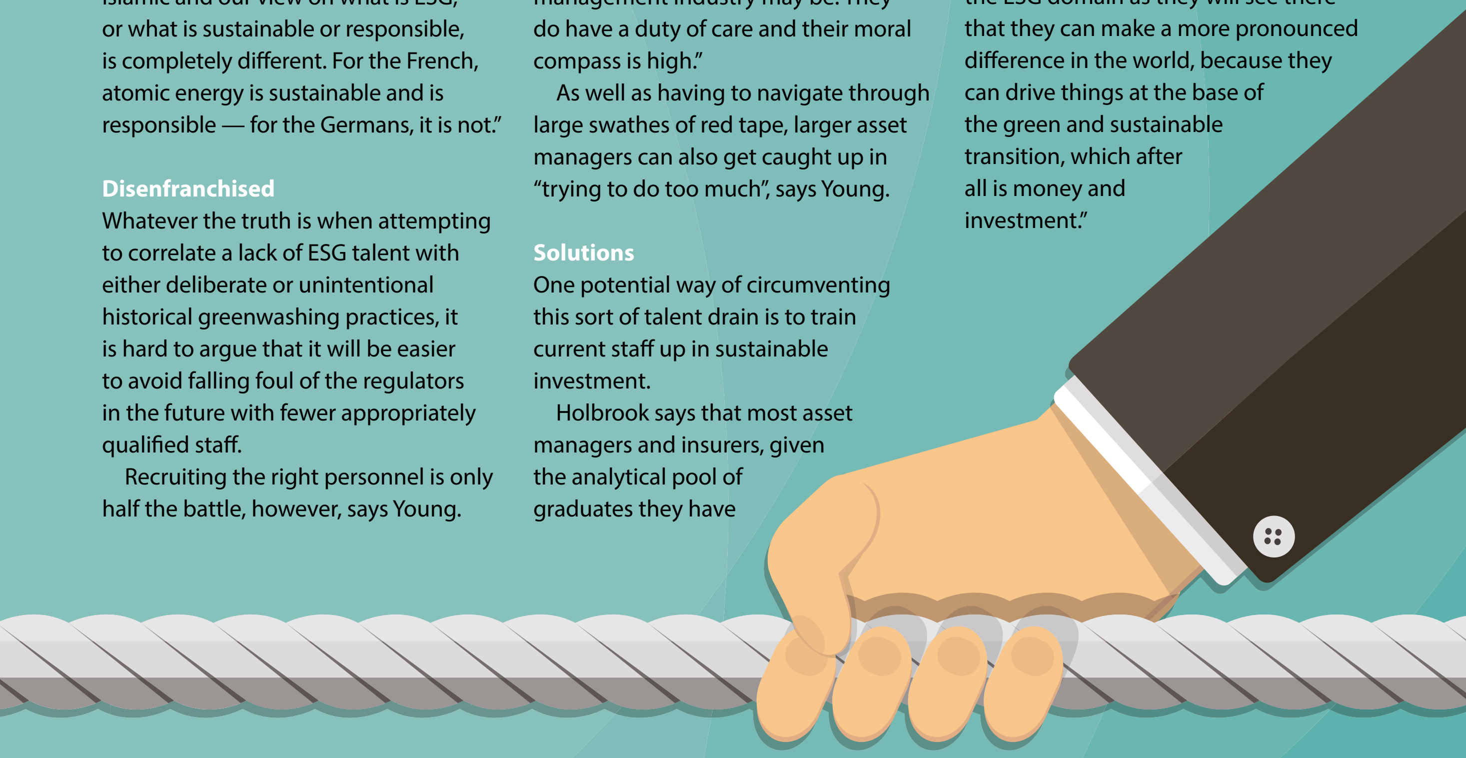
As well as having to navigate through large swathes of red tape, larger asset managers can also get caught up in "trying to do too much", says Young.

Solutions

One potential way of circumventing this sort of talent drain is to train current staff up in sustainable investment.

Holbrook says that most asset managers and insurers, given the analytical pool of graduates they have at their disposal, can train people up for governance and reporting focused roles, and, to a degree, investment focused ones. "But one of the difficulties with impact investing is that the market is looking for proven investors who can build products in this area, rather than junior portfolio managers who can be trained in sustainability," he says.

Zumbo believes that although demand remains larger than supply in some areas of ESG staffing, the situation will soon reverse itself. "ESG is becoming more important in society and the asset management industry, and there's a shortage of supply of the right people, thanks to this massive increase in attention to sustainability. More people will be attracted to roles at asset management companies in the ESG domain as they will see there that they can make a more pronounced difference in the world, because they can drive things at the base of the green and sustainable transition, which after all is money and investment."



> A rising rate period does not always produce significant losses in fixed income

Market commentary

Fixed income

Written by **Michael Griffiths**

After an extended equity market drawdown in 2022, investors are reassessing how to position their fixed income portfolios.

The macroeconomic environment in 2023 now creates some uncomfortable conversations for fixed income investors. Rising rates will hurt the asset class, but substantial allocations are beneficial during recessions. Rising rates may also favour lower-quality credits, but then recessions should supposedly favour higher-quality credits as defaults surge.

As managing director and head of public markets at bfinance, Mathias Neidert, comments, "market timing" may be important.

"Periods when US Treasury yields are rising tend to be accompanied by strong equity market performance, at least in their early phases," Neidert says. "In many cases, rising yields signal an improving economy, with the performance of fixed income securities historically appearing weak in these periods.

"However, a rising rate period does not always produce significant losses in fixed income, with a number of fixed income sub-sectors providing moderate to strongly positive returns during rising-rate periods, though the factors supporting performance are changing over time."

Neidert also highlights how investment grade often beats high yield during recessions, adding: "Investors during recessionary investing tend to favour higher quality, longer duration asset classes.

"Yet, historical data suggests that the performance of high yield bonds is not as bad as one might suspect. It is not necessarily true that this sector will suffer heavy losses during periods of economic decline."

Bonds have had a bad run recently, but if it's been a tough time for investors in US government bonds, their UK equivalents have arguably suffered even more. Gilts have underperformed and holders of the 50-year UK indexed-linked Gilt have suffered a capital loss of close to 30% since early April.

Chief economist (EMEA) at Columbia Threadneedle Investments, Steven Bell, suggests the switch from quantitative easing (QE) to quantitative tightening (QT) was "telegraphed" by central banks well in advance, and government yields then rose in response.

"I suspect central banks may speed up the pace at which they run down the stock built up by QE," Bell says.

For recent bond performance, he also highlights how the fears of an imminent recession following the string of US bank failures have since receded, as well as traders in the futures markets with long positions in government bonds being forced to cut their positions – selling bonds as yields rose.

"I think the recent rise in yields makes bonds attractive," Bell adds. "Yes, QT means more supply but the price has already adjusted and demand will come back, switching out of other financial assets. "In particular, that steep rise in UK indexed linked yields makes it very attractive for pension funds to lock in their funding."

A fruitful opportunity?

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

Lynn Strongin Dodds looks at the opportunities for insurers within real estate debt

European insurers, like many investors, are waiting on the sidelines, as markets gyrate over economic uncertainty and a regional banking crisis in the US. The ructions though are also creating opportunities in certain asset classes such as commercial real estate (CRE) debt where banks are retreating as refinancing is expected to escalate.

Non-bank institutions are no strangers to real estate debt. As Gareth Haslip, global head of Insurance strategy and analytics at J.P. Morgan Asset Management, notes, it is a popular investment among insurance companies across the globe because from a portfolio perspective, it offers a significant diversification opportunity since the majority of their investment portfolio is concentrated in corporate credit and equity risk factors.

"Adding real estate debt will improve their risk adjusted return," he adds. "It is particularly helpful for insurers looking to access illiquidity premium to enhance their competitiveness in pricing long term business such as annuities."

Charles Moussier, head of EMEA insurance client solutions at Invesco, agrees, adding that historically equity was the most common way investors sought to access the real estate asset class in EMEA, but debt has grown to play an equally important role.

"While some insurers see real estate debt as a way to gain exposure to real estate in a downside protected strategy with low correlation to real estate equity returns, others view it as a higher-yielding fixed income investment that has a complementary and accretive return profile relative to their broader fixed income portfolios thanks to the natural inflation linkage of the asset class," he says.

Solvency II

CRE debt is also treated favourably under Solvency II. In general, commercial real estate falls under the spread risk module of Solvency II, according to Haslip. He notes that for senior real estate loans, the underlying credit quality is approximately BBB, and the unrated factors have a slightly higher capital charge than if an internal rating were applied. "However, under Article 214 (or the collateral requirements) of the delegated acts, the insurer can apply a 50% reduction to the unrated spread factor if the underlying collateral is qualifying and the LTV (loan to value) of the loan is below 75%," he adds.

Haslip also points out that the collateral requirements are usually met for underlying real estate in sectors that are well diversified by business users which leads to a very capital efficient treatment under Solvency II. "For example, for a 10-year duration commercial mortgage loan with collateral meeting these criteria, the spread risk capital charge would be just 11.8% compared to 20% for a BBB rated corporate bond," he adds. "For mezzanine real estate debt, the capital charge is calculated in the same way except that usually the collateral would not meet the criteria for the 50% reduction factor."

Alexander Oswatitsch, head of real estate debt, Europe, at DWS explains that the current market environment offers an attractive risk-return potential across the capital structure with total returns of 5.5% plus for senior loan strategies, 7%+ for whole loans and 9.5%+ for junior loan or mezzanine They all benefit from increased base rates and credit margins as well as from being able to lend at more attractive debt metrics. In other words, lower LTVs based on today's property values.

Although insurers have a choice, most, given their conservative nature, will opt for the senior debt tranche because they are top of the fixed income value chain and are seen as safer. "Mezzanine is subordinate to the senior tranche, but senior to the real estate equity," says Dr Maarten Van der Spek, founder of Advisory Spek FZE. "As a result, it is less secure than senior, but more secure than the equity holder."

He believes though those with a greater risk appetite, may take a junior slice. His research shows that senior debt is like fixed income with a low 5-year average IRR and not much volatility. Real estate equity (70% levered) is very volatile and doesn't generate strong results when spreads are below 300 bps. Mezzanine, on the other hand, shows very strong returns, almost independent from the level of spread. Returns and risks are more in line with the underlying real estate portfolio and stay elevated when spreads are low.

> Today is an attractive time to buy into the real estate debt market, as CML spread levels relative to historic levels are elevated

"At current spreads, mezzanine is most likely to show the best next 5-year IRR, relative to real estate, senior debt or real estate equity," says Van der Spek, "Moreover, given all the expected refinancing issues, there will be ample possibilities to lock in new loans at high rates and favourable conditions."

The big question, of course, is whether now is the right moment for European insurers to take the plunge. There is no doubt that an impending wall of refinancing is on the horizon due to the continued fallout from Covid and hybrid working as well as higher interest rates, borrowing costs and lower expectations of capital appreciation. Many industry participants will be looking to these firms to fill the void that banks cannot fill. As from Christian Thompson, insurance solutions director, and Duncan Batty, co-head real estate finance M&G notes: "The trend of traditional bank lenders retrenching from real estate lending amid increasingly onerous regulatory capital requirements has continued, leaving a supply/demand imbalance and presenting an opportunity for deployment at scale."

Banks in general are facing impending Basel III regulation that will introduce a minimum capital floor, while in the US, regulators are looking to tighten the screws even further given the collapse of Silicon Valley Bank, Signature and First Republic which was the second largest failure in US banking history. Legislators are looking to repeal the 2018 law which would mean that banks with assets above $50 billion would once again be considered and regulated as "systemically important." The Trump Administration eased the 2010 Dodd Frank rules and raised that threshold to $250 billion.

The confluence of all these factors explains why many industry experts such as Jay DeWaltoff, head of J.P. Morgan Asset Management's commercial mortgage loan group, believe "today is an attractive time to buy into the real estate debt market, as commercial mortgage loan (CML) spread levels relative to historic levels are elevated. In conjunction, loans are being originated at lower leverage points with better structure, so these elevated spreads coupled with higher quality increase the risk-adjusted return potential of the loans."

He also notes that looking between asset classes, the gap between CML spreads and investment grade corporate credit spreads are wider than average, providing an opportunistic relative value entry point.

Moussier also points out, that the current market dislocation across the US and Europe is creating loan opportunities with historically attractive risk-adjusted returns. He says Inflation is moderating, but high interest rates are likely to persist well into 2024 which should allow lenders to originate new loans at historically elevated all-in yields.

"Capital markets are expected to remain pressured through 2023 with some repricing to continue as cap rates adjust to elevated debt costs," he adds. "This valuation reset should provide an attractive lending basis, with peak to trough values resetting 10 to 20% plus, on top of 35% or more equity subordination.

"LTV ratios and DSCRs (debt service coverage ratios) are healthier today than they were prior to the global financial crisis," Moussier says. "The post-GFC regulatory environment has resulted in an improved focus on fundamentals, more realistic underwriting assumptions, and better overall credit metrics. As a result, real estate credit markets are in a much better position relative to prior down cycles."

As for the most promising prospects, Thompson and Batty, believe there are compelling investment opportunities across sectors and countries albeit detailed analysis needs to be conducted with the individual risks appropriately mitigated and priced. They advise investors to not only understand the market dynamics but also the different loans and structures on offer.

They believe duration and tenor will dictate the relative attractiveness of opportunities. For example, historically the US real estate debt market has been dominated by 10-year, fixed rate loans while the continental European market has five-year floating rate loans; and the UK market five years with a combination of fixed and floating rate loans.

US and Europe

The US and Europe seem to be the favourite destinations. Distress levels for the latter are at their highest for ten years with real estate investment firm AEW estimating that around one in five loans backing CRE in the key markets of Britain, France and Germany that fall due between now and 2025 are likely to face funding challenges given higher interest rates. In value terms, the sector, which comprises multi-family residential, offices, industrial, and retail, is forecast to face a €51 billion debt funding gap through 2025 in these three countries.

Breaking it down, Germany, Europe's biggest economy, accounts for the largest slice at 46% or €24 billion followed by France at 29% share and Britain whose share fell to 25% from 33%.

> Real estate credit markets are in a much better position relative to prior down cycles

Alexander Oswatitsch, head of real estate debt, Europe, at DWS, is focusing on sub-sectors with strongest fundamentals, and rental growth such as urban logistics, resilient residential and student housing as well as next generation offices in Europe to manage and reduce downside risks. "In addition, we observe more and more US investment managers coming to the European real estate debt market with US capital which underlines the attractiveness of the European market," he says.

However, others believe the direction of travel will be reversed with European insurers turning to the US for better risk adjusted returns. In some ways there is greater need for alternative players, Overall, numbers crunched by Morgan Stanley show there is a staggering wall of $1.5 trillion debt set to come due before 2025. Office and retail are likely to be the hardest hit with valuations potentially falling as much as 40% from peak to trough.

"With tightening bank lending standards, there is less liquidity for new originations coming to market," says DeWaltoff. "While new loan origination volumes have been light year-to-date with continued rate hikes from the Federal Reserve, these should pick back up in the coming months as the Fed pauses. This will create opportunity for non-bank lenders to step in to provide liquidity at potentially very attractive levels."

Although European insurers have been active on the continent, looking abroad will be a new chapter for many firms. "Historically, most European insurers have been conservative and have preferred to invest in their domestic markets although there are a few national champions who are active across Europe," says Hans Vrensen, AEW head of research. "Germany is the biggest real estate lending market in Europe. We have started to see some distress there already, especially in the multifamily sector. But overall, the German market remains well capitalised with covered bond funded local banks and a difficult market to break into for overseas lenders. The US might offer more attractive opportunities because

> Historically, most European insurers have been conservative and have preferred to invest in their domestic markets

it typically reprices more quickly, and US regional banks could be in more near-term trouble as stock markets already price in the distress."

Moussier also points to the depth and breadth insurers can tap into. He says that, in total, the US CRE debt market, which is over $5 trillion, offers a large, dynamic and diverse market having grown 43% over five years. He cites data provider Trepp estimates showing there was approximately $862billion in CRE loans originated in 2022, a 15% increase from 2021 and an all-time record for CRE debt originated. There is also an estimated $2.6 trillion in loan maturities expected between 2023 to 2027, of which $1.4 trillion is from banks. Banks and thrifts comprise roughly 50% of US CRE debt market, with small banks and regional banks accounting for 80% of CRE bank loans. Insurance companies account for around 15%.

Sectors

In terms of sectors, Moussier is focusing on residential, including single family rentals (SFR), apartments, and manufactured housing communities. This is not only due to the continued strong fundamentals and liquidity but also it has been under supplied for decades, strong household formation from millennials, the affordability gap due to student debt and a significant gap between cost to rent versus own.

Industrial is also on his list due to strong fundamentals and liquidity as well as generally low vacancy/strong demand, continued focus on onshoring and growing e-commerce. Companies are also investing heavily in their logistics infrastructure.

Moussier would also advise European insurers to look at specialty sectors such as life science which benefits from high R&D and a focus on medical advances and new tech, solving viruses as well as medical offices which have a higher acuity tenancy next to or close to major hospitals. Aging demographic and higher quality tenancy should also be factored into the decision-making process.

DeWaitoff says they also remain underweight in the office sector and overweight multifamily and industrial properties. "In the US, multifamily demand remains strong as millennials remain renters for longer instead of purchasing homes," he adds. "Infill industrial properties have performed quite well, and we expect to see this trend continue."

Jeremy Keenan, US debt portfolio manager at PGIM Real Estate echoes these sentiments but recommends insurers take account of the regional differences and market dynamics across the country. Take multi family, Manhattan may look especially attractive due to strong rental growth and young professionals returning to the city while some Southeast markets are seeing rental growth slow and barriers of entry are lower.

Keenan also believes there are nuances in the industrial sector with the regional industrial markets like Northern New Jersey or Los Angeles being the most interesting as their large trade areas should be much more resilient to a slowing economy versus smaller markets that are captive to local demand drivers. The same bifurcation can be applied to retail which has been out of favour. He believes those that survived Covid and benefit from supply barriers are poised to perform well.

As for challenges, real estate debt is not that different from other popular asset classes which are in danger of getting overcrowded. "With a substantial amount of capital looking to enter the CRE debt market over any given period of time, the opportunity window for lenders to benefit from higher yields and/or more conservative structure/leverage tends to be shortened compared to prior periods, says Moussier.

A securer environment

Insurance Asset Management rounds up some of the major pension scheme de-risking deals that have taken place over the past couple of months

THE BRITISH STEEL PENSION SCHEME (BSPS) has agreed a £2.7bn buy-in with Legal & General (L&G), the fourth and final buy-in for the scheme, making it the largest scheme in the UK to have secured full insurance. The transaction covers the remaining 40% of the scheme's liabilities, meaning that L&G has now insured £7.5bn of the scheme's liabilities, securing the benefits of all 67,000 retired and deferred members. Following the latest buy-in, the scheme has also reached a funding level that will allow the trustee to make additional payments to members under the agreement reached when the scheme was set up. The deal follows three previous buy-in deals with L&G, with an umbrella contract set up in 2021 that allowed the scheme trustee to complete each transaction quickly and easily on pre-agreed contractual terms.

JUST GROUP has secured a £40m buy-in with the But Retirement Benefits Scheme. The scheme is now expected to proceed to full buyout and wind-up. The transaction covers all uninsured members of the scheme, securing the retirement benefits for 111 pensioners and 149 deferred members. Buck acted the lead transaction adviser, while the trustees received legal advice from Field Fisher.

AVIVA has secured a £900m buy-in with the trustees of the Thomas Cook Pension Plan, providing benefits at or in excess of Pension Protection Fund (PPF) levels for the scheme's 12,500 members. The buy-in and eventual buyout is expected to result in a better outcome for the vast majority of members than they may have expected after the liquidation of Thomas Cook, with no members to see any reduction in benefits. Having first entered a PPF assessment period on 23 September 2019 after Thomas Cook ceased trading, members' benefits were adjusted to PPF compensation levels with effect from this date. The scheme is now expected to exit the PPF assessment period "soon", with a buyout with Aviva expected to complete in the first half of 2025 once the plan has received all monies due to it from Thomas Cook's liquidation.

> "The buy-in and eventual buyout is expected to result in a better outcome for the vast majority of members

ROTHESAY has completed a £160m full scheme buy-in with the Repsol Sinopec Pension and Life Scheme. The scheme is sponsored by Repsol Sinopec Resources UK Limited, an oil and gas exploration and production company operating in the North Sea. The transaction secures the benefits for all members of the scheme which includes defined benefit liabilities for 141 pensioners and dependants and a further 306 deferred members.

The pension scheme sponsored by **BATT CABLES** has completed a £34m buy-in with Just Group, covering 193 deferred members and 71 pensioners. The deal between the insurer and the cable supplier and distribution company was completed in December 2022. It was structured to enable full de-risking upfront, with part of the premium deferred to provide required flexibility to the sponsor. Bulk annuity and consolidator advisory business K3 Advisory, in partnership with actuary and consultant Cartwright, supported the trustees in completing the deal.

JUST GROUP has secured a £190m buy-in with the trustees of the Ibstock Pension Scheme, meaning that all of the scheme's defined benefit (DB) benefits are now covered. The trustees received advice on the transaction from LCP, Buck and Addleshaw Goddard. The buy-in builds on a previous £340m buy-in transaction agreed with Just Group in 2020, which secured pension benefits for over 50% of the scheme's total liability. The deal was made possible amid the recent rise in gilt yields and attractive pricing in the second half of 2022, as the existing relationship meant both Just and the scheme trustees were able to move quickly to lock in terms.

ROTHESAY has completed a £1.4bn buy-in with the Safeway Pension Scheme, securing the benefits of more than 22,500 members. The buy-in, which required no contribution from the scheme's sponsoring employer, Morrisons, secured retirement benefits for 7,200 pensioners and dependants, as well as a further 15,300 deferred members. Aon acted as the lead broker on the transaction on behalf of both the trustee and employer, while legal advice was provided to the trustee by Clifford Chance and to Rothesay by DLA. The deal was completed through an accelerated process given the scheme's readiness as it came to market, which in turn helped the trustee to lock in security for members quickly when the opportunity arose.

THE SLEEPEEZEE RETIREMENT BENEFITS PLAN 1975 has agreed a £18m buy-in with Legal & General (L&G), securing the benefits of around 200 retired and deferred members. Included in the trustees' work in preparation for the transaction was aligning the scheme's assets more closely with the expected insurance pricing by transitioning into L&G Investment Management (LGIM) buyout aware funds. PwC was appointed as specialist adviser by the trustees and sponsoring employer for the transaction, while Hogan Lovells provided the trustees with legal advice.

The trustees of the **DEUTSCHE BANK DEFINED BENEFIT (DB) (UK) PENSION SCHEME** have completed a £400m bulk purchase annuity buy-in with Aviva, securing the pension scheme benefits for nearly 1,300 members. The buy-in will remove the investment and longevity risk of these members from the scheme, although members will experience no change in the amount of benefits they receive or the way in which they are paid as a result of the deal. The scheme trustees were advised throughout the process by LCP, while CMS Cameron McKenna Nabarro Olswang LLP provided legal advice. This tranche of scheme liabilities was completed under an umbrella contract, which is also expected to provide an efficient basis for future transactions.

Around the globe

Insurance Asset Management looks at the latest insurance developments happening around the world

1 German life insurers' average net return fell from 3.5% to 2.2% in 2022, latest figures published by BaFin have revealed. Lifers' investments rose to €1.1bn in 2022, and BaFin noted that rising rates meant "after years of declining profit sharing life insurers moderately increased their profit participation for the year 2023". BaFin also registered 10 of 79 life insurers using internal models, compared to four of 40 health insurers.

2 Helvetia has reported a STT ratio of 331% for the 2022 financial year, up from 260% on 1 January 2022.The insurer said the increase is due primarily to its good results in 2022 and the impact of capital market trends such as the rise in risk-free interest rates. Furthermore, the SST ratio also benefited from the sale of the Spanish life insurance company Sa Nostra Vida.

3 Talanx has seen its insurance revenue and group net income grow in the first three months of 2023. Insurance revenue for Q1 2023 was €10.7bn compared to €10.1bn in the prior-year quarter, and group net income increased by 31% to €423m in the same period. The net insurance financial and investment result before currency effects amounted to €330m compared to €388m in the prior-year quarter. Operating profit stood at €1,043m, while group net income rose to €423m from €322m. The Solvency II ratio as at 31 March 2023 was 212%.

4 Finnish pension insurer, Veritas, returned 1.6% on its investments in the first quarter of 2023, its quarterly report has revealed. Its return on equity investments was 2.4% and its fixed income investments returned 2%. Veritas also saw a positive return on its real estate investments (1.1%), although its return on 'other' investments was -0.6%. The pension insurer's solvency level was 1.7 times the solvency limit at the end of March.

> The pension insurer's solvency level was 1.7 times the solvency limit at the end of March

5 Storebrand's total assets under management reached an all-time high level in Q1 2023, amounting to NOK 1,111bn and an increase of 9% compared to the previous quarter. The solvency ratio was 179% at the end of Q1 2023, a decrease of five percentage points from the previous quarter. Capital creation in the period was offset by increased equity allocation and a higher symmetric equity stress adjustment, as well as lower interest rates, and capital return to shareholders. The solvency ratio continues to be above the threshold for overcapitalisation of 175%.

6 Swiss Re has reported a net profit of $643m in Q1 2023, compared with a loss of $248m a year earlier. The swing to a net profit was aided by higher prices and improved investment results. Analysts had expected a profit of $606m according to a consensus forecast. The company's return on investments was 2.8%, up from 0.7% a year earlier.

7 Direct Line's total investment return was £70.9m in Q1 of which £37m related to net investment income and £33.9m related to the movement in realised and unrealised gains. The annualised investment income yield was 3.2% as at the end of March 2023. The group's estimated solvency capital ratio on 31 March was broadly unchanged compared with year-end, as the majority of credit spread narrowing early in the quarter unwound during March.

Photo by: Roland Magnusson / Shutterstock.com

8 **MetLife's adjusted net investment income fell 8% to $4.6bn in Q1 2023 due to a string of high-profile bank collapses that hurt financial stocks. The company also said its board has approved a new $3bn share buyback plan, in a sign of "financial strength and balanced approach to capital management".**

9 Varma's return on its investments in January-March was 1%, compared to -1.9% a year earlier, with European and US listed equities performing best. The value of Varma's investments was €56.6bn on 1 January compared to €56.2bn year earlier. Listed equities recovered from the negative development observed in 2022 and returned 2.9% (-7.5%). US equities experienced the strongest development, with a return of 4.7%. The return on fixed income investments was 1.2% (-2.7%), private equity investments 0.7% (5.5%), real estate investments -0.8% (2.0%) and hedge funds -1.1% (2.1%).

10 Leading Dutch insurers' Solvency II ratios were around the 200% level at end-2022, mostly in line with the previous year, according to Fitch Ratings' Insurance Rating Criteria. Stable operating capital generation of about 20pp provided strong support for capital ratios amid volatile financial markets. Top Dutch insurers maintain SII sensitives within reasonable limits in Fitch's view, which contributes to the maintained capital strength of these companies. In 2022, SII ratios benefited from market fluctuations mainly through the strong increase of the SII volatility adjuster.

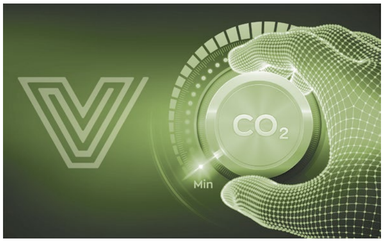
11 **Hong Kong multinational insurance and finance corporation, AIA, achieved a 31.4% decrease in the carbon footprint of its directly-managed, listed-equity portfolio in 2021, with performance recorded from 2018. It also recorded investments of US$8.6bn in healthcare bonds and US$3.6bn in ESG bonds, representing a 100% increase year-on-year, with plans for this to grow materially in the years ahead. Last October, AIA completed the divestment of directly-managed, listed equity and fixed income exposures to coal mining and coal-fired power businesses.**

Photo by: khairulhelmy / Shutterstock.com

A green world

Insurance Asset Management looks at the key sustainable/impact investment developments over recent months

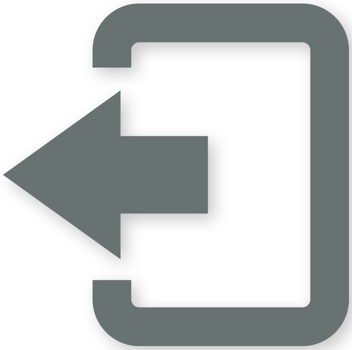
1 Vienna Insurance Group (VIG) almost doubled its green bond investment in 2022, with total investments rising from €436m in 2021 to €829m, according to its 2022 sustainability report. The investments in green bonds were listed alongside VIG's other sustainable, green or socially-focused investments amounting to €500m. The bulk of funds raised (43%) were invested in sustainable office and residential buildings.



2 Finnish pension insurer, Veritas, reduced its carbon emissions by 6% in 2022, its annual report and corporate responsibility report have revealed. Compared to the 2020 level, carbon dioxide emissions from the properties that Veritas owns have decreased by as much as 75%, according to the firm. The weighted carbon dioxide intensity of its investments fell by 19% during 2022. In relation to the 2020 level, the pension insurance company's weighted carbon dioxide intensity has decreased by 44%. Its report also revealed that Veritas' weighted carbon dioxide intensity in its investment portfolio was 24% lower.

3 German insurer, R+V, has joined the Net-Zero Asset Owner Alliance (NZAOA). R+V has already signed the Principles for Responsible Investment (PRI) supported by the United Nations (UN). R+V CEO Norbert Rollinger said: "By joining the NZAOA, we are underlining our commitment to be climate-neutral in its capital investments by 2050. In association with major insurers and pension funds, we are consistently committed to developing a climate-neutral economy worldwide."

4 Hannover Re has left the Net-Zero Insurance Alliance (NZIA). The reinsurer said it remains committed to its sustainability strategy, related goals and support for the Paris Agreement however. It said it also aims to achieve full carbon neutrality by 2050 at the latest. Swiss insurer Zurich also recently turned its back on the initiative.



> “ The insurance industry must mobilise to ensure that generations to come can enjoy a promising and sustainable future

5 Talanx Group (Talanx) is introducing additional restrictions on insurance for new oil and gas projects with effect from 1 July 2023. It said it will no longer provide insurance policies for new greenfield upstream oil and gas projects. In addition, it will no longer insure new midstream projects for pipelines and tank farms (new and stand-alone) that are directly linked to greenfield upstream oil developments. Talanx said it will also include insurance cover for any stand-alone oil-fired power plants which have not yet been under construction or operation as of 1 July 2023. In the Arctic region, the exclusion of new oil and gas drilling projects is extended to new covers for existing projects. Equally, the group will exclude deep sea mining project risks from underwriting as of 1 July 2023. A multi-state reduction path has been drawn up detailing the group’s withdrawal from thermal coal by 2038.

6 Canada’s largest insurance mutual, Beneva, has become the country’s first insurance company to join the Net-Zero Insurance Alliance (NZIA). It has also announced its goal of reaching net-zero emissions for its operations and its investments by 2040 and in all areas by 2050. “We are concerned by the impact of climate change, which is a growing risk for the environment, humanity and the economy,” Jean-François Chalifoux, President and CEO of Beneva, said. “The insurance industry must mobilise to ensure that generations to come can enjoy a promising and sustainable future. That’s why Beneva is proud to collaborate with the UN convened NZIA. The accomplishments stemming from this initiative will not only benefit our members, clients and partners, but they will also be shared with society.”

7 Swiss Life Asset Managers (Swiss Life AM) has acquired a majority equity interest in Powy valued at €84m, a leading independent owner and operator of electric vehicle (EV) charging infrastructure in Italy and Spain. Powy is currently operating over 400 charging points in around 150 different premium locations across Italy and Spain. "We are delighted to have gained the trust of Powy's founders and shareholders and are excited to support the company in its next phase," Gianfranco Saladino, head value-add infrastructure at Swiss Life AM. "Europe is experiencing a strong acceleration in the electrification of both private transportation and commercial fleets, driving increased demand for EV charging services in the years to come. We are excited to back the management team and support them in supercharging Powy's growth in their core markets and beyond."

> "Europe is experiencing a strong acceleration in the electrification of both private transportation and commercial fleets

8 German life and pension company, Alte Leipziger, is the first client to go live with SimCorp's latest taxonomy module. The module has been developed to assist financial market participants with their corporate reporting obligations for 2024, in accordance with the EU Taxonomy Regulation. Furthermore, it enables insurers, pension funds, and asset managers to comply with the new legislation by using SimCorp's pre-defined standards on their investment management platform, using data directly from their Investment Book of Record (IBOR) and utilising the capabilities of SimCorp's ESG Book of Record (EBOR).

9 Mirova and Robeco have partnered to develop a global database of 'avoided emissions'. 'Avoided emissions are emissions that are avoided by product innovations and which contribute positively to carbon reduction. The partnership will work with 11 other financial firms, including abrdn and Axa Investment Managers, to launch a call for expressions of interest to create a globally accessible common database of avoidance factors. The database will also provide an estimation of emissions avoided by companies over a wide investment universe of listed companies.

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Sustainable Investment Summit 2023

WRITTEN BY **MICHAEL GRIFFITHS**

The summit returned to update delegates with the latest views on sustainability within the institutional investment space

The annual Sustainable Investment Summit returned to the Waldorf Hilton, London, in March to once again provide institutional investors and corporates with the opportunity to discuss the latest steps in the transition towards a greener global economy.

Sessions covered many different angles of the sustainable investing space, from dealing with the energy transition, to introducing opportunities in the securitised market and in gold, to

covering the roles of stewardship and governance on climate-related issues.

The Summit once again provided all delegates with a valuable opportunity to both learn and network at an increasingly critical time for the world's financial ecosystem.

Returning to chair the conference for a second year in a row was Richard Howitt, whose experience as a strategic adviser on corporate responsibility and sustainability, business and human rights, again made him the ideal candidate to preside over the day's agenda.

Howitt kicked off the morning with an ice breaker session for each table, quizzing the room on what they believed would be the most prominent issue in the sustainable investment universe over the next 12 months. This threw up a host of different topics and themes, one of which would feature at several points throughout the day, the importance of data.

Reporting

Over the last few years, the investment universe has become more aware of the risks and opportunities associated with ESG integration. A fireside chat between Howitt and BlackRock head of EMEA sustainable client solutions, Ewa Jackson, explored how investors can leverage the toolkits available to them and how data can be used to overcome challenges.

"Reporting and transparency remain pivotal both to policymakers here in the UK and globally," Jackson said. "We see the Task Force on Climate-Related Financial Disclosures (TCFD), which has been adopted so broadly by companies globally, as a continued area of focus among asset owners in the UK.

"The focus now is to really increase the coverage of that TCFD reporting, data becoming more available in public markets, but now, increasingly data is becoming more available in private markets."

> "Now increasingly data is becoming more available in private markets

Jackson also revealed that at BlackRock, the globe's largest asset manager has developed partnerships with third party data providers, such as those that can provide real asset underlying data, as she emphasised the importance of the TCFD further.

"We can leverage these other data sets, look at the underlying emissions intensity of underlying assets, for the real assets to support the TCFD reporting that we provide for many of our clients, so the TCFD remains very important," she added.

"This coverage is ultimately dependent on the disclosures coming from companies, and encouragingly we're seeing an increasing uptake of companies globally. There are 11 recommended disclosures under the TCFD, and we are now seeing 60% of companies in Europe reporting to these disclosures, an uptick on previous years."

Another session was given by senior client portfolio manager at Pictet Asset Management, Adam Johnson, who discussed an interesting interpretation of the UN's Sustainable Development Goals (SDGs) that Pictet is using to

determine whether companies are worth investing in.

"At present, the best framework we have internationally are the SDGs, but they're not perfect for investors," Johnson said.

"We believe you should look holistically across all the SDGs. When we think about impact investing, we want to try and understand how a company's products and services are aligned to each and every SDG.

"We've created a natural language processing tool, that uses unstructured text to understand what a company does and then compares that against a large database of scientific language systematically, without the subjectiveness of an impact analyst sitting in a room somewhere. Using scientific literature, it can say whether a company's operations are good or bad on each and every SDG.

> We want to try and understand how a company's products and services are aligned to each and every SDG

"This systematic approach then allows us more time to carry out a proper deep dive and fundamental analysis of impact. We want to keep improving the tool, but it is making a fantastic start in our impact analysis.

"As investors when we look at this and improve our understanding of companies, we can then decide whether to focus on the good aspects and make these even better, or try to engage with the company to reduce the negatives, or do both."

Johnson added: "We want to help accelerate the transition to a global sustainable future, and as investors we believe that the way to do that is through engagement, to drive investor-led change.

"When people think about transition they often just think about the environment and climate, but actually for the global economy to transition, sustainability requires a much more holistic approach. It requires a delicate balance between the economy, society and the environment."

Stewardship

The themes of engagement and stewardship continued to emerge as a key focus for investors across the day. It was also mentioned in a session about decarbonisation from investment committee member and stewardship lead at National Trust, Alice Bordini Staden, as she outlined engagement as one of three steps required to conduct the transition to sustainability.

"We see decarbonisation as a three-step process," she told the room.

"On one side we must reduce emissions linked to our financial portfolio. Secondly, we need to invest in climate solutions, because it's not just a matter of reducing the emissions of the stocks and bonds we already invest in. And thirdly, we must engage. We work with a selected number of companies that we own through shareholding, and we work collaboratively with other investors."

Bordini Staden added: "Our approach is a combination of top-down and bottom-up, and is company driven. In our case, because of our aim to reach net-zero by 2030, we must go faster than others. We have a target to half the emissions in our portfolio by 2025, and then to further reduce by 2030.

"When we talk about decarbonising, we mean doing so by a bigger chunk at a time, because we still must be invested in the market. Being invested in the market, but only in companies aiming for net-zero by 2030, would be extremely limiting – for example we wouldn't be able to hold any sovereign bonds.

"All of this can be done by moving the investments we hold from emission intensive industries to less emission intensive industries."

Director of corporate engagement and deputy CEO at ShareAction, Simon Rawson, went deepest into the theme of stewardship, however. Rawson discussed a vast study that ShareAction has carried out on stewardship practices among the asset management universe and outlined the firm's expectations from investors.

"We asked specifically about which stewardship tools asset managers were using and the high-level takeaway from this is that managers, perhaps unsurprisingly, tend to shy away from using the tactics which are the highest profile and bring the most attention, such as things like profiling shareholder resolutions or writing public statements," Rawson said.

"These can, when used appropriately, be really impactful and we feel they're being underused. Most improvements from 2020 to 2022 related to transparency and general policies but less on the more specific actions.

"Another interesting point is that our research found the number of asset managers who have filed a shareholder proposal is just around 20%, a very small proportion I think, which contrasts to the proportion who say they have instead supported a shareholder proposal, which is nearly at 70%.

"There's a real tragedy of the commons there whereby you're always relying on somebody else to act, which is one of the reasons why this system is not moving as fast as it might."

Rawson also stated: "We're going to need to bring the whole of the system with us if we're going to reach sustainability.

"We see our mission at ShareAction about moving the investment system so that we are not exceeding our ecological boundaries and so that we are not undermining social foundations. We're not explicitly just interested in climate and green, but across the broad range of environmental and social issues where investments of business have impact."

Impact

Another hot topic in the sustainability space over the last few years, and one that also emerged in Howitt's morning ice breaker, is impact investing.

Policy and strategy director and joint interim chief executive at the Impact

> We're going to need to bring the whole of the system with us if we're going to reach sustainability

Investing Institute, Bella Landymore, gave a session in which she outlined how impact investing fits into the sustainable investment landscape.

Landymore dissected what the term really means, stating: "The term impact investing can get mired in technical detail and misunderstanding, and it can feel exclusive and hard to do.

"But we are talking about effects and things that can change as a result of an action or a circumstance. We are talking about positives and negatives, as well as all the effects arising from and impacting our investments.

"Impact investing is about taking a wide-lens view and trying to gain a holistic sense of the long-term risks and opportunities in the environment that

it impacts on your investments, and coming from your investments that it impacts on the environment, therefore potentially coming back to affect your investments. It's this circular approach, and not just a moral imperative."

Managing partner at WHEB Asset Management, George Latham, also discussed the role of impact investing in portfolios, and stated that a new economy is emerging, driven by a shift towards a low-carbon and sustainable future.

"Impact and sustainability are at the core of where we find value and how we invest," Latham said. "Our starting point is that we're taking a long-term macro view of what we think is happening in the global economy over the coming decades.

"We believe the transition to a zero carbon and sustainable economy will be the defining feature of the economy over the coming decades. It will influence and impact every company and every industry, and every sector of the economy will need to change in response to that transition, creating challenges but also opportunities.

"As investors, we're looking to align our clients' capital with companies that are actively enabling that transition to happen. We're not looking for companies that are just adapting to the transition, but those that are helping to create it and benefit from the growth markets to arise as a result."

He added: "We see allocating to the impact economy as a strategic decision to do something different and move away from companies that are exposed to the negative consequences of that transition coming through.

> The transition to a zero carbon and sustainable economy will be the defining feature of the economy over the coming decades

"Our sole focus is to only invest in companies where we can find a clear relationship between their unit sales growth and positive impact on society and the environment."

Opportunities

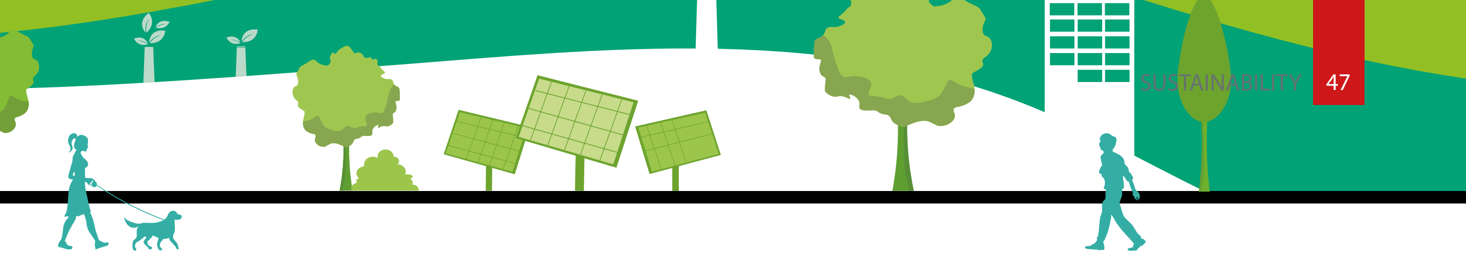
Amid all the talk to improve transparency and reporting, stewardship and engagement, and defining impact to ensure the investment universe can all be on the same page, the Summit did also provide several opportunities for speakers to discuss emerging opportunities across the sustainable investment space.

One of these was discussed in a session by ESG research – securitised and structured products at TCW, Malea Figgins, who told the room that the securitised market offers a growing opportunity set for ESG debt and ESG dedicated strategies.

"Because we are active asset managers, we're doing all this deal per view and underwriting on a deal-by-deal basis. We're looking for relative value first and foremost, and then we're thinking about the ESG considerations.

"Another important part about the securitised market is that it is collateral in nature. Where we don't benefit from having third party scorers, such as those in corporate credit and equities, we can actually look at the physical assets. For example, the green building certifications of a commercial property, or the solar panels that are being put on residential homes. We can underwrite all of that and look for these features across deals, whether they are considered ESG or not.

"In the US, the securitised market is worth around $11.6trn. It's a huge market. Of that, almost 75% is represented by agency mortgage-backed securities, which is a market that makes up the second largest



and most liquid market in the US, behind US treasuries. There's a lot of opportunities in this market alone, just based on size.

"However, within this market there are only four billion of labelled bonds, and most of these are in green bonds. That represents just a tiny part of the entire agency market, so there is lots of room to grow."

The Summit also welcomed back director, market relations and climate change lead at the World Gold Council, John Mulligan, who again addressed some of the key misconceptions about gold as an investible asset class, and discussed the key area in which the goldmining industry must focus to become more sustainable.

"We've previously looked in detail at what it will take for gold to decarbonise, and what it will mean for goldmining to transition," Mulligan told the room. "We've done this over several years looking at where the emissions come from and where in the mining process the emissions come from.

"More recently, we've looked in detail at 153 mines across the world, where their emissions are created, and what their plans are to transition and change those emissions. The story is one of energy.

"For goldmining to transition and decarbonise, it is very much wholly aligned with the rest of the economy. More importantly for goldmining, it needs to change how it generates energy because there often is no energy where mining occurs.

> "If goldmining decarbonises the way it powers its operations, this could have very significant catalysing effects on both a local and national economy

"It is often the big generator, which means of course if goldmining decarbonises the way it powers its operations, this could have very significant catalysing effects on both a local and national economy."

Towards the end of the day, another session dived deeper into energy, and the transition that surrounds it. Partner at Glennmont Partners, Scott Lawrence, said that while the energy transition appears "inevitable", the path is not fully clear.

He shared some key themes within the renewable energy space in Europe and the US, and their impact on the pace of the transition away from fossil fuels.

"Investing in the energy transition is not a bad place to be in the current marketplace," Lawrence told delegates. "In general, you can create strategies that yield upper single digits or low double digit returns on the credit side.

"The backdrop that governments and regulators are facing are firstly energy affordability, then we're seeing the course of the greater decarbonisation agenda, which is here in Europe but also globally, and finally energy security. Of course, there is a land war happening in Europe right now which has exacerbated it, but this is not a new problem.

"Europe has imported hydrocarbons for many years. Coal is on its way out, and with gas there is a limited supply left for the continent to import from places like Russia or other less stable places in the Middle East. Renewables, however, provide a counter to all these problems."

Lawrence then discussed the required amount of capital to fund the energy transition, and with a tone of optimism, added: "As an investor, how do you access this space? Historically, banks have been the prominent lenders in the space, and in the period between 2010 and 2020 there was roughly £550bn sitting on bank balance sheets, with some of those banks holding onto it and some of them letting it go.

"What is exciting is in terms of the infrastructure needs in Europe going forward, as a general point identified at European Union level, over €5trn is required. That is a tremendous amount of debt capital that is needed to build our European infrastructure needs.

"Energy will be a large part of that and when we talk about energy we mean the transition, so we mean investing in renewables and affiliate storage."

Current ponderings on industry themes

AM Best

On suggestions of wide variation in IFRS 17 impact on shareholders' equity

Life movements in shareholders' equity on transition to IFRS 17 are heavily influenced by the profile of profit over the duration of an insurer's policies under IFRS 4, the relationship of that profile to the new profile under IFRS 17, and finally the overall maturity of the policies on an insurer's balance sheet. All three of these factors can vary considerably in the life segment.

On Alpha FMC announcing launch of dedicated US insurance consulting offering

We look forward to mirroring what our colleagues have achieved in the UK and French markets, helping insurance clients with their complex transformation, technology, and change requirements.

BRITTON VAN DALEN
Alpha FMC executive director

EDWARD MONCREIFFE
HKFI chair

On the Hong Kong Federation of Insurers (HKFI) think tank releasing proposals to reinvigorate the country's status as an IIC

The Hong Kong insurance sector can contribute substantially to the national strategy, both as a major source of institutional capital and as a risk management centre of excellence. We hope to bring more international risks to be underwritten in Hong Kong and to attract global talents and deepen domestic career pathways. We stand ready to work with our supportive Government to reinvigorate Hong Kong's prominent status as an IIC with our pragmatic recommendations.

ELEANOR BUCKS
Lloyd's chief investment officer

On Lloyd's launching private impact fund with £250m initial allocation for sustainability-focused assets

This is a great example of the impact that insurers can have in addressing climate change and reflects Lloyd's convening role in leading the Sustainable Markets Initiative Insurance Task Force. The design of the fund is itself innovative, being open-ended in nature and categorised as an impact fund.

DANIEL MCHUGH
Aviva Investors chief investment officer, real assets

On Aviva UK Life investing £1.5bn in LTAF launched by Aviva Investors

As one of the largest investors in UK real estate we are thrilled to bring the Aviva Investors Real Estate Active LTAF (REALTAF) to the market. It represents the largest LTAF on offer today for wealth and institutional investors, and one we want to make the go-to fund of choice for investment in real assets. We are also pleased to have the backing of Aviva UK Life in creating a fund which we believe represents the future of real assets investing. Not only does this demonstrate our ability to innovate and provide new products to meet the evolving demands of the market, it also shows the confidence we have to consistently originate assets, at scale, whilst matching investors' underlying liquidity requirements.

On PIC purchasing £268m office pre-let to UK government property agency

Government-let commercial property assets are an important, on-going area of specific focus for PIC, and we are pleased to make this long-term commitment to supporting the greening and modernisation of the UK Government's estate.

JAMES AGAR
PIC head of long income

STEWART BENNETT
Columbia Threadneedle global head of alternatives

On Columbia Threadneedle and Aegon signing a £500m real estate deal

Alternatives is a strategic growth area for Columbia Threadneedle and its expansion matches our clients' increasing demand for less liquid, diversified investments. Our global real estate business remains central to helping us achieve our ambitions as we continue to extend the reach of our alternatives capabilities globally.

On the TNFD publishing final beta framework for risk management and disclosures

This fourth and final draft of the TNFD framework will provide market participants, for the first time, with a full representation of the core aspects of the proposed TNFD framework, including examples of additional guidance by sector and biome and a recommended set of disclosure metrics.

DAVID CRAIG
TNFD co-chair

ANDREW KAIL
Legal & General Retirement Institutional CEO

On L&G and Lifetri announcing Dutch PRT initiative

L&G has been at the forefront of the global PRT market for a number of years now and the proposed pension reforms in The Netherlands present an exciting opportunity for us. I look forward to working with the Lifetri and Sixth Street teams to put in place a relationship that will help them provide solutions for Dutch pension schemes to secure the long-term benefits of their members.