Insurance Asset Management

Spring 2023

Medvida
The firm's CEO talks acquisitions and insurance consolidation

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The key sustainable investment developments over recent months

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IAM CONFERENCE 2022
The latest and major discussions from industry professionals

Editorial Comment

Disagreement and confrontation are rife within the UK news sector at the moment. The amount of articles on the rift between Prince Harry and the Royal Family have been all too evident, but it is also the political world where we have seen discontent, along with the general UK population's dismay over a cost-of-living crisis.

The UK insurance space has not been spared this rather problematic atmosphere of late either, specifically with regards to Solvency UK. PRA CEO Sam Woods and BoE governor Andrew Bailey were grilled by the Treasury Select Committee recently over Solvency UK, and the PRA's view regarding 'fundamental spread' (in short, the PRA wanted insurers to factor in more risk associated with credit spreads and therefore bank less of the yield). This was previously rejected by Government, and unsurprisingly the Government has stuck to its guns in the hearing. The question is should the Government be doing a better job at keeping the PRA onside, as it's not always the best thing when your independent regulator is not wholly supporting you. Will Parliament ever give a wholescale endorsement of the reforms? Our cover feature (p.20) delves deeper into this area and examines whether a solution is likely to be found.

> Should the Government be doing a better job at keeping the PRA onside?

As 2023 is now fully underway, our second feature in this issue (p.26) looks at the asset classes and investment trends that insurers will be turning to over the next year to reap the highest possible returns particularly given the current inflationary environment.

Insurance consolidation is also another hot topic at the moment, and I am delighted to have spoken to MEDVIDA CEO Antonio Trueba for this issue, after the Spanish life insurance company completed the acquisition of CNP in Italy over the Christmas period. We ask Trueba about the processes behind this deal and the outlook for insurance consolidation in Southern Europe.

Our ever growing Insurance Asset Management Awards and conference were a resounding success at the end of last year, and we include an awards winners brochure and conference review in this issue for our readers. For the awards, in particular, it is always a pleasure celebrating the success of the insurance industry in all it does, given the tough economic circumstances.

As ever, I hope you enjoy the read!

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News focus

UK life insurance sector resilient to IST 2022 despite SCR coverage falling to 123%

General insurance industry's SCR coverage remains above 120% in all scenarios

Written by **Adam Cadle**

The UK's life insurance sector's solvency capital requirement (SCR) coverage fell from 162% to 123% under the PRA's Insurance Stress Test 2022 (IST 2022), with the general insurance sector's SCR coverage remaining above 120% in all scenarios.

Fifty-four insurers took part in the IST 2022 (16 life insurers, 17 general insurers, and 21 Lloyd's syndicates). The PRA market shock scenario is a severe stress reducing the participating life firms' aggregate capital surplus above the regulatory capital requirements from £34.2bn to £18.4bn (solvency cover reduction of 28 percentage points) through to Stage 3, during which firms were allowed to apply permitted management actions. In Stage 4, the longevity stress further reduces this

> Four firms saw their solvency coverage reduced to red solvency risk appetite or lower

surplus to £12.3bn (a further solvency cover reduction of 12 percentage points), after allowing for the benefit of existing reinsurance arrangements and, for some firms, further management actions.

The PRA said that despite the major life firms' solvency being resilient to the financial market shocks set out by the regulator, and none of the entities breaching its MCR, the main drivers of the change in the SCR coverage ratio at an aggregate level were equities stress, interest rate stress, spread widening stress, downgrades 30% 1 Credit Quality Step (CQS) stress, property stresses, management actions up to Stage 3, and longevity stress.

In total, four firms saw their solvency coverage reduced to red solvency risk appetite or lower, with one entity breaching 100% SCR coverage at Stage 3.

> Between £8bn and £9bn of liquid sub-investment grade assets were assumed to be sold by life insurers

Following the additional longevity shock at Stage 4, five firms were within or beneath their red risk appetite for solvency coverage, with two of them breaching 100% SCR coverage. The PRA said those entities would need to rely on material actions that were not permitted to be recognised as part of this exercise, including injections of capital to restore their coverage ratios to their target capital risk appetite.

The PRA also issued a warning around several firms relying on the ability to sell liquid 'BBB' rated assets following their downgrade to sub-investment grade and reinvesting the proceeds in investment grade assets in response to the stress.

"Overall, during the scenario, between £8bn and £9bn of liquid sub-investment grade assets were assumed to be sold by life insurers," it said.

"Most participants assumed in Stage 3 that they would be able to sell sub-investment grade assets within six to 12 months following the stress. In light of the aggregate finding, this could be optimistic, especially as other investors would also be taking similar actions. It is important that, when firms plan for the management actions that they could take in stress, they allow for market liquidity and potential stress amplification arising from actions taken by other investors. The market liquidity and stress amplification will change with the level of market stresses."

The IST 2022 scenarios were developed between August 2021 and March 2022.

News in brief

- The Tioxide Pension Fund has agreed a £430m buy-in with Legal & General (L&G) Assurance Society, securing the benefits of around 2,700 retirees and deferred members.

- Swiss Life has successfully placed three tranches of senior bonds totalling CHF 600m. The first tranche of senior bonds total CHF 200m with maturity in 2026 and a 2.04% coupon. The second tranche is also valued at CHF 200m with maturity in 2028 and a 2.2588% coupon, and the third tranche is for the same value with maturity in 2032 and a 2.61% coupon. The bonds were placed with investors in the Swiss franc market. The proceeds will be used for general corporate purposes, including future refinancing of outstanding debt instruments.

- Kooperativa poist'ovňa, part of Vienna Insurance Group (VIG), has purchased 100% of the shares in 365. life d. s. s. operated by 365.bank in Slovakia. The takeover is part of Vienna Insurance Group's VIG 25 strategy programme to intensify and expand its pension fund business. The acquisition has already been approved by the National Bank of Slovakia.

- Vietnam's life insurance industry is set to grow at a compound annual growth rate (CAGR) of 20.8% from VND159.2trn ($6.9bn) in 2021 to VND410.3trn ($17bn) in 2026 in terms of gross written premium (GWP), GlobalData has revealed. Forecasts also show that the Vietnamese insurance industry is projected to grow by 20% in 2022 and 20.5% in 2023.

PRA to launch thematic review into BPA risk management disciplines

Risk appetite for BPA deals increasing across life insurance firms

Written by **Adam Cadle**

The PRA is to launch a thematic review this year to seek assurance that associated risk management disciplines are keeping pace with any increase in bulk purchase annuity (BPA) growth ambitions.

In a letter sent to the CEOs of PRA-regulated insurance firms, PRA executive director, insurance supervision, Charlotte Gerken, and director, insurance supervision, Shoib Khan, said "the risk appetite for BPA deals is increasing across a number of life insurance firms".

In light of the multiple external uncertainties facing insurers, the PRA said "it is important to take proactive steps to assess the adequacy of their risk management and control frameworks".

"Firms should be able to respond to market and credit risk conditions different from those that prevailed for a long time. Firms need to be prepared for novel risks, changes in risk correlations, and increases in distressed assets. We expect firms to assess their credit and counterparty credit risk management capabilities in light of widening credit spreads, rating downgrades, and defaults."

> Firms need to be prepared for novel risks, changes in risk correlations and increases in distressed assets

The regulator also added that recent events such as the liability-driven investment shock have highlighted gaps in insurers' liquidity risk frameworks, further reinforcing the importance of sound risk management practices. "We expect insurers to test the resilience of liquidity sources to market dysfunction and to re-evaluate potential liquidity demands created by the use of derivatives for risk management."

IFRS 17 results not yet fully comparable, Fitch argues

Accounting standard not expected to significantly affect insurers' business models however

Written by **Adam Cadle**

Comparing insurers' IFRS 17 results will be difficult initially due to differences between companies' approaches under the accounting standard, which took effect for most insurers on 1 January 2023, Fitch Ratings has said.

Some companies incorporate an illiquidity premium into their discount rates based on their own asset mix while others use an illiquidity premium based on a standard investment portfolio. As a result, two companies with similar portfolios could report very different contractual service margins (CSMs), Fitch said.

The lack of a standard definition under IFRS 17 for certain key metrics also hinders comparisons, it added. For example, the market has not settled on a clear definition for the 'operating result' or for the non-life combined ratio.

Fitch said it expects IFRS 17 results to become more (but not fully) comparable over the next two years, with insurers, analysts and investors gradually developing enough confidence in the new accounting standard to use it as a basis for decision-making.

"In the meantime, we do not expect IFRS 17 to significantly affect insurers' business models – or their credit ratings."

> The lack of a standard definition under IFRS 17 for certain key metrics also hinders comparisons

US insurers' CLO holdings rise by 12% to $216bn

23% increase from year-end 2019 to year-end 2020

Written by **Adam Cadle**

US insurers held approximately $216bn in book/adjusted carrying value (BACV) of collateralised loan obligations (CLOs) at year-end 2021, an increase of 12% from $192.2bn at year-end 2020, latest figures published by the NAIC have shown. The latest figure is also a 23% increase from year-end 2019 to year-end 2020. Similar to year-end 2019 and year-end 2020, the Stress Thesis for the NAIC Capital Markets Bureau (CMB) and structured Securities Group (SSG) remains that the consequences of less stringent underwriting on the underlying bank loan collateral will result in substantially lower recovery rates during the next recession. The NAIC said US insurer investments in CLOs remain an insignificant risk. However, significant CLO exposure relative to surplus and concentrated exposures to atypical securities like combo notes and low-rated tranches are potential risks, particularly in a stressed environment, it added.

China's regulator identifies solvency data shortfalls at four insurers

CBIRC says it will deal with Zheshang Property & Casualty Insurance, Ancheng Property & Casualty Insurance, PICC Life Insurance, and AIA, in accordance with laws and regulations

Written by **Adam Cadle**

The Financial and Accounting Department of the China Banking and Insurance Regulatory Commission (CBIRC) has issued a 'Notice on the Inauthentic Issue of Solvency Data of Four Insurance Companies'.

Solvency data issues were found at Zheshan Property & Casualty Insurance, Ancheng Property & Casualty Insurance, PICC Life Insurance, and AIA.

Concerning Zheshang Property & Casualty Insurance, and the company's solvency report for Q1 2022, when calculating the minimum capital for the counterparty default risk of deposits, the basic factor selection was wrong, and the minimum capital was underappreciated by 8,076m yuan.

Furthermore, when calculating the liquidity coverage ratio indicator, the cash inflow and cash outflow forecasts under the basic scenario and the stress scenario did not include the cash flow that may be generated by stock asset transactions.

Other issues included inaccurate reporting of comprehensive risk rating data and incomplete solvency statements.

In the circumstances surrounding Ancheng Property & Casualty Insurance, some stock basic factors were used incorrectly, resulting in the under-accrual of minimum capital of RMB 1,566m and RMB 3,544m. There was also false reporting of comprehensive risk rating data.

PICC Life Insurance's minimum capital of interest rate risk was measured in violation of regulations.

For AIA, the firm's reinsurance system failed to amortise reinsurance claims of 18,272 yuan in time, and the reinsurance accounts receivable in the current balance sheet were understated by 18,272 yuan.

Record year predicted for DB de-risking market as 2022 demand spills over

At least £40bn in bulk annuity transactions and £20bn in longevity hedges predicted

Written by **Adam Cadle**

The defined benefit (DB) pensions de-risking market is expected to see one of its biggest years on record, according to analysis from WTW, with at least £40bn in bulk annuity transactions and £20bn in longevity hedges predicted to be completed.

WTW's report, *Shifting up a gear – de-risking report 2023*, suggested that the improved funding positions following the 2022 gilt market volatility, alongside some of the cheapest pricing in over a decade, means that 2023 could see a record volume of deals.

Furthermore, although past years have seen a slower start in the risk transfer market, with most deals transacting in the second half of the year, WTW predicted that the momentum from the end of 2022 will spill into early 2023 and lead to "a more even pipeline" of schemes looking to transact throughout the year.

However, WTW clarified that the reduced scheme liabilities are also expected to result in lower average liability values being de-risked compared to previous years.

Commenting on the report, WTW pensions transactions managing director Shelly Beard stated: "The bulk annuity and longevity hedging markets continue to be busy with demand from late 2022 spilling over into 2023.

"The rising gilt yields, along with improved insurer pricing due to widening credit spreads and improved longevity reinsurance pricing has resulted in some schemes seeing an improvement in buyout funding levels to the extent that buyout is now within reach much earlier than anticipated.

"We have also seen a significant increase in the number of full scheme buy-ins and this trend is expected to continue in 2023."

> Buyout is now within reach much earlier than anticipated

Indeed, Beard explained that the increase in gilt yields, widening corporate bond spreads, and improved longevity pricing seen in 2022 resulted in many pension schemes being closer to a full-scheme buy-in than expected, with this expected to be the "dominant type of transaction in 2023 and beyond".

US muni bonds ‘well-positioned’ for thematic ESG investing, PRI report says

> US municipal bonds are useful for fixed income investors seeking to contribute to sustainability outcomes

Some PRI signatories using muni bonds to align investment objectives with the UN Sustainable Development goals

Written by **Adam Cadle**

US municipal bonds are “well positioned” for investors pursuing a thematic ESG approach, the Principles of Responsible Investment (PRI) has said.

In its latest report, *The thematic ESG approach in US municipal bonds*, the PRI said muni bonds fund much of the US’s public services and infrastructure through providing capital to an issuer base including cities, counties, school districts, utilities, universities, and hospitals, and it is the “clear environmental and social implications” of these projects which make them “well-positioned”.

“US municipal bonds are useful for fixed income investors seeking to contribute to sustainability outcomes, since issuers of these bonds are crucial for the wellbeing of most Americans and also the transition to a low carbon economy,” said Jasper Cox, investment practices analyst, fixed income, at the PRI.

“This report will help market participants understand the potential of muni bonds for a thematic ESG approach, but also how investors still need to perform appropriate due diligence on both labelled and unlabelled bonds.”

Some PRI signatories are using muni bonds to align investment objectives with the UN Sustainable Development Goals, or, alternatively, exclude bonds linked to revenue from certain sectors, such as tobacco, according to data from the PRI’s Reporting Framework.

Investors can contribute to positive outcomes or reduce negative outcomes through investing in both labelled and unlabelled muni bonds.

The labelled muni bond market has grown rapidly, most of all through issuance of use-of-proceeds bonds, such as green, social, and sustainability bonds.

While less common, labelled bonds that link financial terms to project outcomes and sustainability targets have also been issued by some municipal entities.

European insurers in favour of EU's sustainability agenda – Insurance Europe

Insurance Europe also said it supports the inclusion of climate change scenario analysis in the ORSA, and investigating whether a differential prudential treatment for green or brown assets is justified

Written by **Adam Cadle**

European insurers are in support of the EU's sustainability agenda, Insurance Europe has stated, after the group published its views on the integration of sustainability risks in Solvency II.

Insurance Europe said that insurers are committed to continue to contribute, and to build upon their current actions, towards the transition to a more sustainable society and to play their role in achieving the targets of the EU Green Deal. Sustainability is a key element of the Solvency II review and Insurance Europe suggested that insurers are supportive of the changes that can help clarify how sustainability risks, including climate change risks, are appropriately integrated into the Solvency II framework.

Although requirements for insurers to integrate sustainability risks into their investment, underwriting and reserving are already a part of Solvency II, the industry is acknowledging the benefit of adding some further clarifications.

> “Insurance Europe is in support of regular reviews

In terms of the EU's risk-based proposals, Insurance Europe is in support of regular reviews, and updates where necessary, of the scope and calibration of standard formula parameters pertaining to climate-related natural catastrophe risk.

The group also said it supports the inclusion of climate change scenario analysis in the ORSA, as well as EIOPA's mandate to investigate whether a differential prudential treatment for green or brown assets, as well as assets with a social objective, is justified based on evidence of risk differentials.

"The industry supports transition plans, which a very wide range of companies, including insurers, will need to set up and disclose, as currently being foreseen in the cross-sectoral directives of the Directive on Corporate Sustainability Due Diligence and the Corporate Sustainability Reporting Directive," Insurance Europe stated.

Sustainability considerations a factor for nine-out-of-ten real assets investors

Diversification remains the primary driver for investing in real assets, however the ability of these strategies to provide inflation-linked income is increasingly driving allocations, research from 500 institutional investors shows

Written by **Adam Cadle**

More than nine-out-of-ten (93%) of global institutional investors actively consider ESG and sustainability in their real assets investment decisions, with 17% considering it a critical factor, according to new research from Aviva Investors.

The findings form part of the fifth annual *Real Assets Study* from Aviva Investors, canvassing the views of 500 institutional investors, with insurance companies making up the largest part of the research.

The study also revealed that two-thirds (64%) of institutional investors plan to increase their allocations to real assets over the next two years, with 23% planning to do so by less than 5%. The highest allocations are by investors in North America, where almost a quarter have greater than 20% of their portfolio in real assets, compared to 19% of European and 17% of Asia Pacific investors.

Whilst diversification remains the primary driver for investing in real assets according to 57% of respondents, the ability of these strategies to provide inflation-linked income is increasingly driving allocations. Aviva Investors' research revealed that 53% of respondents allocate to real assets for their ability to provide inflation-linked income, versus just 33% three years ago. With half of the institutional investors having a net-zero commitment in place, the study found 28% of respondents allocate to real assets to capture its positive ESG impacts, compared to just 17% three years ago.

> Real estate equity is the most popular among investors, representing 30% of allocations

Over the next 12 months, the difficulty of finding opportunities (53%), transaction costs, and valuations (both 50%) are considered the greatest barriers to increasing allocations to real assets. Respondents also consider greenwashing the biggest material risk (52%) to investment in sustainable real assets, ahead of concerns over valuations (44%). Illiquidity (69%) is the top concern for investing in real assets more generally, whilst valuation risk (57%) is also a big concern, especially for pension funds (61%). Looking across the different sectors within real assets, real estate equity is the most popular among investors, representing 30% of allocations. This is down from 31% two years ago and is expected to remain at the same level over the next two years. In contrast, infrastructure equity is gaining traction.

Dutch insurers reduce absolute carbon footprint of equity portfolios by 40%

Total equity portfolios at €15bn

Written by **Adam Cadle**

Dutch insurers reduced the absolute carbon footprint (financed emissions) of their equity portfolios by 40% between 2017-2020, according to analysis published by De Nederlandsche Bank (DNB).

While this decrease is partly due to investment portfolio reallocations, for example by investing more in cleaner companies instead of high-emission firms, its main cause is the fact that investee companies have reduced their carbon emissions by investee companies.

The total equity portfolios of Dutch insurers amounted to €15bn in 2020 including equity investments through investment funds.

The companies in which insurers invest follow wider trends: although emissions did not decrease globally over the period 2017-2020, falling carbon emissions can be seen in the European Union, the United States and Japan, countries where Dutch pension funds and insurers invest the most. Part of the drop in carbon emissions at companies in the last year of the analysis (2020) can probably also be ascribed to COVID-19-related effects, the regulator stated in its analysis.

> This decrease is partly due to investment portfolio reallocations

Nippon Life to commit further $1bn in Resolution Life

Investment follows strategic partnership between Resolution Life and Blackstone

Written by **Adam Cadle**

Nippon Life has agreed to invest an additional commitment of $1bn in Resolution Life – a global life and annuity insurance consolidation business – following the recently announced strategic partnership between Resolution Life and Blackstone.

Since 2019, Nippon Life has been the largest investor in Resolution Life, supporting its growth through eight transactions to a company with $80bn of reserves and three million policies under management across three international platforms. Having invested $650m so far, this additional $1bn commitment from Nippon Life is expected to bring its cumulative investment to $1.65bn.

Nippon Life believes that the strategic partnership between Resolution Life and Blackstone will accelerate the growth and development of Resolution Life. Under this partnership, Blackstone has become Resolution Life's investment manager for certain key areas, including directly originated assets across the private credit, real estate and asset-based-finance markets.

People on the move

NICHOLAS LIOLIS

Chief Investment Officer, Guardian Life

Guardian Life has announced that Nicholas Liolis is joining the insurer as chief investment officer (CIO). He will be responsible for investment policy and strategy. Since 2015, Liolis has held the position of executive vice president and CIO at Teachers Insurance and Annuity Association of America (TIAA) where he managed a $290bn general account portfolio.

TATJANA HELBING

Chief Investment Officer, Zurich Group Germany

Tatjana Helbing has joined Zurich Group Germany to become chief investment officer (CIO). Helbing succeeds Lutz Honstetter, who left the Zurich Group Germany in September and moved back to Switzerland. She has held various positions at Deutsche Bank from 1998 to 2005, and this was followed by five years as senior portfolio manager at Gothaer Asset Management.

GÜNTHER THALLINGER

Chair, Net-Zero Asset Owner Alliance

Günther Thallinger has been re-elected as the chair of the UN-convened Net-Zero Asset Owner Alliance (NZAOA). He will remain as chair of the Alliance for the next two years. The NZAOA is a member-led initiative of 83 institutional investors, with over US$11trn in assets under management, committed to transitioning their investment portfolios to net-zero greenhouse gas emissions by 2050.

ROB JUDSON

Associate, Muzinich & Co.

Muzinich & Co. has appointed Rob Judson to its UK private debt team, covering the North of England. Judson joins Muzinich & Co. from Barclays' corporate banking division, where he was a relationship director and responsible for originating new business and supporting the structuring and execution of debt transactions in the technology, media and telecoms sectors.

TIM CORBETT

Chief Investment Officer, MassMutual

MassMutual's chief investment officer, Tim Corbett, is to retire after successfully leading the company's investment strategy and overseeing its General Investment Account (GIA) for the past 12 years. Eric Partlan, head of portfolio management, will succeed Corbett. Corbett joined MassMutual in 2011 and during this time built a leading investment management model and team.

JOSH PANTON

Credit Investment Director, Schroders

Schroders has strengthened its fixed income team with the appointment of credit specialist Josh Panton. Panton joins as a credit investment director, based in London, and will work closely with Schroders' global credit investment platform in collaboration with its international distribution network to deliver innovative global credit investment strategies.

Private credit – a Nordic approach

Advertising Material

Dani Hristova

Growth in Private Credit

Allocations to private credit have become increasingly popular and appetite does not appear to be waning, despite continued market volatility. Return potential, favorable Solvency II treatment and the vast funding gap of the UN's Sustainable Development Goals have played a role. Insurers and asset managers must work together to build portfolios factoring in both regulatory change to the treatment of private assets, but also ESG. With Central Banks pushing rates higher to combat inflation, having access to private assets which provide an attractive spread uplift over publicly-traded credit on a capital adjusted basis is vital in securing competitive advantage in a turbulent market.

Why the Nordics?

There are systematic differences to the rest of the pan-European market which favours the specifics of the Nordic private assets universe. Regarding access, it is mainly a bank driven market hence direct lending penetration is still relatively low. Benefitting from a long history and a leading pan-Nordic coverage of corporates, institutions and sponsors, Nordea can source high quality loans leaving behind less attractive opportunities. Specific to the loan market, Nordic countries have lower levels of non-performing loans and advances, and better recovery rates relative to other European countries. With attractive risk/return opportunities and a strong ESG agenda, the Nordics could have a lot to offer[1] .

Nordea Prime Loan STARS (PLS) strategy

Nordea's Private Credit franchise has emphasized coverage across three different verticals: Real Assets loans, Sponsor-backed loans and Global Private Credit Fund of Funds. The PLS strategy is an evergreen solution and part of our STARS product range which combines detailed ESG analysis with an aim to generate alpha[1] . PLS is an investment program including private, first lien senior secured loans backed by real estate and infrastructure assets serving as collateral, targeting a spread of c.175-300bps above EUR IG Corporate Bonds. From a Solvency II perspective, the strategy benefits from a reduced SCR, owing to the implied IG quality, the asset backed nature of the loans and LTVs all below 70% (equating to around 7-8% SCR capital charge).

Why Nordea?

With fifteen years of experience in managing illiquid assets and our unique access to the Nordics, Nordea can be considered an experienced and trusted partner. Our robust ESG investment philosophy puts us in an advantageous position to create long lasting partnerships while generating alpha with responsibility utilising the unique sourcing of Nordea Bank to access otherwise non-accessible credit investments[1] .

Opinion

On Just Group completing an £8m buy-in with the Veitchi (Holdings) Limited Retirement Benefits Scheme

"It is pleasing to see our bulk quotation service in action and delivering what clients need. This service provided reassurance that the transaction was affordable and enabled the trustees, working with Broadstone, to rapidly transact with us. We are committed to working with schemes of all sizes and we are delighted to have been selected by the trustees of the Veitchi (Holdings) Limited Retirement Benefits Scheme for this mandate."

Harriet Fallows
Business development
Just Group

On the NZAOA's updated Target-Setting Protocol

"The UN-convened Net-Zero Asset Owner Alliance continues to enhance depth and coverage with each edition of the Target Setting Protocol, aiming to build a coherent, consistent trajectory aligned to the demands of latest climate science. We show that working towards net-zero is possible. It is a matter to decide to do so."

Hanna Kaskela
Director of Sustainability
Varma

On Aspen joining UN PRI

Aileen Mathieson
CIO
Aspen

"The six Principles for Responsible Investment align closely with Aspen's ESG strategy and will provide an important framework for factoring in ESG issues into our investment analyses, processes, policies and practices for those asset classes where we are able to do so. We look forward to growing investor interest in practicing responsible investment in support of a more sustainable society."

On the UK's FCA cracking down on greenwashing

Camille Blackburn
Director of wholesale buy-side
FCA

"Our supervisory activities will focus on the governance structures that oversee ESG and stewardship considerations, and we will test whether firms deliver on the claims made in their communications with investors. We will particularly focus our supervisory activities on outlier firms that have been identified in previous supervisory activities or other ongoing surveillance."

On Rothesay securing a £762m buy-in for Morrisons

Róisín O'Shea
Business development
Rothesay

"The demand for de-risking is the strongest we have ever seen and our significant capital surplus, combined with our ability to operate at speed while delivering bespoke solutions, means we are very well-placed to help schemes provide pension security for their members in this very busy market."

Sparring partners

WRITTEN BY DAVID ADAMS, A FREELANCE JOURNALIST

The UK Government seems to be winning its battle with regulators over loosening solvency rules for insurers investing in risky, illiquid assets. David Adams looks at the debate surrounding the future form of Solvency UK

In a somewhat understated, rather British way, the UK Government (in the form of His Majesty's Treasury) and two of its most important regulators, the Prudential Regulation Authority (PRA) and the Bank of England, have been fighting. The subject of their quarrel is the development of Solvency UK, the UK's post-Brexit version of Solvency II.

The two sides' differences centre on the Treasury view that insurers should be able to invest in long term, productive, but illiquid assets that will help the UK to revitalise its ailing economy and infrastructure. The PRA estimates that loosening capital rules in this way could release up to 15 per cent of the capital that life insurers are holding – tens of billions of pounds, possibly £95 billion. For example, Aviva has said that the proposed reforms could increase its capacity to invest in these sorts of assets by £25 billion over ten years. But the regulators are concerned that without adequate capital being used to cover those risks, insurance policyholders – in particular annuity holders – will be exposed to unacceptably high risks.

A consultation process and ongoing debate continued throughout most of 2022, with insurers and reinsurers expressing enthusiasm for the proposed reforms, while regulators raised concerns. In November, the Government confirmed that it would move forward with the reforms – but in a different form from the proposals outlined during the consultation process. It now proposes reducing the risk margin, the capital buffer held by insurers under Solvency II rules: by 65 per cent for life insurers and 30 per cent for general insurers.

But the Government does not propose any major changes to the current fundamental spread methodology, which governs risk assessments of assets insurers hold, and is used to set deductions from future returns on those assets that are then held in capital to cover the risks. During the consultation it had been suggested that fundamental spreads could be made more sensitive to changes in credit spreads, but this will not now be the case. However, the PRA will be granted some flexibility to increase the fundamental spread in some circumstances.

Finally, the assets that insurers can use within matching adjustment portfolios, which match long-term liabilities with cashflows from long term assets, will be expanded. Insurers will be able to invest in longer term assets, including prepayment risk and construction phase infrastructure; and in assets deemed to have "highly predictable" cashflows, even if those cashflows are not fixed. There will also be less onerous capital rules for holding sub-investment grade assets within Matching Adjustment portfolios.

"There are positives, in terms of flexibility to write new business and potential long-term earnings generation – but with the caveat that reducing borrowing requirements does lead to the risk that companies will take more risk, or will reduce the amount of capital they hold through distributions," says William Keen-Tomlinson, vice-president and senior analyst at Moody's.

A reform package that "increases risk"

One reason for the regulators' concern is that the fundamental spread is too low, meaning that insurers' fundamental spreads might not be based on a sound assessment of the share of future returns that can really be considered to be risk-free.

"The PRA sees the fundamental spread as being too low, meaning

> "If you cut the risk margin and do nothing about the fundamental spread, that increases the riskiness of the sector

insurers are holding too little capital against investments," says Keen-Tomlinson. "The PRA proposed an add-on that would have neutralised the risk margin benefit. But the Government did not accept the PRA's proposal, so the reduction in the risk margin has been kept and the matching adjustment maintained largely in its current form."

"There do seem to be some variances in prioritisation," says David Burton, EMEIA insurance partner at EY. "The Treasury appears to be primarily focused on the investment side of things: supporting the real economy, the levelling up agenda and Net Zero, with insurance investment a key part of that. For the PRA and the Bank of England the primary objective appears to be more around policyholder protection and the level of capital insurers hold."

In mid-January the regulators outlined their views at a House of Commons Treasury Committee hearing. Sam Woods, deputy governor for prudential regulation at the Bank of England and CEO of the PRA, did not mince his words, telling the committee: "if you cut the risk margin and do nothing about the fundamental spread, that increases the riskiness of the sector. I think it would be unwise to try to put a precise number on it, but it is a material, if not a huge increase."

The reform package as a whole, he said "increases risk" … The Government is doing that because … [it] … believes that will also aid growth and that is a trade-off that the government has made." The way this proposed change "comes home to roost", he added later, "is if there is not enough capital backing pensions".

However legitimate the regulators' concerns might be, the outcome of their battle with the Treasury is almost certain: the Government will probably get its way. But the full details of how Solvency UK will work are not yet clear and will only become clear following further wrangling between the Treasury, the regulators and the insurance industry.

And although the Treasury's view is very likely to prevail, another consequence of the proposed reforms is that the PRA will be given new tools that it will be able to use to compel insurers to manage risks more effectively. These tools will include regular stress testing of individual firms and the ability to publish the results of those tests; and a requirement for nominated senior managers to formally attest that residual credit risk is not incorporated within the claimed matching adjustment.

Limited change?

Willis Towers Watson director Anthony Plotnek sums up the current situation as one in which the insurance industry appears to have got what it was asking for, in terms of greater flexibility in the assets in which it can invest and a range of opportunities for investment and for cultivating new business opportunities in the annuities and bulk purchase annuity transaction markets.

In a note published after the November announcement, Moody's concluded that the changes would have a positive effect on life insurers' earnings, because the loosening of the capital rules would increase insurers' capacity to write bulk purchase annuity business, as well as delivering additional flexibility in investment strategies.

But it also suggested that insurers' investment strategies were unlikely to change significantly, with investment in illiquid asset classes "likely to be cautious because of higher risk-free rates and unfavourable macroeconomic conditions".

It is true that the world has changed since these reforms were first discussed more than 12 months ago. Interest rate movements and volatility in the financial markets during 2022 may already have effectively reduced insurers' risk margins significantly, perhaps by 50 per cent from the levels seen in early 2021. That may mean that the Solvency UK reforms only actually reduce overall capital requirements for bulk annuity insurers by a small amount.

> “The Treasury needs to work with the regulators on the details of implementation

Plotnek suggests that because many insurers use assets outside the UK and reinsurance to manage longevity and solvency risks, the UK-focused reforms may not have a significant material impact. "They were reinsuring that risk, so while a lay person might see a 65 per cent reduction as a big change, it isn't as big as they might think, because of the way those insurers use reinsurance," he says. "Annuity firms are unlikely to see a big change in solvency coverage as a result of this reform."

He adds that while many insurers are "quite bullish on this … talking about billions in investments coming from these reforms … it isn't obvious to me what the reforms are doing that would generate that additional investment." Nor does he expect changes to the rules around holding sub-investment grade assets to make much difference. "I wouldn't expect insurers to shift to holding large proportions of their assets in sub-investment grade," he says.

Time and punishment

At this point, neither the final form of the Solvency UK regime nor the timetable for its implementation are yet clear.

"As to what will happen next, we're still not quite sure," says Plotnek. "The Treasury needs to work with the regulators on the details of implementation: over what will fall under legislation and what will fall to the PRA to consult on. We don't yet have a date for when that consultation will be."

He points out that the Chancellor of the Exchequer, Jeremy Hunt, mentioned the Solvency reforms in his January speech setting out the Government's current economic priorities. That suggests an intention to bring legislation forward at some point during 2023. A statutory instrument would then be tabled to set out the full details of Solvency UK.

It is not yet clear which elements of the new regime will be left for the PRA to define. For example, it might be permitted to redefine the risk margin. Speaking off the record, one expert industry observer says the Treasury appears to have been asking insurers for assistance in defining predictable cashflows. This might suggest this element of the reforms will be put into the statutory instrument.

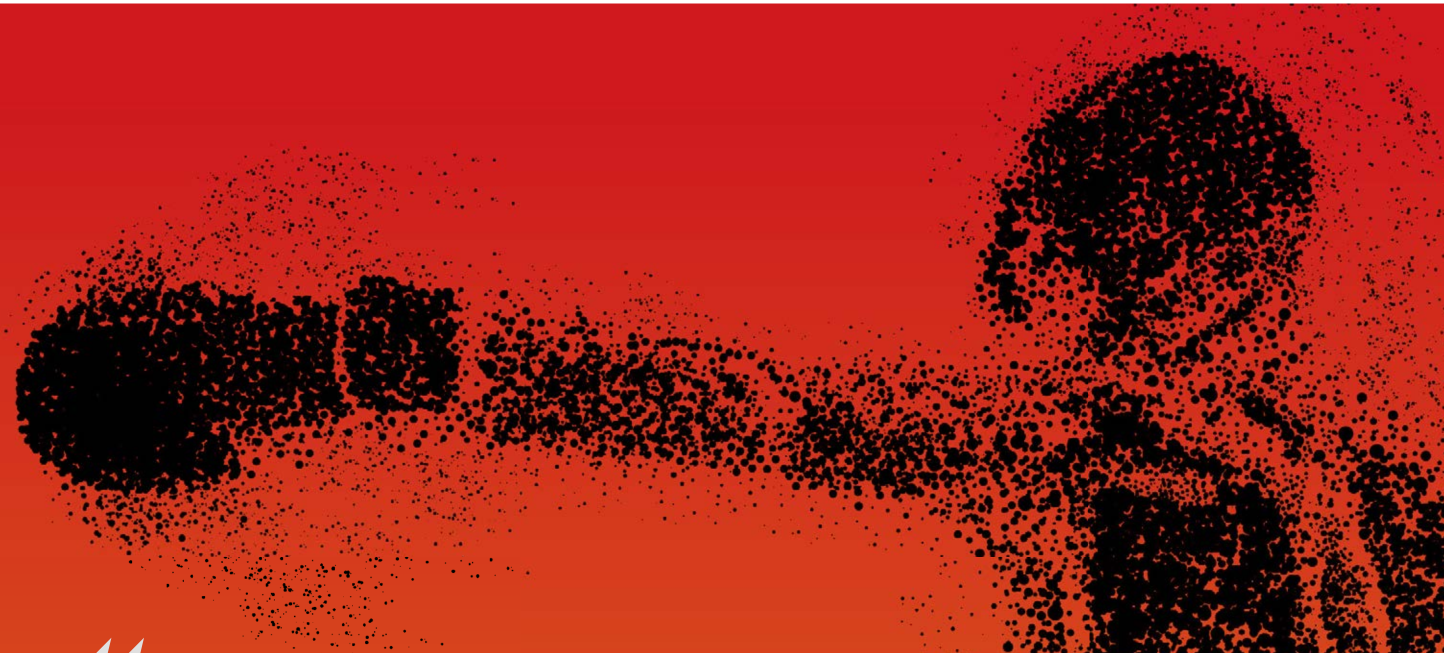
There is also some concern among insurers about how the PRA might use new powers it will possess once the reforms have been implemented. Woods told the Treasury Committee that while he understood some insurers were concerned about the possibility of regulators using the new tools given to them by the reforms to effectively reintroduce tougher capital rules, the PRA would not do this. If the package was approved by parliament, he said, the PRA would not use those tools "to reverse-engineer the thing that we were trying to achieve in another way".

Whether or not the insurance industry takes Woods at his word, Nicola Kenyon, head of insurance investment and ALM at Hymans Robertson (London) says she thinks the industry will now start trying to persuade the PRA to use its new powers in ways insurers can accept.

"I do think it's helpful that Sam said he doesn't want to reverse-engineer those measures, but we are yet to see what they do choose to do," says Kenyon. "I think what the Treasury have put forward will support economic growth. I'm open-minded as to how the PRA will respond and convert this into regulations and principles that insurers will adopt."

Uncertain future

Meanwhile, divergence between the Solvency II and Solvency UK regimes will have compliance and operational implications for insurers that work in



> I think what the Treasury has put forward will support economic growth

both the EU and the UK. Multinational companies will already used to managing issues linked to operating in multiple regulatory jurisdictions.

Keen-Tomlinson admits that adhering to two different regulatory regimes is bound to create an administrative burden. "But in terms of divergence it wouldn't appear to be that great, and the reforms apply very specifically to UK liabilities," he says. It is also possible that at some point in the longer term, regulators in the UK and in the EU might be able to agree to grant firms equivalence, but there is no indication at present that this might happen within the foreseeable future.

Finally, it is also worth remembering that the European Council is also considering reducing the risk margin for insurance firms under Solvency II jurisdiction.

"Solvency II is not static and neither is Solvency UK," says Burton. "There are clearly going to be some divergences that open up this year and next as rules change on both sides. It's not clear at this stage quite how far apart the two regimes will be.

"There could be an element of friction – the extent of that depends on how divergent the two approaches become." Either way, he says, "it seems likely there will be more changes coming down the track".

So while the outcome of the battle between the UK Treasury and its regulators remains very likely to be won by the former, the final form of Solvency UK is not yet settled; and nor is the most likely extent of its possible positive, or potentially risk-magnifying consequences.

Kenyon says she is optimistic about the likely outcome. "I think this is a positive step towards a balance between policyholder protection and economic growth." Over the next few years we will discover whether the Solvency UK regime can deliver on that promise – or if the regulators were right to fight for a more cautious approach.

In the spotlight: Antonio Trueba

Adam Cadle speaks to MEDVIDA CEO Antonio Trueba about the firm's recent acquisition of CNP Partners

WRITTEN BY **ADAM CADLE**

Q Firstly, could you outline the details and practicalities behind MEDVIDA's acquisition of CNP in Italy?

In May 2022 we announced the acquisition of CNP Partners, the Spanish subsidiary of the French insurance group CNP Assurances. CNP Partners has operations (and regulators) in both Spain and Italy so completing the transaction was a complex activity, one which I am pleased to say we finished in December 2022. The transaction has more than doubled the size of our business to over €4 billion in assets under management.

Although the business we acquired is headquartered in Spain, it has a large number of employees, customers and partners in Italy. The business in Italy is written through a branch model, and is mainly focused on savings business for the higher net worth segments in various distribution channels.

Since completion, we have rebranded the business to MEDVIDA Partners and for the first time we have an international business serving policyholders in both Spain and Italy.

The regulatory process for this transaction was the first of its kind in Spain, after the issue of EIOPA's supervisory statement on run-off undertakings in April 2022 providing a framework for the topics that supervisors need to take into account before authorising these transactions - including a period of supervisory dialogue that needs to occur before the authorisation process can start. Our supervisor, the DGSFP in Spain, dedicated time and resource to both the supervisory dialogue and the authorisation process, for which we are grateful. Our business in Italy is written through a branch and we are also subject to market and consumer conduct regulations there.

Our collaboration with the regulators has been an important exercise that will facilitate a more efficient supervisory dialogue process for future transactions.

Q What were the main reasons for cementing this deal and what benefits do you see it bringing to MEDVIDA?

When we first identified CNP as a possible acquisition partner it was clear to the whole team that we could apply some of MEDVIDA's core value levers to the business at the same time as building scale and expanding our geographic footprint.

The acquisition represents a significant step for us in expanding our activities to include multiple channels. Historically we have managed long-term life insurance savings and annuities business via a bancassurance model, but the addition of CNP strengthens our position in other channels.

In many cases, the relationships that CNP Partners has are so strong that MEDVIDA will continue to be the insurance provider of choice for its distribution partners. In this context, certain core lines will need to remain open for new business. MEDVIDA's strategy is to integrate and optimise life insurance businesses, with this acquisition we are not just finding value but also creating it.

As with most legacy insurance

operations across Europe, the existing IT infrastructure and systems within CNP Partners are obsolete and inefficient. We can improve group operations immediately by investing in a new IT system that will allow better service to our distributors and to customers with a lower cost base. We will also leverage the strength of current partnerships to concentrate our commercial efforts on distributors that can provide a flow of meaningful profitable new business. This should allow us to focus our efforts on delivering customers the products and services they want, through partners they trust. An approach that will deliver better outcomes for our customers and generate more value for our shareholders.

In time, our plan is to progressively integrate functions within MEDVIDA and we expect to eventually fully merge the two companies. We will then continue to develop this multinational platform through the consolidation of life businesses.

Q Do you have any other plans to increase your expansion across Europe?

This acquisition is only the first milestone in our expansion plans.

We have brought together a team at MEDVIDA that has experience from across Europe with first-class investment, risk management and operational skills. This means we have an inherently international outlook and are well-placed to capitalise on the regulatory, operational and economic drivers that make life insurance consolidation attractive throughout the region.

Our investment management team is led by Ben Spurgen, who joined us from one of the UK's biggest pension insurance firms, focused on originating, underwriting and managing high-quality investments that promote stable long-term returns.

> **We are completely focused on the countries where we have a natural fit, primarily Spain, but also Italy and potentially Portugal**

Our CFO, Guy Horton is another veteran from the UK insurance market, his experience gives us real strength in our financial, insurance and operational risk management activities that are designed to optimise and protect our solvency position.

And our most recent senior hire, Jaime Kirkpatrick, has significant experience working within international organisations in Spain.

As well as developing our team, we have invested heavily in our platform so we can support our expansion plans. Our technology facilitates operational efficiency and flexibility in the administration of the insurance portfolios we manage, with our ultimate objective to provide a high level of service to our policyholders, distributors, and other collaborators.

Q The market is already well developed in Germany, the Netherlands and the UK. Is there a saturation risk there?

We are completely focused on the countries where we have a natural fit, primarily Spain, but also Italy and potentially Portugal. While there is undoubtedly a lot of activity and competition in Northern European countries, some of which started seeing consolidation in the early 2000s, it's impossible for us to say how attractive those markets are, there is certainly a lot of capital looking at the region.

Q In your view, what is your outlook for insurance consolidation in Southern Europe going forward?

The drivers that have supported insurance consolidation are well-developed and our analysis shows that the outlook in Southern Europe is particularly positive for the right players.

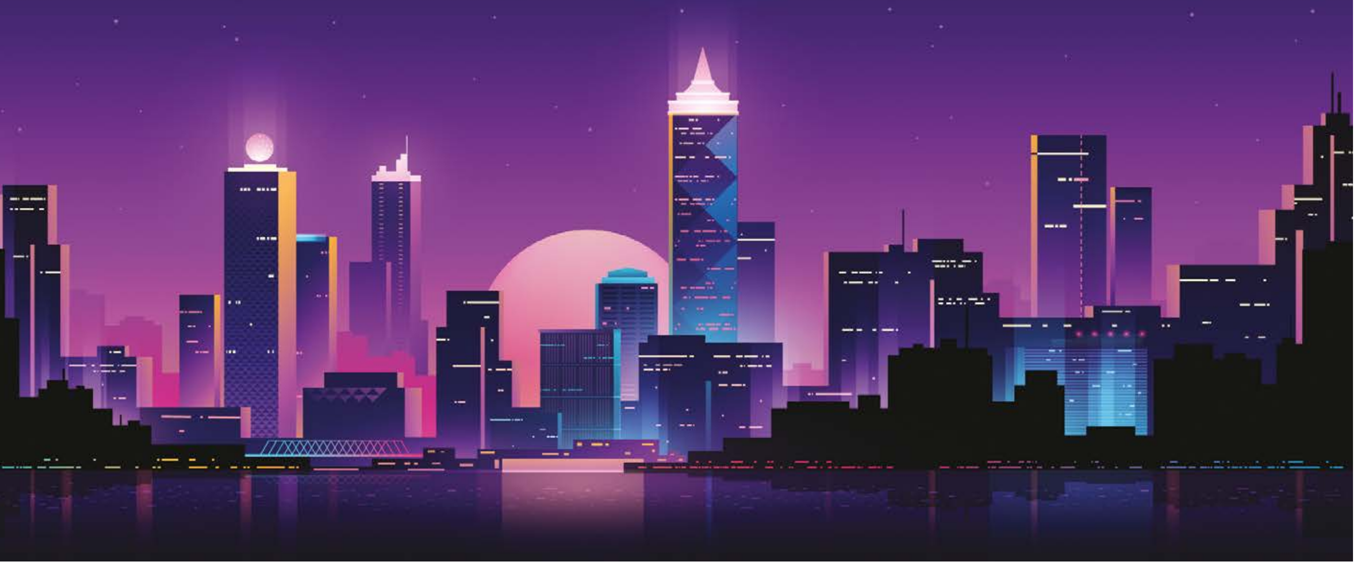
While interest rates have risen, which will have eased some of the economic pressure on incumbent insurers, there continues to be significant activity in these markets because there are still challenges that companies like MEDVIDA can "solve". Large insurers and financial groups have strategic objectives they want to focus on and legacy life insurance books continue to drag on their long-term performance – those companies are likely to find life consolidation, such as MEDVIDA has done with CNP Partners, attractive.

We think that markets are best served by consolidators that provide a natural fit for both the customers and historic insurer. MEDVIDA's brand has a strong connection to Southern Europe and our executives have deep expertise across the markets, our business lines have been developed to serve customer needs in the region and we have well-developed productive regulatory relationships. So, we are very optimistic about the opportunities in the region and our ability to deliver value to both insurers and policyholders, which makes us an attractive partner for companies looking to offload run-off risk.

Scanning the horizon

WRITTEN BY LYNN STRONGIN DODDS, A FREELANCE JOURNALIST

Lynn Strongin Dodds looks at the key asset classes insurers are turning to this year to reap the highest possible returns for their investment portfolios



Although different segments of the insurance market have their own idiosyncrasies, all firms are facing the headwinds of rising inflation and interest rates, geopolitical tensions and slower growth. As a result, UK and European insurers are rethinking their asset allocations and looking farther afield to mitigate risks and leverage new prospects.

As Lara Devieux, head of insurance product, Nuveen, says: "In our discussions with global insurance companies and in our annual global institutional investor survey that will be released in March, there is widespread recognition that the investment environment is unique and challenging given market volatility, elevated inflation and geopolitical risk."

She notes: "In fact, over half of insurers in our upcoming survey indicated that they are reformulating their capital market assumptions and over 30% are making significant changes to their strategic asset allocations."

The problem, of course, is in predicting the direction of travel, although as the recent Mercer report on the industry notes: "On one hand, the increase in yields makes things simpler — insurers don't need to take the same level of risk to generate a reasonable level of income. On the other hand, the highly uncertain economic environment makes things more complicated. Although true across the globe, this is particularly the case in Europe which has experienced a series of tumultuous political and monetary events."

Europe as well as the UK have been left more vulnerable due to their exposure to the war in Ukraine and the resulting tight energy supplies. The UK is also grappling with the impact of Brexit and the political turmoil of a revolving door of three prime ministers last year and Liz Truss mini budget which sent all assets in to free fall.

Each sector has been affected differently. For example, life insurance balance sheets have generally weathered the turbulence of 2022 well and are likely to report stronger year-end solvency ratios, according to Vladimir Zdorovenin, head of insurances, EMEA at PineBridge Investments.

"That said, they are sitting on significant unrealised investment losses," he adds. "The challenge is to identify opportunities for deploying excess capital and adjusting their asset mix without impacting their accounting performance to an extent that could scare off their debt and equity holders. "

As for motor and property insurers, Zdorovenin explains they are caught in a "tough spot." This is because claims inflation and sharp increases in reinsurance pricing are pushing up costs, while there is little chance of passing these costs to customers. "For CFOs (chief financial officers), this will mean difficult decisions around dividend policy and capital raises in a volatile market, "he says. "On the investment side, this would mean more pressure to generate return on regulatory capital, which can go as far as security-level portfolio optimisation aimed at maximising capital efficiency."

Reinsurers also have hurdles to overcome. While Zdorovenin believes they could benefit from rate increases across most lines and higher returns on new investments – they are also facing a higher incidence of extreme losses from newer risks, like cyber incidents or weather extremes driven by the accelerating pace of climate change. "For these insurers, the biggest challenge is to establish their strategic risk appetite and to identify asset classes and strategies that would maximise diversification benefit between underwriting and investment," he adds.

Not surprisingly "there is no one size fits all solution," says Russell Baird, head of UK investment solutions at Aegon Asset Management. "The starting point for each insurer is slightly different depending on their own liability profiles, capital budget and risk restraints."

However, there are common threads. "Oner of the big questions in 2023 is when will we see rates peak and against that backdrop how can insurers find value," says Tim Banks, sales director for UK institutional core clients at AXA Investment Managers. "However, they will have to rebuild their book yield and in doing that they have to be more agile, holistic and take opportunities across the credit spectrum. This also means increasingly using derivatives because they have a role to play to dampen volatility."

> “There are good opportunities in both debt and equity for more ESG focused private strategies

Jeff Burger, director- senior fixed Income portfolio manager at Insight Investment, adds: "It is difficult to quantify geopolitical risk and changes to the economy, given the tension between Fed tightening and the impact on economic activity, and the market impacts. However, they should not rely on mean reversion but focus on these three components - technicals, fundamentals and valuation – regardless of the asset class."

To date, private assets remain one of the most popular options. This is because banks have not returned to the lending arena in a meaningful way due to the more stringent regulatory regime imposed in the wake of the financial crisis in 2008. Insurance firms filled the gap and reaped the benefits of strong risk adjusted returns in a benign environment. Today, their inflation hedge characteristics is a main selling point with the Mercer study showing that 67% currently invest in private markets, and 8% who do not plan to, will in the next 12 months.

Aileen Mathieson, group chief investment Officer, of Aspen Insurance Company, believes that private assets have been an important contributor to returns in recent years for both life and P&C insurance firms. "However, particularly in the UK, recent fixed income market volatility has resulted in real estate, private debt and private equity allocations being somewhat challenging to navigate through in the short term, with regard to valuations and overall liquidity, and how these have impacted overall asset allocation outcomes," she adds.

As for particular strategies, she points to high investment grade collaterised loan obligations and asset backed securities in the US as assets that have the potential to enhance returns and benefit from any further increases in rates. "Thinking longer term, there are good opportunities in both debt and equity for more ESG (environment, social and governance) focused private strategies, and the changing capital regime under Solvency II should provide support to improving capital adjusted returns from these asset classes," she adds.

The Mercer study also reflected this trend with over 50% of respondents expecting to increase their allocation to alternatives over the next 12 months due to the enhanced income and strong structural protection, particularly as the environment shifts to a more lender-friendly one. While middle market lending continues to be a core allocation, the report found that insurers are increasingly gaining exposure to specialty finance, structured credit, and credit opportunities funds to generate additional returns and diversification.

Looking farther ahead, it expects evergreen funds within private debt, to

gain traction as they allow insurers to maintain their exposure more efficiently than the usual commitment cycle. They also provide a more stable net asset value exposure, as well as potentially lower fees.

Other areas of interest include fund financing, according to, Rob Andrew, head of Insurance Solutions, abrdn. This refers to short term loans to private market investment funds to support operating activities. He notes that tor those parts of the balance sheet where an insurer does not require fixed asset cashflows, the variable interest rate available on fund financing assets can offer some protection against the risk of higher-than-expected future inflation and interest rates.

"In addition, the very low correlation between fund finance performance and other markets, and very low historical losses, makes fund financing an ideal asset class to consider in periods of macroeconomic uncertainty," he adds.

The alternative bucket

Within the alternative bucket, allocations are forecast especially true for investments that have sustainability as an integral part of strategy, mirroring the wider industry trend. This is evidenced in a recent study by Aviva Investors which canvassed 500 institutional clients, including insurers, with assets of $3.5 trillion. It found that 93% actively consider ESG and sustainability in their real assets investment decisions, with 17% considering it a critical factor.

The study showed that real estate equity remains comfortably the most popular real asset although it has slipped slightly from 31% two years ago to 30% today, where it is expected to stay in two years' time.

By contrast, infrastructure equity allocations are on a gently upward trajectory, rising from 12% two years ago to 13%, and projected to nudge higher to 14% in two years.

"Overall, we are seeing significant demand growth for real assets from our insurer clients," says Alex Wharton, Head of Insurance Relationships at Aviva Investors. "One of the reasons is that they can help insurers on the path towards net-zero and make a real impact as part of that transition. We have also seen interest in sustainable transition loans in real estate. We launched that programme two years ago and surpassed our 2025 target of £1 billion such loans within 18 months. They encourage borrowers to integrate sustainability KPIs such as energy efficiency improvements and green initiatives including on-site renewables into loan terms."

Aviva Investors embeds measurable ESG commitments into its real estate lending programme, setting out specific requirements for borrowers to adhere to, in order to reduce carbon emissions from existing buildings, as firms move to a low-carbon economy. Borrowers benefit from reduced margins on their loans if they meet these targets.

Some market participants also foresee commercial real estate debt making a comeback in 2023, Andrews points out that last year increasing yields on investment grade credit assets led to certain insurers turning their attention to public credit rather than private credit assets. For example, when yields were hovering around 4.75 – 5.5% on BBB five-year public credit, the merits of tying up governance and investment committee resource for CREL assets – yielding, on average, 6-8% for an equivalent five-year loan – have been more difficult to justify, particularly with patchy quality.

"However, moving into 2023, as public spreads compress - largely due to supply and demand dynamics - we see this changing," he adds.

"CREL is starting to look particularly attractive again on a risk-adjusted return basis due to the sharply corrected real estate equity values in 2022 and thus the ability to now achieve higher spreads at lower leverage levels on deals. While not historically the norm, we have seen an increase in interest for inflation linked CREL, which offers more direct protection against uncertain future inflation."

There are also opportunities in relatively less mature asset classes such as natural capital strategies, according to Devieux. She highlights, natural capital strategies such as farmland and timberland as examples of new asset classes for most insurance companies, which provide inflation protection as higher commodity/raw materials prices increase cash yields and asset valuations, boosting returns, while also offering insurers stable income, diversification and ESG benefits."

Municipal bonds

Another variation on a theme is municipal bonds. As Burger points out, the main attraction for a US investor is they are tax efficient but there is a growing section of the market that is in a fully taxable format for the non-US investor. This is attractive to because the investor can now receive a relatively high yield at a relatively low risk as compared to many fixed income alternatives, according to Burger.

Under Solvency II regulation, insurers can benefit from investing in infrastructure-related bonds that satisfy certain criteria for classification and many revenues backed munis are suitable as a Qualifying Infrastructure Corporate Investment (QICI).

As to their ESG credentials. "Munis typically fund roads and bridges, as well as energy and social infrastructure like education and health care," says Burger. "They also enable states to invest in next-generation infrastructure, educational and healthcare facilities. In addition, taxable munis can have a higher credit rating than US investment grade corporates plus they have low historical default rates."

Devieux also thinks the recent passage of the U.S. Inflation Reduction Act and the nearly $400 billion in tax incentives, grants and loans will be a green fillip in the US and likely to trigger greater investment opportunities and insurance investor interest in sustainable energy and energy transition across the capital structure and in various geographies.

Investors though should do their homework with private and real assets. As Baird infrastructure projects have to provide yield pick-up and ideally fully aligned with responsible investing objectives, but they also need to be investment grade and involve robust due diligence.

> Munis typically fund roads and bridges, as well as energy and social infrastructure

Andrews also advocates that insurers look at the wider ramifications. Real and private assets tick the extremely important boxes: capital efficiency and matching adjustment eligibility. "In fact, two key outcomes of the Solvency II review might make this asset class even more desirable in future," he adds.

Drilling down, the first, he notes, is the removal of the 'cliff edge' of capital efficiency for assets which are below investment grade. This could allow insurers to invest further up the risk curve more easily, for example in early-stage projects with construction risk,

The second, he adds, is the small but potentially significant wording change to cashflow characteristics from 'fixed' to 'highly predictable', which should allow further flexibility around financing structures, e.g.: allowing prepayments. "Furthermore, helpfully, infrastructure assets are often structured so as to provide some direct protection from higher-than-expected future inflation., and very low," he adds.

As for other avenues David Newman, CIO global high yield at Allianz Global Investors believes trade finance should be on the investment agenda. There are typically three main types - payable finance – which supports a buyer by facilitating payments to its suppliers when invoices are raised and receivable finance that provides money to a single supplier in advance of its receiving invoice payments from several customers. Last but not least, is working capital facilities that provide loans to one supplier repaid by receivables from several customers

"It is an alternative to traditional credit," he says. "Typically, transactions have a lifecycle of between 60 and 120 days – and they potentially low correlation to other asset classes which can provide downside protection and help mitigate a rising interest rate environment. Net of fees Allianz Working Capital fund targets a return of cash + 2% and the investment grade version targets cash + 0.6%."

Mainstream assets

Despite non-traditional assets capturing the imaginations, their mainstream counterparts also have an important role. This year though quality will be the watchword as investors cautiously venture back into the bond markets. The Mercer report notes. "Increased yields in developed market investment grade bonds may provide an attractive source of higher current income and return on a risk-adjusted basis. With lingering uncertainty that central banks can thread the needle by slowing growth without a recession, financial conditions could deteriorate further before they improve."

The advice of Mercer and market participants is that insurers should revisit their core fixed income portfolios, which represent the bulk of assets, to ensure they are making the most of opportunities.

Greater attention should also be paid to liability driven strategies given the chaos that followed Liz Truss mini budget last October and the calamitous impact it had on the gilt markets. "There has been a focus on liquidity optimisation post the LDI crisis," says Wharton. "Whilst insurers conducted heavily stressed scenarios, no one expected the market to become as stressed as it did and quite so quickly. As a result, they are looking more towards options such as our Return Plus strategy which are very liquid, can generate returns and have a floating rate component."

Insurance Asset Management Awards 2022

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24 November 2022, Waldorf Hilton, London

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Insurance Asset Management Awards 2022

OVERVIEW

The sixth annual Insurance Asset Management Awards saw hundreds of insurance industry professionals gather at the Waldorf Hilton, London, after the Insurance Asset Management Conference 2022 earlier in the day, to celebrate excellence, professionalism and innovation in the insurance space.

Insurance companies, asset managers, technology providers and consultants were all in attendance, as trophies were handed out by award-winning comedian Lucy Porter. Porter performed an outstanding stand-up routine as the room erupted with laughter throughout.

Award categories on the night ranged from Insurance Company of the Year through to Emerging Markets Manager of the Year, ESG Investment Strategy of the Year, and Passive Manager of the Year. Congratulations to all the prize winners and a very well done to all those highly commended firms.

Many thanks to all those who helped make the event such a success, particularly our sponsors - abrdn, Fidante, Clearwater Analytics, Franklin Templeton, HSBC Asset Management, Nordea Asset Management, Pictet Asset Management, Robeco, and Schroders. Your ongoing support allows a fantastic night like this to happen. We look forward to welcoming you all with open arms again this year and rewarding all those continuing to excel in the insurance arena. 2023 is set to be another challenging but rewarding year for the global insurance space, and it will be exciting to see the latest examples of development and innovation within investment strategies that aim to meet changes in the economic climate and the needs of clients.

For more information on our events please visit www.insuranceassetmanagement.net, where you can also read all the latest news and commentary on the global insurance industry, listen to our latest podcasts, view our latest roundtables, and watch our Q&A videos with leading industry investment professionals from the global insurance arena.

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WINNER: Rothesay

INVESTMENT STRATEGY OF THE YEAR
WINNER: abrdn

ESG INVESTMENT STRATEGY OF THE YEAR
WINNER: Robeco

INSURANCE INVESTMENT CONSULTANCY OF THE YEAR
WINNER: Willis Towers Watson

PASSIVE MANAGER OF THE YEAR
WINNER: UBS Asset Management

ACTIVE MANAGER OF THE YEAR
WINNER: HSBC Asset Management

FIXED INCOME MANAGER OF THE YEAR UP TO €100BN AUM
WINNER: Pictet Asset Management

FIXED INCOME MANAGER OF THE YEAR OVER €100BN AUM
WINNER: Morgan Stanley Investment Management

ALTERNATIVES MANAGER OF THE YEAR
WINNER: AXA IM Alts

INFRASTRUCTURE MANAGER OF THE YEAR
WINNER: Infranity

PROPERTY MANAGER OF THE YEAR
WINNER: Invesco

MULTI-ASSET MANAGER OF THE YEAR
WINNER: Morgan Stanley Investment Management

EMERGING MARKETS MANAGER OF THE YEAR
WINNER: HSBC Asset Management

TECHNOLOGY FIRM OF THE YEAR
WINNER: Clearwater Analytics

INNOVATION PROVIDER OF THE YEAR
WINNER: Schroders

STEWARDSHIP INITIATIVE OF THE YEAR
WINNER: Morgan Stanley Investment Management

DIVERSITY AWARD
WINNER: HSBC Asset Management

INVESTMENT STRATEGY OF THE YEAR

abrdn

Implementing a perfect investment strategy is one of the biggest challenges an insurance company or asset manager has to overcome, particularly given the current economic environment. The Investment Strategy of the Year award rewards the firm that has implemented an investment strategy setting the standards for the industry to follow.

Sitting head and shoulders above the rest in this category is abrdn. The judges said abrdn's award entry displayed demonstrable success in an asset class, showing a detailed understanding of the insurance industry's requirements, a proactive approach to insurance client solutions, and strong investment capabilities.

abrdn's fund finance strategy breaks new ground in the European and US insurance market. It is truly a pioneer in the fund finance space, providing a uniquely diversified institutional investor strategy to LP and NAV backed subscription loan facilities. A dedicated team of fund finance investment specialists works in partnership with insurers to create innovative fund finance solutions that deliver attractive risk adjusted returns and enhance portfolio level diversification. Its dynamic management of fund finance investment portfolios combined with specialist credit structuring capabilities allows abrdn to tailor the credit risk, duration and currency to the unique demands of each client, delivering a truly custom-built investment experience.

Insurers are looking to invest cash into assets that can comply with Solvency II capital requirements at the same time as providing attractive returns. abrdn's ground-breaking strategy exploits the considerable illiquidity premia available in private markets. It invests in loans to private market funds and these loans are short duration and considered investment grade.

Building on its platform, abrdn is now building a track record in sustainability linked fund finance. These 'hard to source' assets contain margin ratchets linked to sponsor performance against ESG KPIs at sponsor and portfolio company level, and require enhanced ESG reporting. A proprietary fund finance ESG risk assessment tool has therefore been developed to assess the ESG risks when lending to private equity funds.

"abrdn's fund finance strategy breaks new ground in the European and US insurance market"

Insurers have been drawn to this rapidly growing asset class therefore by its attractive characteristics of returns being floating rate in nature; high-quality – investment grade secured debt; attractive return profile; low volatility; lack of correlation with public markets; cash flow generation; rapid deployment; and a short lock up period.

abrdn's ability to work with clients on a bespoke basis to ensure it meets their exact investment requirements is exemplary and its overall performance in the fund finance arena has led to the firm scooping this coveted award. Well done.

abrdn

Is fund finance a solution for insurers?

Shelley Morrison, Head of Fund Finance and ABS, abrdn

For professional investors only – Not for use by retail investors or advisers.

In the wake of Solvency II, many insurers hold high cash balances and money market fund investments.

Lately, however, some are asking themselves whether they really require access to such high levels of liquid funds on an overnight basis to finance claims and operational cashflows.

One possible solution is for insurers to look at other sources of short-dated exposure such as fund financing.

What is fund finance?

Fund financing facilities are loans provided to private market funds including private equity, credit, infrastructure or real estate across various stages of their lifecycle.

There are a number of operational, as well as financial, reasons why these facilities may be beneficial to both investors and the manager/general partner of the fund. These include:

- providing managers with capital to finance investment activity within a few days, rather than drawing capital from investors, which requires a much longer drawdown notice period
- giving greater clarity of the timing of cash calls to help investors manage their own cashflows
- allowing cash calls to be consolidated or batched to delay drawing down on investors, bridging the finance of a portfolio company
- delaying drawdown from investors can enhance internal rates of return (IRRs)

What is the opportunity set for investors?

The global annual demand for subscription financing is over $600 billion[1] and we expect this to increase significantly in the coming years.

While the world's largest banks have traditionally dominated this market, new lenders are now entering at the syndication level due to the attractive returns available. However, given that other banks represent direct competitors, lead banks are increasingly looking for non-traditional lenders to participate in their lending programmes. This is where insurers come in.

Why is fund financing attractive for insurers?

Fund financing can be well-suited to an insurer's financial (including capital efficient investment) objectives due to its characteristics, such as:

- attractive credit quality
- enhanced yield possibility
    a. LP-backed 165-200 basis points over a reference rate
    b. NAV-backed 350-500 basis points over a reference rate
- short duration, maturity between one and five years
- uncorrelated returns to public credit markets
- low volatility and credit risk
- strong structural protection

Determining capital treatment and credit ratings

Although classed as private loans, fund finance holdings can represent a capital efficient investment under Solvency II. For example, for standard model insurers, the capital charge for LP fund financing can be estimated as the tenor of individual loans multiplied by a factor of 5%. For those with an internal model, the treatment can be even more attractive.

Some of these loans are externally rated but are normally unrated. At abrdn, we use our own internal private credit ratings process to help our insurance clients determine and affirm the appropriate credit assessment for unrated private credit.

Why invest in fund finance via an asset manager?

Sourcing deals and monitoring fund finance investments can be a challenge for private investors. The complexities of the credit underwriting process and loan documentation can also be a hurdle. Being able to perform the required due diligence will prove challenging and time consuming and then there is the ongoing cash management and monitoring of each loan.

Asset managers with fund finance experience can provide an efficient way for insurers to participate in the market. When it comes to choosing an asset manager, clients may want to consider those with broad capabilities including credit and liquidity management, currency hedging and of course, operational, legal and structuring expertise.

For example, if your fund financing asset manager is already conducting ongoing in-depth due diligence of private equity vehicles, managers and their investors, this can be helpful. Access to lending programs across all the dominant banks active in the market is also essential.

Asset managers with suitable contacts and skills can provide clients with different currency loans as well as a range of tenors and pricing options to support their specific requirements. The right asset manager can save you time, allowing you to pursue other yield-enhancement opportunities.

Stability in an uncertain macro-economic environment

So how do current market conditions affect the outlook for the asset class? Due to the floating rate nature of fund finance, 'all-in' yields are climbing higher. This should not be understood as a reflection of a deterioration of credit risk. Despite challenging macroeconomic conditions, the credit risk profile of fund finance remains stable.

Subscription line loans are typically investment grade and the track record remains exceptional, with no known credit defaults. In addition, subscription line loans are short tenor assets where the credit risk is diversified across a large pool of high-quality institutional investors' committed capital with substantial levels of over-collateralisation and first ranking senior security built into the structure.

The unique risk drivers and structuring of fund finance means that the asset class has lower correlation to other major asset classes and provides vital diversification at a time when most public markets have moved in negative territory together. The strategy also benefits from lower volatility compared to other risky and long-duration assets.[2]

Fund finance in today's liquidity environment

The majority of fund finance is subscription line facilities which are used by GPs to bridge investment activity. This finance provides certainty of funding, short notice access to liquidity and reduces administrative complexity: GPs use this finance to "batch" capital calls to avoid drawing down on investors too often, effectively "smoothing" the capital call process.

A squeeze on liquidity is also a growing concern for LPs in this current environment. However, the use of subscription line facilities helps provide greater clarity of the timing of capital calls to help investors manage their own cash flows and enable better forward planning.

Benefit from a rising interest rate environment

In a rising interest rate environment, there is a strong case for a strategic allocation to an asset class that provides attractive yields combined with protection against duration risk. Fund finance interest 'coupons' are reset in-line with a floating reference rate e.g., EURIBOR or SOFR. The frequent interest reset process means that floating rate loans have near zero duration. If these reference rates continue to rise so does the interest coupon paid on the underlying loan, increasing the income to investors. At present, 3-month SOFR is 4.26%[3] leading to all-in yields of circa. 6.26% for certain investment grade, short maturity subscription line facilities.

Conclusion

We believe that a combination of relatively high current yields, credit protection, and a low correlation to other private credit and fixed income options, means now is a good time to consider adding fund finance to a portfolio. Furthermore, a strategic allocation to fund finance loans in 2023 and beyond can provide insurers with benefits in any market environment.

1 Source: abrdn 31 December 2022. 2 Mercer 2022. 3 Federal Reserve Bank of New York November 2022.

PASSIVE MANAGER OF THE YEAR
UBS Asset Management

The Passive Manager of the Year award celebrates the investment manager demonstrating strong returns, and providing excellent customer service by showing a true understanding of the needs of its clients.

The standout firm in this category is UBS Asset Management. The judges applauded the firm's approach focusing on delivering tailored solutions with close tracking and index-like properties, as well as the introduction of industry innovations in the area of climate change.

Research and tailored solutions are at the core of UBS Asset Management's indexing approach, with more than 50% of its index AuM created for its clients' specific objectives. For instance, it has worked with a Dutch client and MSCI to develop the first non-USD optimised Minimum Volatility Index, the MSCI World Minimum Volatility EUR optimised Index. It has also extended its product offering to include strategies managed against alternative beta indices in fixed income and has been heavily involved across the entire value chain, including the development of new alternative beta indices in collaboration with external index providers.

Innovation in the business does not stop there. In March 2022, the business launched the UBS (Lux) Fund Solutions – Bloomberg MSCI US Liquid Corporates 1-5 Year Sustainable UCITS ETF as well as the UBS (Lux) Fund Solutions – Bloomberg MSCI Euro Area Liquid Corporates 1-5 Year Sustainable UCITS ETF. The funds extended the firm's Liquid Corporate product range, meeting the increased demand for short- to medium-term maturity products to mitigate the impact of rising interest rates.

"Research and tailored solutions are at the core of UBS Asset Management's indexing approach"

As the firm's clients' sustainability ambitions and objectives continue to evolve, so do UBS Asset Management's own aspirations. In February 2022, it launched the Global Equity Climate Transition Fund, developed in collaboration with Aon. This strategy considers the social impact of climate transition by applying tilts towards companies that align with five social and environmental UN SDGs. It also commits to aligning with the latest net-zero pathways by applying both a relative decarbonisation versus the benchmark, as well as year-on-year self-decarbonisation inspired by the EU Climate Transition Benchmark rule.

In fixed income, the firm's innovative mindset is again illustrated by the UBS Corporate Bonds Climate Aware strategy, which is designed to manage climate change risks, while not deviating significantly from its benchmark – the Bloomberg Global Aggregate Corporate Index (ex-ante tracking error target <0.5% p.a.).

The breadth of assets the firm manages – across equity and fixed income – allows it to engage with the senior management of companies in order to achieve the greatest possible impact. Congratulations on a fantastic win.

Invest in progress with confidence

"There are so many ways to invest sustainably that the choice can sometimes be overwhelming. Let us help you invest in progress and capture the opportunities of a sustainable future.

Lucy Thomas
Head of Sustainable Investing
at UBS Asset Management

Feel confident navigating net zero: deepen your understanding of how sustainable index investing can help position your portfolios for the future.

Scan and
find out more
ubs.com/sustainable-investing-uk

UBS

Following the rules: How alternative beta can help support a more sustainable world

Many investors are now considering rules-based and index-like investment strategies in order to help achieve non-financial – i.e., environmental, social and governance (ESG) – goals. Rodrigo Dupleich explains the different approaches available to investors, as well as the pros and cons of implementing each of them.

The trend towards ESG and sustainability has been driven, in large part, by investors' prioritisation and customisation of ESG concerns, regulatory frameworks (e.g., the Sustainable Finance Disclosure Regulation (SFDR)), and improvements in data quality and availability. And all this has helped pave the way for rules-based – or index-like – sustainable investing. Such strategies can provide flexible, customisable portfolio solutions that can help meet the range of climate and sustainability solutions.

Rules-based strategies can offer multi-faceted, climate-aware approaches that incorporate broader ESG considerations, such as human rights issues, biodiversity, diversity and equity in employment and inequitable social structures. Or customisation of a sustainable/climate-aware strategies can allow investment managers to also incorporate risk premia that focus on well-known factors such as growth or value, or quality. Rules-based approaches could also take core climate portfolios a step further, incorporating rules that seek to help asset owners to achieve their net-zero ambitions through their investments.

Ultimately, there are three particular areas where we see strong demand for rules-based strategies:

- Combining sustainable managed strategies with risk premia strategies
- Climate strategies considering social aspects, in the context of 'just and fair' transitions or the UN Sustainable Development Goals (SDGs)
- Net-zero strategies

Combining sustainable managed strategies with risk premia strategies

Given the current market environment, clients are paying increasing attention to harvesting well-known risk premia while aiming to make their portfolio aware of sustainable issues. For example, valuation-based strategies may have benefits in a global inflationary environment, while quality and low volatility strategies tend to be appealing in periods of market stress (i.e., the majority of 2022).

In this context, strategies that combine a mix of equity factors (e.g., quality, value and low volatility) or single factors, such as low volatility strategies, with sustainable tilts such as lower-carbon tilts, may make sense to some investors.

"Strategies that combine a mix of equity factors or single factors, such as low volatility strategies, with sustainable tilts such as lower-carbon tilts, may make sense to some investors"

A number of considerations need to be taken into account when developing and implementing these strategies. Risk premia factors and sustainability factors can show patterns of influencing each other. For instance, governance metrics have been positively correlated with quality factors historically. On the other hand, some value factors and carbon emissions have been negatively correlated in the recent past.

Furthermore, many interactions between equity factors and sustainable factors are subject to causal relationships in both directions which makes decomposing portfolio returns into separate contributions from risk premia, industry, country and now sustainability components a relative complex task. However, there are still many routes investors can take in constructing ESG investment portfolios.

Climate strategies considering social aspects, or SDGs in the context of 'just and fair' transitions

We have also seen increased attention to mitigating social effects of the transition to a low carbon economy. For some emerging markets it might be hard to transition their economies without increasing the related social costs (e.g., the closing of coal-related businesses can lead to unemployment, which can aggravate poverty, and can also jeopardise equitable distribution of electricity). We believe avoiding unintended and knock-on social effects as societies move to lower-carbon economies is important to achieve a 'just and fair' transition.[1]

In this context, climate tilts combined with social and gover¬nance tilts that measure the "S" and "G" components with metrics around progress toward the UN Sustainable Develop¬ment Goals (SDGs) can gear a climate portfolio with a broader sustainable objectives

SDG-aligned investment looks set to be a trend in the coming years. However, from our experience there are challenges in the current data, for example: 1) sector biases in a number of SDGs due to the nature of each SDG; 2 Different methodologies for measuring specific SDG alignment can make it difficult to identify companies' exposure to SDGs.

For example, from a strict revenue exposure perspec¬tive SDG 3 (Good Health and Well-Being) tends to be dominated mostly by health care companies. Likewise, with SDG 5 (Gender Equality), identifying companies with products promoting specifically gender equality is not straightforward exercise. However, this area of data methodologies is experiencing increasing attention and innovation by the financial community.

Decarbonisation and net-zero

The third trend we are seeing is the evolution of climate/carbon strategies to portfolios specifically aligned to the Paris Agree¬ment, with the goal of achieving clients' net-zero ambitions. These strategies have moved from measuring the relative carbon reductions with respect to a broad market benchmark to measuring the carbon reduction with respect to the portfolio over time. A portfolio can be measured against a base year to assess how it is decarbonised over time in line with an implied net-zero trajectory. For example, by incorporating a 1.5° climate scenario target estimated by a framework such as the IPCC (UN Intergovernmental Panel on Climate Change).

Measuring portfolio-level decarbonisation is one of the key pillars of a net-zero investment strategy. However, most low carbon strategies have focused on carbon scope 1 and 2 metrics. Recently though, due to better data availability, scope 3 has been gradually added. More specifically, in certain industries in which scope 3 data is material and/or the levels of disclosure and data accuracy are acceptable (such as energy companies and automobiles), asset owners are encouraged to include these emissions to form a 'selected scope 3'.

Also, there are two main approaches in measuring the carbon exposure of a portfolio, weighted average carbon intensity (WACI) and carbon footprint.. The WACI approach uses portfolio weights to get an 'average' carbon intensity metric of a given portfolio. The ownership approach uses the ratio between the value invested and the overall size of a company as measured by EVIC or market capitalisation (i.e., the level of investor's ownership of the company).

Adding it all up

Investors are increasingly seeking flexible and customisable sustainable portfolio solutions to help meet the range of climate and sustainability needs. To overlook rules-based strategies would, in our opinion, be a mistake.

Rodrigo Dupleich, PhD, Senior Portfolio Manager and Quantitative Researcher, Systematic and Index Investments at UBS Asset Management

Adam Glen-Bott, CQF, Quantitative Researcher, Systematic and Index Investments, at UBS Asset Management

Urs Raebsamen, CFA Senior Investment Specialist, Systematic and Index Investments, at UBS Asset Management

[1] *A transition to a low carbon economy that shares the financial and social burden in a fair way.*

ACTIVE MANAGER OF THE YEAR
HSBC Asset Management

The Active Manager of the Year Award recognises the manager that has demonstrated consistent outperformance and an innovative approach to its investment strategy.

The judges said HSBC Asset Management's clear investment framework within a factor purity approach and its exemplary performance make it the clear winner.

HSBC Asset Management now offers a variety of multi-factor equity strategies with different levels of tracking error (between 0.5% -3%). Its platform is flexible and can accommodate a range of preferred outcomes – lower carbon exposure, dividend or income focused, ESG integrated – as well as tailored mandates with country, sector and regulatory exclusions and focuses.

The key strengths of its approach in managing customised solutions are a clear investment framework within a factor purity approach; rich experience in working with clients to implement customised portfolios; and a well-resourced research team. Strong long-term and competitive performance is also on display. Its flagship, global multi-factor equity fund is ranked #1 for both the 10-year information ratio and batting average which demonstrates its ability to generate very strong risk-adjusted performance whilst delivering consistency. Equally, in the short-run, on a 3-year and 5-year basis HSBC Asset Management consistently ranks in the top decile.

ESG expertise is also at the heart of everything HSBC Asset Management does. Its Quantitative Equity Research team uses third-party research and data providers to enable it to customise portfolios that are aligned to its clients' sustainability objectives. The design of a proprietary risk model and optimisation engine enables it to more effectively identify data for inclusion within its investment process and measure its effect on the portfolio. Recently the firm was awarded a US$460m global climate change multi-factor mandate, and was awarded a US$800m Global Multi-factor portfolio. The success on the latter was driven by a strong collaboration between its responsible investment, quantitative research and data infrastructure teams, leading to a robust, innovative and research driven process and proposal.

"The judges said HSBC Asset Management's clear investment framework within a factor purity approach and its exemplary performance make it the clear winner"

The company's active fixed income franchise focuses on risk-adjusted returns which is based on a scientific approach to risk calibration in order to construct portfolios which combine multiple performance drivers designed to increase its ability to potentially outperform in various market conditions. Within this framework, active risk taking is based on intensive top-down and bottom-up research in order to fully understand the opportunities and risks of fixed income markets globally.

Congratulations to all at the firm for an outstanding year.

For more information please go to:
www.assetmanagement.hsbc.co.uk/insurers

DIVERSITY AWARD
HSBC Asset Management

The Diversity award recognises the insurance company or asset manager that has recognised the importance of diversity in its workforce and through marketing, events or through products designed to be more inclusive.

HSBC Asset Management is a clear leader in this field. It has created its own very pro-active DE&I (Diversity, Equity and Inclusion) programme with a vision to create a 'truly motivated, diverse, equitable and inclusive asset management workforce, proactively shaped to deliver its vision and strategy and to reflect the clients it wants to serve and the societies in which we want to live in'. This is based on a balanced and comprehensive approach to DE&I development acknowledging many different diversity dimensions, such as through, style, age, gender, LGBTQI+, skills, neurodiversity, mental health and wellbeing, ethnicity, nationality, faith, social mobility and disability.

To achieve its DE&I ambition, recognising that equity and inclusion is global and diversity is more nuanced locally, the firm has identified four overarching objectives. These are firstly to embed inclusion and allyship by improving inclusive leadership behaviours; secondly to increase the representation of women in senior roles, by also creating a larger pool of talent at lower levels; thirdly to increase the representation of key identified minority groups in senior roles with a focus on black heritage colleagues, and lastly to enhance DE&I in investment and engagement processes as a competitive advantage.

"Diversity is in HSBC Asset Management's roots. As a business operating in markets all around the world, it believes diversity brings benefits for customers, the business and its people"

Furthermore, to support this DE&I programme, the firm has set up 11 global workstreams across the business (Inclusion & Allyship, Gender, Ethnicity, Investments, LGBTQI+, Ability, Social Mobility, Spirituality & Self-Knowledge, Mental Health & Wellness, Working Parents, Veterans). The programme also has marketing & communications, data and a steering group comprising 24 senior leaders. The firm now has c. 220 DE&I volunteer members across the globe who meet monthly to progress initiatives. In addition, the team promotes the work of the HSBC Group Employee Resource networks across the wider asset management business. These voluntary global networks bring together employees with shared commitment to diversity and common interests and play a critical role in achieving HSBC's ambitions for diversity and inclusion by creating a community of support through training, engagement and sponsorship.

Diversity is in HSBC Asset Management's roots. As a business operating in markets all around the world, it believes diversity brings benefits for customers, the business and its people.

Well done to all involved.

For more information please go to:
www.assetmanagement.hsbc.co.uk/insurers

EMERGING MARKETS MANAGER OF THE YEAR
HSBC Asset Management

The Emerging Markets Manager of the Year award recognises the firm that has truly embraced the emerging market space to the benefit of its global insurance clients.

The judges said HSBC Asset Management displayed clear insurance credentials reflected in a knowledgeable approach to optimising higher Solvency Capital Requirement (SCR) charges for EM debt, for example, and a clear focus on ESG Article 8 funds.

The firm has US$180bn invested in global, regional and single country emerging market investment solutions, including a comprehensive range of EMD and global emerging market equity strategies. Its global EMD offering includes hard and local currency strategies (and blends of the two), investment-grade, corporate, inflation-linked and total-return strategies. On the equity side, it offers one of the longest running and most differentiated frontier markets equity offerings in the industry, with a dedicated team of investment professionals devoted to this resource intensive asset class.

HSBC Asset Management has excelled in its Solvency II attractive capabilities in emerging markets. The firm applies three steps to make an EMD Total Return Strategy more efficient in terms of SCR market. Firstly, an optimisation of the bond portfolio to reduce SCR spread, resulting in a c.15%-25% reduction in spread. Secondly, hedging only the USD exposure to EUR (as opposed to using a EUR-hedged share class), reducing SC FX by typically around 20%. Finally, omitting or limiting CDS to sell protection is carried out, further reducing SCR spread.

"The judges said HSBC Asset Management displayed clear insurance credentials reflected in a knowledgeable approach to optimising higher SCR charges for EM debt"

Sustainability is also at the heart of the business. HSBC Asset Management has launched an Article 8 EM ESG hard currency bond fund and an EM ESG local debt fund, and has just launched an Article 9 EM Sustainable Corporate Bond fund. The two Article 8 funds are actively managed and seek to outperform their respective ESG benchmarks whilst targeting a higher overall ESG rating and a carbon footprint that is at least 20% lower than traditional EMD indices. The funds will also ensure a minimum allocation of at least a 10% exposure to ESG labelled bonds. The investment process and internal governance structure ensures that every investment will meet strict sustainability criteria based primarily on internal research backed by external sources where available.

The business also provides a range of thematic publications, whitepapers, and videos on various topics of current interest. The objective of the client content is to provide a good understanding of global regulatory developments relating to insurance investments.

Congratulations on a well-deserved award.

For more information please go to:
www.assetmanagement.hsbc.co.uk/insurers

MULTI-ASSET MANAGER OF THE YEAR
Morgan Stanley Investment Management

The Multi-Asset Manager of the Year award recognises the manager delivering exemplary performance and strong returns for insurance clients through a wide range of investment strategies.

With Solvency Capital costs high, volatility set to continue and high inflation across many regions, insurers are increasingly turning to dynamic multi-asset solutions to access economic and Solvency II capital efficient returns.

Morgan Stanley Investment Management's (MSIM) Global Balanced Risk Control (GBaR) team manages significant assets for insurance clients. Its GBaR approach is an established approach to managing multi-asset portfolios, designed to provide stable risk-adjusted returns. This focus on risk as a starting point, is a key differentiator of the approach. Furthermore, it is ideally suited to insurers with Solvency Capital Requirement (SCR) constraints.

The process involves four stages, with the first stage addressing the risk profile, critical for meeting the risk target, defined in terms of VaR. The team dynamically manages each portfolio's broad asset mix, to navigate changing market conditions, seeking to achieve the target risk determined by each client. This approach incorporates efficient frontier analysis, and seeks to identify 'event risks' which may impact broad market volatility and require a shift in the asset mix in advance of these events, to maintain a stable risk profile.

The second stage involves tactical positioning, capturing key themes such as determining sub-sector and regional preferences within broader asset classes, for additional alpha. Following on from this, a quantitative position sizing element is incorporated in stage three. This is to ensure consistent implementation of views across portfolios. Tactical preferences are translated into implied expected returns, to size positions. Lastly, an SCR guideline limit is applied, along with the implementation of efficient capital management approaches.

"The facility to limit-SCR allows clients to retain control of capital budgeting, essential for risk management when insurers outsource multi-asset mandates"

Over time, the GBaR approach has generated attractive, stable risk-adjusted returns, from flexible, globally-diversified portfolios. It is well suited to meet the needs of UK and European insurers seeking higher returns whilst meeting SCR constraints. The facility to limit-SCR allows clients to retain control of capital budgeting, essential for risk management when insurers outsource multi-asset mandates.

The judges said GBaR's performance alongside its highly innovative approach to include Solvency II capital requirements for UK and European insurers make MSIM a clear winner.

Congratulations to all at the firm for an outstanding year, and for continuing to set the highest of standards within the multi asset sector for others to follow.

Morgan Stanley

INVESTMENT MANAGEMENT

STEWARDSHIP INITIATIVE OF THE YEAR
Morgan Stanley Investment Management

The Stewardship Initiative of the Year award is given to the firm clearly displaying how it has responsibly allocated, managed and overseen capital to create long-term value for clients, while at the same time leading to sustainable benefits for the economy, the environment and society.

Morgan Stanley Investment Management's (MSIM) International Equity team is exemplary in this area. Responsible allocation is a key area. ESG considerations are a fundamental part of the process and assessed directly by the 14-strong investment team using proprietary frameworks such as the Material Risk Indicator (MRI) and the Pay X-Ray. The former is a scoring framework designed to record portfolio managers' ESG assessments of companies in a consistent and comparable way over time. The latter is a proprietary scoring tool, used to better compare company pay plans, facilitate team discussions and inform voting approaches.

Responsible management is also at the heart of the International Equity team's stewardship approach. The team recently engaged with 94% of the companies it holds, a level far above the industry average for corporate engagement. Its engagements have three key purposes – improved understanding, confirmation of assumptions and influencing companies towards better practices.

In 2021, the team launched its carbon transition engagement programme to assess each holding's climate risks and opportunities, understand their climate profile and encourage improvement. Positive outcomes followed. Six out of the seven companies the team owned that initially didn't have targets are now either preparing to set them or have them in place, and nine companies advanced their existing target ambitions to be carbon neutral or net-zero.

"In 2021, the team launched its carbon transition engagement programme to assess each holding's climate risks and opportunities, understand their climate profile and encourage improvement"

The programme is ongoing, with the International Equity Team continuing to advocate for improved transparency and disclosure. First, by encouraging companies to strengthen net-zero targets, including adoption of science-based and Scope 3 targets when missing. In addition pushing for the inclusion of environmental and social targets tied to executive compensation in order to drive better alignment of management incentives. Finally, moving the conversation onto nature-based solutions and physical asset risk.

The team believes that climate change is not something that can be tackled by an individual or small group, no matter how determined or engaged they are. But what it can do is continue to hold its companies to account, pushing for and encouraging change.

Congratulations to MSIM on all its work in this area.

Morgan Stanley

INVESTMENT MANAGEMENT

FIXED INCOME MANAGER OF THE YEAR OVER €100BN AUM

Morgan Stanley Investment Management

Fixed income has evolved from a safe sleepy asset class into a dynamic and diverse option for insurance companies. This award recognises the provider that has not only displayed innovation in this area to take advantage of the opportunities in the economic markets, but also strong performance numbers.

Standing out from the rest is Morgan Stanley Investment Management (MSIM). The judges praised the focus on helping client maximise SCR usage, excellent performance, and the integration of ESG within the fixed income space.

MSIM's unique combination of breadth and depth, insurance knowledge and infrastructure, ensures the firm is one of the fastest growing asset managers for insurance in Europe[1]. SCR-efficient fixed income across separately managed accounts has been a key growth area for MSIM in the last five years. An enhanced investment process whereby SCR can be managed with daily portfolio manager oversight, return-on-SCR efficiency, and capital budgeting, compliance control, and reporting is at the heart of the process. With the extensive insurance infrastructure and capital management framework, clients retain control of SCR consumption when outsourcing, via delegated client-specified SCR constraint/budget, which is fully aligned with Solvency II requiring insurers to establish a risk management stream, defining risk tolerance limits and action to ensure limits are met. Portfolio construction includes a capital optimisation exercise, and the investment manager applies an optimiser to a universe of pre-screened securities, selecting a SCR-efficient portfolio subject to all portfolio constraints.

Performance is also exemplary at the firm with 98% of MSIM's fixed income assets invested in strategies that outperformed their benchmark over the last five years, 98% over the last three years, and 81% as at 31 March 2022.

"An enhanced investment process whereby SCR can be managed with daily portfolio manager oversight, return-on-SCR efficiency, and capital budgeting, compliance control, and reporting is at the heart of the process"

ESG considerations and engagement are also at the heart of the business. MSIM operates a proprietary ESG-scoring model that explicitly considers the risks and opportunities ESG factors pose to fixed income. It has established an active engagement strategy based on three pillars with a thematic focus and is applied across fixed income asset classes. In 2021, MSIM Fixed Income conducted 180 ESG-focused engagements with companies across multiple sectors. MSIM has recorded a high rate of successful engagement impact with companies developing positive sustainable momentum to tackle challenges and meet their sustainability targets.

Congratulations on a great win.

Morgan Stanley

INVESTMENT MANAGEMENT

[1] Ranked #1 in Europe/UK and #2 in US/Canada for share of new General Account mandates awarded across the period 2017 to 2021

INSURANCE COMPANY OF THE YEAR

Rothesay

The Insurance Company of the Year category recognises the insurance company that demonstrates a commitment to meeting customer needs, and delivering a high quality of service across all activities as part of their overall financial strategy.

Rothesay stands head and shoulders above its peers. The judges praised the development of the company's in-house administration team which has further cemented the efficiency of its buy-in strategy with exceptional data cleansing processes at the core.

Buy-ins and buy-outs continue to be a key de-risking tool for trustees of UK defined benefit pension schemes and Rothesay continues to be a strong performer in the market, demonstrating unprecedented growth in recent years. Its meticulous approach includes having a dedicated, specialist in-house team for data cleansing, with the complex processes undertaken during this stage underpinned by well-established governance and procedures. Its in-house systems are robustly automated, with minimal manual intervention, improving accuracy and increasing efficiency. Continuity of key personnel throughout the data cleanse and beyond ensures that trustees and policyholders receive excellent customer service.

Increased automation also helps to identify any data differences, which when combined with proactive mortality tracing, means that the underlying data can be closely monitored, resulting in accurate and timely payments to schemes. Following the data cleanse, Rothesay transfers the individual policyholder administration responsibility to one of its partner third party administrators (TPAs) meaning that policyholders benefit from the TPAs' well-established infrastructure, systems and scale.

"The judges praised the development of the company's in-house administration team"

Rothesay is absolutely focused on securing the future for every one of its policyholders and they apply their high standards when looking for ways to improve and innovate. For example, by developing its systems to carry out automated member calculations in-house and provide outputs directly to a pension scheme's incumbent administrator for onward transmission to the member, the delivery of quotations to pension scheme members during the buy-in phase is more accurate, efficient and timely.

Rothesay is purpose-built to protect pensions and as the UK's largest pensions insurance specialist, the company is fully committed to the UK bulk annuity market. With over £50bn of assets managed by its in-house team and paying the pensions of 810,000 people totalling on average £200m each month, Rothesay is a clear market leader. A founder-led business, Rothesay prides itself on innovation and problem-solving; its desire to continue to improve its processes and build out its capabilities remains as strong now as it was when it was established 16 years ago. The work carried out at Rothesay continues to be outstanding, particularly over the past year, and the company and its team should be congratulated on a well-deserved award.

Rothesay


Protecting the UK’s pensions. Now and in the future.
At Rothesay, we look after over 810,000 pensions, securing the future for every one of our policyholders.
Find out more at Rothesay.com
Rothesay
Purpose-built to protect pensions
Rothesay Life Plc is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority.

Insurance Asset Management Awards 2022

ALTERNATIVES MANAGER OF THE YEAR

AXA IM Alts

Alternatives have become an essential part of insurance companies' portfolios. The Alternatives Manager of the Year award recognises the firm that has shown a true flair for extracting value from the alternatives space to the benefit of its insurance clients.

Excelling in this space is AXA IM Alts. AXA IM Alts is a global leader in alternative investments with €188bn of assets under management[1] comprising over c.€90bn of primarily private real estate, over €87bn of private debt and alternative credit, as well as over €11bn in infrastructure, private equity and hedge funds. The business has shown continued commercial success, market leading transactions, the launch of innovative products and has also driven the green agenda.

AXA IM raised a record €18.2bn of capital in 2021, including €10.2bn of third part commitments, reflecting the strong positioning and suitability of AXA IM Alts' offering as investors. Furthermore, it raised €8.3bn in private debt and alternative credit, including €3.8bn into its real assets debt strategies, and raised €1.6bn of capital for its US and European managed CLOs.

The launch of innovative products by AXA IM Alts has been exemplary as noted by the judges. The business launched its 8th fund of its Partner Capital Solutions strategy, which seeks to offer opportunities to clients who want to gain exposure to performing credit from traditional core lending activities of banks, including small to large corporates.

AXA IM Alts also launched its 4th Impact Investing fund, focused on financial inclusion and global health, aligned with parts of the UN's Sustainable Development Goals (SDGs). Its 5th Impact investing Global Health strategy, which seeks investments in companies aiming to deliver healthcare solutions at accessible price points for global markets, including high volume markets.

"The business must be applauded for the levels of commercial success and innovation"

Driving the green agenda is at the forefront of the business. An $11m investment has been made in Forest Carbon Indonesia, a company specialising in conserving and restoring degraded peatland, tropical forests, and wetland ecosystems across Indonesia. A further investment to address waste management hazards through upcycling has helped enable Sanergy, a company providing sustainable waste solutions, to significantly expand its waste processing capabilities and outputs to tackle the sanitation crisis in Kenya.

Congratulations to AXA IM Alts on an outstanding win, and for setting the industry standards so high in this area for others to follow. The category was highly competitive so the business must be applauded for the levels of commercial success and innovation permeating through its business strategies.

[1] *Source: AXA IM Alts data (unaudited) as of 30 September 2022.*

AXA Investment Managers

INFRASTRUCTURE MANAGER OF THE YEAR
Infranity

At one of the most challenging times in insurance firm investments, infrastructure remains a critical asset class among global insurance companies in their allocation. The Infrastructure Manager of the Year award recognises the best asset manager that understands this complex asset class and is working hard to help insurance firms reap the potential rewards of investing in this area.

The leader and winner of the award is Infranity, part of the Generali Investments' ecosystem of asset management firms. Infranity is an asset management company specialised in infrastructure that provides attractive sustainable investment solutions. Infranity offers a range of debt and equity strategies to meet a variety of client objectives. It aims to offer a very attractive risk-adjusted returns across the capital structure to its investors. Fourteen funds are managed on behalf of over 20 international investors, including some high-profile institutional names representing a total AuM of c. €8bn as of January 2023. Since its inception, Infranity has built an impressive track record deploying over €6bn of capital making it a very active and sizeable debt investor in Europe, in both investment grade and sub-investment grade deals. Complementing its debt business, it has also progressively built and scaled up its presence in equity transactions over the past two years.

Infranity invests across all sectors with a specific focus on the following themes and sectors: energy transition, green mobility, digital transformation and social infrastructure. The firm's investment process is designed to drive capital towards high-quality, core and core+ and sustainable infrastructure assets.

A systematic and proprietary ESG assessment of all investments is fully embedded in each asset due diligence. Infranity's proprietary impact rating methodology dedicated to infrastructures, developed with leading sustainability expert firms, combines ESG risk mitigation with an impact assessment based on its investments' contributions to the UN Sustainable Development Goals (SDGs). It has also implemented a ground-breaking climate trajectory alignment tool specifically designed for infrastructure assets and supported by Carbone 4, a leading climate change consultancy firm. The potential for positive social and environmental outcomes is a driver of its investment selection and is incorporated throughout its investment process. This methodology is based on scope 1, 2 and 3 emissions, allowing the firm to not only calculate carbon emissions and avoided emissions, but also to evaluate the alignment of its portfolios with the Paris Agreement trajectory.

"The judges applauded Infranity for its fast-paced growth, incorporating an interesting mix of senior and enhanced credit strategies, including its SFDR funds"

The judges applauded Infranity for its fast-paced growth, incorporating an interesting mix of senior and enhanced credit strategies, including its SFDR funds. Congratulations.

infranity
Invest. Impact.

PROPERTY MANAGER OF THE YEAR
Invesco

The Property Manager of the Year award recognises the insurance business showing a true understanding of the regional and global property markets, and one translating that knowledge into risk-adjusted returns for the benefit of its clients.

Shining the brightest light in this area is Invesco. The judges said strong developments in the sustainability arena, an outstanding real estate product range and focused client centricity make this firm a leader.

Invesco Real Estate offers a 38-year investment pedigree responsible for US$92bn AuM. As a global manager, it has one of the broadest real estate product ranges in the industry, thus enabling it to satisfy insurance clients' demands for both equity and debt, as well as provide global coverage across listed/direct, equity/debt and core and core plus, debt/income to value-add and opportunistic. Its global debt offering now comprises a loan origination totalling over US$15bn (31 March, 2022). Invesco's open-ended European real estate debt fund – the Invesco Commercial Mortgage Income – Europe FCP RAIF fund – with a €1bn initial fundraising target, is primarily backed by insurance capital, demonstrating the strategy's attractiveness for insurance firms' Solvency II requirements.

Invesco's excellence carries on into sustainable investment. In 2022, at least half of its global AuM across 12 funds participated in the Global Real Estate Sustainability Benchmark (GRESB) Assessment. It is also the first asset manager globally to be awarded the BREEAM in Use certification for purpose-built residential for rent real estate in the UK. Through this range of sustainable solutions, Invesco provides insurance companies with a diversified offering – whether UK or European-focused, or global, through its own fund-of-funds strategy, GREF (Global Real Estate Fund) which offers access to both direct and enhanced liquidity through the addition of listed real estate in one wrapper.

"As a global manager, it has one of the broadest real estate product ranges in the industry, thus enabling it to satisfy insurance clients' demands for both equity and debt"

Invesco's underlying investment strategies are based on top-down economic fundamentals combined with bottom-up market intelligence. The business's 'House View' is a collective belief of the way the firm should invest in the institutional real estate markets to help achieve clients' objectives and is comprised of target weightings by property type for Invesco Real Estate's model portfolio; market ratings for each qualified market; and investment strategies for each market targeted or investment.

Client centricity is at the heart of everything the firm does. Its dedicated Invesco Insurance Solutions team works hand-in-hand with the real estate team utilising its unique 'Vision' tool with real estate allocation to optimise its insurance clients' portfolio risk/diversification requirements.

Well done on an outstanding win.

Invesco

Greater possibilities together as responsible investors

Insurance companies are increasingly seeking investment strategies that produce positive environmental, social & governance (ESG) outcomes while also delivering sustainable returns.

At Invesco Real Estate, ESG+R (environmental, social, governance & resilience) has been a fundamental commitment for many years. We believe that a deliberate and disciplined approach to ESG+R can successfully balance social and environmental responsibilities while meeting the needs of insurance companies and fulfilling our fiduciary responsibilities, focused on driving good performance. This philosophy is based on the belief that ESG+R aims to deliver competitive financial returns and provides opportunities for business growth and innovation.

Our ESG+R integration

We work with our partners to improve ESG performance and promote best practices when it comes to ESG solutions in real estate. This enables us to respond to changing market dynamics for greater levels of engagement and transparency.

We aim our ESG integration efforts towards achieving better buildings with broader insights, aiming towards a more risk-resilient portfolio.

As we look across the globe, we can see our integration at work through:

- achievement of Net Zero certified buildings following our net zero framework, maximising building energy efficiency with technology, producing on-site energy and promoting clean transportation;
- renovation of buildings, minimising our embodied carbon by sourcing materials locally and re-using existing building structures;
- engagement with our tenants to collaborate in improving wellbeing and environmental performance;
- and focusing on amenity and development of communities within communities, creating spaces

where people want to live, eat, work and play.

We are motivated by the belief that doing what's right for the environment, our people, and the communities we serve helps us deliver the best possible experience to clients, and work to better mitigate risk and generate sustainable returns. Our social aspects include encouraging sustainable practices with our tenants through engagement tools and providing services and amenities at our properties that encourage healthier lifestyles. Our governance objectives include integrating ESG into our decision-making and due diligence processes. Furthermore, we're disclosing our ESG performance to stakeholders through internationally recognised reporting frameworks, which aims to improve transparency, professionalism and best practices across the sector. As for resilience, our Climate Risk Dashboard is designed to deliver timely and reliable information to identify and mitigate, or completely avoid, potential climate risk exposure. This will ultimately help us better preserve and grow capital and deliver potentially stronger returns for our clients.

How we align ESG+R with investing

Since 2012, we've reported to GRESB – the leading international benchmark for real asset ESG performance. In 2022, five of our funds achieved five 'green stars' out of five, with five funds achieving four out of five[1].

We've aligned our ESG+R initiatives with the United Nations Sustainable Development Goals by taking action against climate change, promoting sustainable cities and responsible consumption at the property level.

We have many more examples of how we implement our ESG+R investment approach. Find out how we could help you align with your stakeholders' ESG expectations too by speaking to your Invesco representative today.

Investment risks

The value of investments and any income will fluctuate (this may partly be the result o f exchange rate fluctuations) and investors may not get back the full amount invested.

Important information

Data as of 31 December 2022 unless stated otherwise. This document is marketing material and is not intended as a recommendation to invest in any particular asset class, security or strategy. Regulatory requirements that require impartiality of investment/investment strategy recommendations are therefore not applicable nor are any prohibitions to trade before publication. Where individuals or the business have expressed opinions, they are based on current market conditions, they may differ from those of other investment professionals, they are subject to change without notice and are not to be construed as investment advice. [1] Any reference to a ranking, a rating or an award provides no guarantee for future performance results and is not constant over time.

TECHNOLOGY FIRM OF THE YEAR
Clearwater Analytics

Effective and reliable technology and data management are essential for the successful running of any insurance company. This award recognises the firm leading the way in the field of insurance technology.

According to the judges, strong client results alongside robust investment data management make Clearwater Analytics the clear winner for this category.

To address the challenges of volatile markets and an ever-changing regulatory environment, insurers often rely on a tangled web of legacy systems for different aspects of their investment accounting and reporting processes. Clearwater's solution is specifically built to handle the complex needs of insurers in a single platform. The Software-as-a-Service (SaaS) solution provides robust investment data management, including automated data aggregation, reconciliation, and validations for even the most complex asset classes in our clients' portfolios. This enriched data is then fed into Clearwater's multi-basis accounting engine to automatically produce the accounting book of record (ABOR).

Clearwater's comprehensive out-of-the-box reports and configurable dashboards give clients a complete view of their entire portfolio – all in a single, web-based platform. Performance reporting, post-trade compliance, and risk analysis are available in the single solution, based on the same complete and updated set of portfolio data. Demanding regulatory reporting, such as Solvency II QRTs, can be completed in just a few clicks. Investment teams can perform investment analysis and get answers quickly with ad hoc reporting that can be shared both internally and externally. Clearwater's network of automated data feeds provides a seamless way for its clients to add new acquisitions, portfolios, and asset classes, both traditional and alternative. Since 2019, alternatives assets on the Clearwater solution have grown by 275%.

"Performance reporting, post-trade compliance, and risk analysis are available in the single solution, based on the same complete and updated set of portfolio data"

As a SaaS solution, Clearwater continually enhances its product with frequent updates based on new accounting guidance, changing regulatory guidance, user feedback and market needs. These updates are deployed seamlessly, with no disruption to its users. Clearwater's single-instance, multi-tenant solution means when Clearwater solves a challenge for one client, all clients benefit from the update. Each client is also assigned a dedicated servicing team skilled on not only the Clearwater solution, but also industry best practices learned from working with an extensive network of insurers.

A recent analysis of Clearwater clients by a third-party research firm, found on average that its clients experience 60% overall less time spent on data collection; 23% growth in operational capacity; 77% time saved during quarter-end; 160-hour reduction in internal IT support and 3+ hours saved on report creation.

Congratulations on a fantastic year.

CLEARWATER ANALYTICS®

INNOVATION PROVIDER OF THE YEAR
Schroders

The Innovation Provider of the Year award is given to the insurance provider/asset manager excelling in investment, product design, technology, or any other area where it has met the needs of its clients. Standing out from its competitors in this category is Schroders.

Schroders recognises that solutions to the challenges posed by climate change cannot be provided solely by governments. The UN's Net Zero Financing Roadmaps estimate that over 70% of the direct investment needed to reach net zero could come from private investment, offering huge opportunities for investors. Schroders is focused on providing private funding that can meaningfully contribute to the safeguarding of the planet in both public and private markets. There is a critical role individuals can, and increasingly want, to play in providing capital to these markets but have historically found it difficult to access. Schroders recognises the importance of expanding the potential investor pool beyond traditional institutional money through the opening up of private assets by creating accessible fund structures focussed on climate change.

As part of this effort Schroders Capital, the private markets investment division at Schroders, is launching an Impact strategy that gives insurers the opportunity to invest in a semi-liquid multi-private asset portfolio through a single solution. Schroders innovative Climate+ strategy aims to contribute to the mitigation of and adaptation to climate change, as well as biodiversity and social vulnerabilities. The portfolio benefits from being diversified across asset classes with investments in renewable energy, clean technology and natural capital. Since the climate crisis is not the only challenge we face, the strategy also finances projects with clear social benefits, such as affordable real estate and financial inclusion.

"Schroders innovative Climate+ strategy aims to contribute to the mitigation of and adaptation to climate change, as well as biodiversity and social vulnerabilities"

The primary Impact objective of Climate+ is to positively contribute to global carbon reduction through carbon savings, carbon sequestration and reducing carbon footprint through its investments, with a secondary objective to make investments that can offer an investment and social benefit return – providing additional diversification and return drivers. By building and operating a diversified portfolio across asset classes and sectors focused on climate-related themes, the strategy aims to facilitate the transition to a more sustainable future.

The judges said they were particularly impressed with the solution's ability to contribute positively to carbon savings and reducing the carbon footprint through its investments, while also a delivering a social benefit at the same time.

Congratulations to Schroders for displaying exemplary levels of innovation in this area, and for raising the bar in terms of the standards needed to meet the issues associated with climate change.

Schroders

Insurance Asset Management Awards 2022

Insurance Asset Management Conference

Delegates heard from some of the leading spokespeople in the insurance sector on latest developments in the industry

WRITTEN BY **MICHAEL GRIFFITHS**

The Insurance Asset Management Conference returned to the Waldorf Hilton in London at the end of November, once again bringing insurance leaders together to address the key investment and regulatory challenges facing the sector. Editor, Adam Cadle, chaired the day and introduced a host of speakers and panellists that included chief investment officers, asset managers and policy directors from around the globe.

Delegates took part in sessions covering fixed income instruments, alternative asset opportunities and the growing digitisation of the insurance sector. The event also saw the topic of sustainability emerge as a key theme, with more sessions exploring biodiversity, impact investments, and now as ever when the insurance industry comes together, the latest in the ESG space. Opening the day with the keynote speech was head of prudential regulation at the Association of British Insurers (ABI), David Otudeko, who set out the conference's key topics for discussion.

"The illegal invasion of Ukraine by Russia has brought firmly into focus how reliant Western economies are on energy from Russia, leading to a marked impact on household energy prices," Otudeko said. "There is a need to support efforts to secure our energy independence, and this requires long-term investment.

"We also have the significant threat posed by climate change, and the need to transition to a net-zero economy by 2050. If the UK is to meet this target, and its interim goal to reduce emissions by 78% by 2035, investment of £2.7 trillion is required. By investing in green energy sources, we can make a material move not only towards energy independence, but also towards our net-zero targets."

The timing of this year's conference was well placed, coming just a week after the government announced plans to reform regulations around Solvency II. This gave Otudeko the chance to deliver a message for those in attendance from where the ABI stands.

"We've long said that regulatory reform is needed if we are to unlock our full potential, and the UK's departure from the EU presents a huge opportunity," he added. "Reforming Solvency II can unlock billions to invest in sustainable energy and infrastructure.

"The UK insurance industry's Solvency II reform is underpinned by a desire to support the real-world challenges that we face. As an industry we are uniquely placed to tackle these challenges.

"The ABI welcomes the Government's reform package. Whilst more remains to be done, and as we turn our attention to the implementation of Solvency UK, it's important to reflect on the massive difference this reform, if implemented meaningfully, will enable our industry to make to the economy, the environment and our customers."

It's also important to tilt the portfolio away from value-driven credit to more market-neutral strategies

Cycles

With context set and the conference now underway, the speakers went to work on dissecting how the UK insurance industry can meet its investment targets. Naturally, they turned to fixed income markets.

Co-head of absolute and total return credit at Pictet Asset Management, Jon Mawby, commented that bond investors must adapt to a new volatility cycle.

He said: "It's really important to be flexible, contrarian, and nimble with your investments, because in time if you can allocate away from the expensive areas of fixed income, and reallocate away from market beta, you can take advantage of the cycles across fixed income, creating diversification within a credit and fixed income portfolio."

Mawby also told the room there are currently "tonnes" of alpha opportunities in fixed income markets.

"As you move through the credit cycle, as yields get compressed and as risk gets higher, it's also important to tilt the portfolio away from value-driven credit to more market-neutral strategies," he added.

A fixed income panel featuring chief investment officers provided several more assessments of the fixed income space. Chairing this discussion was senior director of the insurance investment solutions group at Willis Towers Watson (WTW), Gareth Sutcliffe, who quizzed the panel for their outlooks.

Head of investment solutions at L&G, Sumit Mehta, said: "Over the last few years, even with spreads super tight, it hasn't been a bad idea to invest in credit, relative to fundamentals.

"If you are selective about credit quality, and thinking about the dispersion between different companies and industries, as long you do your due diligence about the fundamentals, corporates are still in good shape and as a credit investor you can be okay with the price risk. Overall, I'm cautiously optimistic about the outlook."

Chief investment officer at Aviva UK Life, Ashish Dafria, added: "These are interesting times to be a credit investor. For several years in fixed income investing, we did the fixed part well, but there was no income. Now, the fixed might be a little less, but there's income, so I view it positively and constructively."

The panel was also asked about risk in the fixed income space. UK chief investment officer at Aspen, Kedi Huang, responded: "From a macro perspective, we'll see an elevated recession impact due to the high interest rates and inflation we've experienced so far.

"From a fundamental perspective, we've seen company's margins withstand the pressures given that

Insurance Asset Management Conference

high interest rates and inflation were above expectation, and at the top line slowing down.

"This is why we've been cautious and taken the opportunity to upgrade the overall credit quality of our portfolio, but we're also still trying to mitigate the potential downgrade default risk."

Chief investment officer at Foresters Friendly Society, Corrado Pistarino, added: "Having come from a period in which rates were possibly in the best financial condition, some private assets might not have been underwritten at the right level of returns. This is a risk that will emerge in the portfolios over the next 12 months, because the valuation needs to catch up.

"Long-term, we may see a rebasing of the underwriting conditions in private markets. We can expect rates to be higher in the fixed income world, and in the private equity world. A new equilibrium will be found, but investment returns will not be diminished."

Exploring private markets further, another session was delivered by head of alternative investments at Nordea Asset Management, Lea Vaisalo, who told delegates: "Private markets are the perfect place to have a deep and sustainable approach to investing.

"We've gone through waves of exclusionary approaches where you don't want to have the reputation risk, but really, we just want to be best in class. This doesn't necessarily mean you shouldn't invest in black sectors, but you do need to invest in those that can prove they have a transitional aspect in the way they manage assets."

> Private markets are the perfect place to have a deep and sustainable approach to investing

Opportunities

Amid optimistic outlooks and much talk of opportunities among the speakers, several sessions exploring alternative investments gave delegates some opportunities of their own to hear about new markets that may present value.

One of these was given by head of insurance - EMEA at Franklin Templeton Investment Management, Heneg Parthenay, who delivered a speech about the US taxable municipal bond market, describing it as a market with "unusual features".

"It currently has $4 trillion outstanding debt, which is around 40% of the size of the US corporate bond market," Parthenay explained. "However, its structure is very different.

"It is split into two parts: tax exempt and taxable. For US taxpaying issuers investing in these bonds to qualify for tax exemption, they must disclose lots of information, and the use of the proceeds must also meet criteria.

"The taxable side of the market sees the same issuers and credit risk, but some issuers may prefer not to disclose information on the proceeds. Therefore, we fit this whole complex together, even if investors at each end are slightly different in their behaviour."

Another opportunity was highlighted by abrdn between investment director, Nikita Desai, and head of fund finance, Shelley Morrison.

Desai quizzed Morrison about fund financing as a defensive strategy, and Morrison commented: "We structure fund finance against a diverse pool of investor capital, so rather than taking credit risk against one name, your investment is spread across 200 to

directly," Mann said.

"We've focused on other sectors where that relationship moves much faster, such as private corporate credit where we didn't see that lag effect in the same way, so we've been able to reposition quickly."

Herchel also asked the panel about their intentions for 2023, and group investment operations director at Royal London, Daniel Blamont, responded: "In the next year we're going to be as open-minded as possible. It's not just about which asset class you pick, but about being pragmatic. We want to shift people away from high costs and towards value for money."

Senior manager, markets and oversight, treasury and investment management at Lloyds of London, Hanna-Li Allison, added: "Lloyds is coming from a more unique position in that we're looking to get into private assets at the beginning of next year.

"For 2023 we want to investigate the opportunities out there, whether that be alternatives in the public space or direct investments, for example in insurtech."

Another session further explored technological disruption in the insurance market, in a fireside chat between insurance solutions specialist at Clearwater Analytics, Chris Watts, and associate director, insurance investment at WTW, Punil Chaubal.

"If we were to distil where we've seen transformation and market disruption

250 individual investors. Insurers find this attractive because one of the features of fund finance is 'structural over-collateralisation'.

"Typically, a lender would go through the list of those investors and underwrite each one, creating an eligible basket of investors where you're comfortable with the credit risk.

"It's diversified against such a large group of investors that this asset class is largely uncorrelated to other credit strategies. An insurer looking to make a strategic allocation to fund finance is achieving diversification across its credit portfolio."

Further opportunities were explored in a panel discussion about alternatives, which was chaired by head of insurance advisory EMEA at Schroders, Wojciech Herchel.

Chief investment officer at Just Group, David Ramroop, commented: "A valid investment thesis a few months ago would have been to completely dial back on illiquid assets and go straight into publics because the relative value was there, and while public spreads do remain elevated, we're seeing private pricing moving up and value moving back in favour of illiquid assets."

Head of real estate at Phoenix Group, Prabjot Mann, added that there's been a "sensible pivot towards looking for alternative opportunities".

"Debt markets amplify the impact of the lag effect from public and private markets not following each other

> "It's not just about which asset class you pick, but about being pragmatic

Insurance Asset
Management Conference

the most, sales and distribution has been the biggest driver," Chaubal said. "In the way insurers are marketing their products and interacting with policyholders, there has been lots of digitisation in the insurance space."

Watts added: "Each insurer will be individual in its approach to transformation, and each will have individual requirements that need to be catered for. These will be driven by factors ranging from risk appetite to strategic allocations, but then also what insurers are trying to achieve in terms of a broader strategy, whether that's linked to ESG or perhaps future M&A activity."

The conference was never far away from a mention of ESG, and several more sessions on the day explored the climate transition.

Head of research at Ardea, Dr Laura Ryan, spoke about how insurers can integrate ESG considerations into government bonds, raising that some issuers are not discussing climate change because they "don't see it as an important risk".

"The problem is every other asset class is talking about climate change, every other asset class is priced off the yield curve, and we need a well-functioning government bond market," Ryan said. "If we don't then there is a potential Armageddon for every other asset class.

"We are in the middle of a climate emergency and governments are the ones that have the hands on the levers. For it to not be on the agenda is a huge oversight."

Head of global emerging markets debt at HSBC Asset Management, Bryan Carter, also suggested that greater investment in emerging markets is needed to finance the global transition.

"There are 650 companies in emerging markets that our analysts actively follow, and we're asking them to bring us those that appear to be authentic ESG approvers," he explained. "Those that can reach a minimum standard of sustainability and improve upon that over time.

"That only now constitutes one third of these companies, and after putting them through our rigorous sustainability assessment process, we reduce that again by half.

"So, there are currently only about 100 companies in emerging markets that are true sustainability investments. It's concentrated, but we're only just at the beginning of this revolution. This asset class will grow."

Waves

While the climate transition has increasingly grown in prominence among insurers, another area quickly gaining attention is biodiversity. Senior analyst and biodiversity specialist at Robeco, Rashila Kerai, told delegates that society may have come off the COVID wave and is now starting to deal with the "climate change wave coming towards us".

However, she added: "Behind all of those waves is a bigger more rapid wave that is going to hit us if we continue down this path, and that is the wave of biodiversity collapse," she said.

"One half of our entire global economy is critically dependent on nature, an equivalent of $44 trillion.

"If we ramp up our conservation efforts, and governments and NGOs get funding for more conservation, then we'll see improvement, but this still won't be enough. We need an increase in conservation efforts, and also for the private sector to lower the footprint of our production and consumption, especially in the context of a growing population.

"This all sounds doom and gloom, but there are opportunities. There's already $3 trillion of combined market capital for investable solutions, and that's just today. As more companies start to realise their impacts, those opportunities can grow."

Later, in the final session of the day, an ESG panel chaired by senior policy adviser, prudential regulation at the ABI, Rebecca Lea, returned to the biodiversity theme.

"Climate change and biodiversity are interdependent and have to be solved together," director of financial sector standards at ShareAction, Peter Uhlenbruch, commented. "There's a lot to learn in the climate journey that we can now pivot into biodiversity.

> Climate change and biodiversity are interdependent and have to be solved together

"If an investor is engaging with high emitting sectors, it's a good chance to ask questions about biodiversity. We need to use these existing engagements and start co-managing these crises simultaneously."

Head of climate change at Phoenix Group, Tim Lord, added that more clarity is required around regulatory policy on climate and biodiversity.

He summarised: "The challenge is if government policy isn't driving the economy to decarbonise at the rate it's supposed to through the Paris process, you'll increasingly see a divergence between universal owners' asset portfolios and the real economy.

"That then becomes complicated for us to manage and leads to some odd investment incentives. We need to be speaking with a clear voice to government that we are ready, but also need the policy and regulatory framework to facilitate this."

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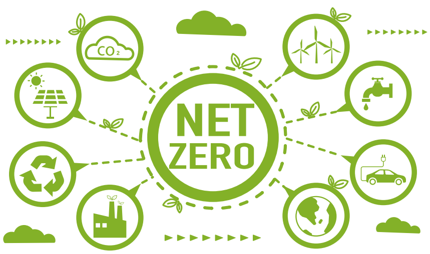
A green world

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

1 CNP Assurances has successfully launched its first subordinated sustainable bond for an amount of €500m. The fixed annual coupon is 5.25% until 18 July 2033 and then will be floating beyond this date and until its maturity. Furthermore, the notes were placed next to 88 investors, 66% of whom were asset managers, 25% insurers and pension funds, 5% central banks and official institutions and 4% others, based mainly in the UK/Ireland, Europe and the Nordics. The bond will mature on 18 July 2053.



2 MAPFRE has signed on to the UN-convened Net Zero Asset Owner Alliance (NZAOA) with the aim of transitioning its investment portfolios to net-zero Greenhouse Gas (GHG) emissions and becoming a Net-Zero company by 2050. In 2022, the insurer developed its own tool for the group's asset manager to analyse and assess the risks associated with climate change in its investments. This helped the company to reduce more than a million tons of CO2 emissions.

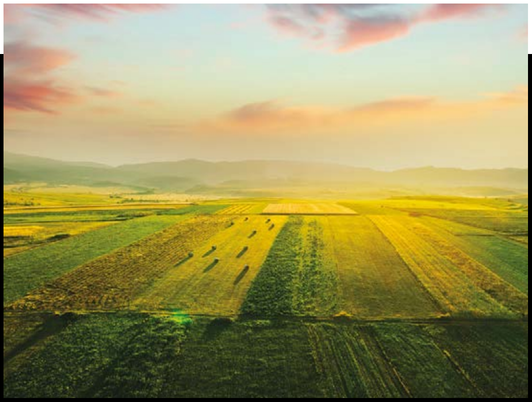
3 Chubb has announced the launch of a new global climate business unit. The new business unit will provide a full spectrum of insurance products and services to businesses engaged in developing or employing new technologies and processes that help reduce the dependence on carbon. It will also provide risk management and resiliency services to help those managing the impact of climate change.

4 Varma has announced it is to adopt biodiversity loss mitigation as a sustainability guideline alongside climate work. The Finnish group said that taking biodiversity into consideration will guide its environmental sustainability on an "equal footing with climate targets". To that end, Varma has created a biodiversity roadmap that sets a framework for its investment sustainability requirements in an effort to prevent biodiversity loss. Going forward, Varma said it will take biodiversity into consideration in its investment portfolio.

5 Macif is strengthening its investment strategy to fight against deforestation caused by the cultivation of palm oil. The insurer said it will exclude producers and distributors of palm oil from which more than 5% of the turnover comes from this product; producers and distributors of which less than 50% of palm oil is RSPO certified; and producers and distributors of which less than 30% of palm oil is RSPO certified at the most demanding levels. In addition, Macif, through its asset manager OFI AM, will conduct an engagement with the manufacturers or distributors of processed palm oil products in its portfolio, if they are subject of controversy. This engagement will initially involve four companies and will be carried out over a period of two years in order to encourage the implementation of deforestation risk mitigation measures.

> The Natural Capital Fund is one of the largest fund concepts for natural capital

6 Gothaer is expanding its portfolio to include investments in natural capital, with the first investment being $100m in the Natural Capital Fund. With a target volume of $1bn, the Natural Capital Fund is one of the largest fund concepts for natural capital. The fund plans to invest in sustainable agriculture and forestry in Europe, North America, Australia and New Zealand.



Current ponderings on industry themes

NINA SEEGA,
Director of sustainable finance, CISL

On insurers making progress with climate disclosures

The rapid expansion of the ClimateWise membership reflects the growing concern within the industry over the climate emergency. This year's ClimateWise Principles report demonstrates the action members have taken in developing risk management solutions, integrating climate risk into operating structures, operationalising voluntary reporting, as well as demonstrating leadership at the highest global level on the importance of action on climate change. The focus for the industry now needs to move to insurers, reinsurers and brokers becoming long-term partners and essential enablers of enhanced climate financing, climate resilience building and climate solutions.

On the pros and cons of high inflation for insurers

The effect on life insurers' earnings is more neutral. As opposed to non-life insurance, most life insurance products offer benefits that are nominally fixed. Having said this, inflation tends to erode the value proposition of life insurance with fixed benefit payouts, weighing on new business and leading to higher lapses. Lower equity markets, rising interest rates and widening credit spreads adversely affect insurers' balance sheets through mark-to-market valuation losses. On the other hand, higher interest rates, i.e. discount rates, have a favourable effect on the net present value of future liabilities.

THE GENEVA ASSOCIATION

DANIEL MCHUGH
Chief investment officer, real assets, Aviva Investors

On what investors look for when investing in real assets

It is clear real assets investors value the different access routes available to them. Gone are the days when allocations to each asset class within real assets would be looked at in isolation. Instead, investors are often looking for a multi-asset and outcome-led approach, which can align with corporate values. With 81% of investors citing performance track record as being the most important criteria in selecting real assets manager for a sustainable mandate, it is hugely important they choose an asset manager able to make relative value calls that also understands the challenges involved in achieving long-term ESG objectives.

SCOTT HAWKINS
Conning managing director, head of insurance research

On 57% of US insurers stating they were highly engaged with ESG in 2022

Insurers' commitment to ESG has consistently increased over the years in terms of both operational risk and investment management. While they are aware of a possible recession and its impact, insurers have not let go of the need to develop ways to incorporate ESG standards across their operations and portfolios.

On 1 in 4 US institutional asset owners expecting to use an OCIO over next 24 months

Asset owners want access to how their investments are performing at their fingertips. OCIO providers that can offer granular transparency with anytime, anywhere access to investment performance will be well positioned to win mandates.

LAURA LEVESQUE
Cerulli associate director

HELEN ANDERSEN
AM Best, financial analyst

On the impact of the rising interest rate environment for US P&C insurers

The rising interest rate environment is not only impacting the investing and operating environments for US insurers, but it is also leading to a more cautious approach to capital-raising via debt issuance. Macro-economic challenges such as inflation and capital markets volatility will likely hamper profitability compared with prior years. However, the shorter duration of bond portfolios may benefit P/C insurers in the rising rate environment because insurers can reinvest proceeds of maturing bonds at the current higher rates.

On Legal & General Capital committing £5bn of alternative asset investments in 2022

LAURA MASON
CEO of Legal & General Capital

We have made major commitments to deliver transformational schemes in all our alternative asset specialisms across both the UK and, for the first time, the US. Much of this has come through strategic partnerships with like-minded investors, who are seeking stable, long-term returns, but also looking to drive positive social impact and limit the impacts of climate change. With an increasingly uncertain picture over the next 12 months, it's essential that financial institutions continue to invest in the real economy, recycling pensions funds and savings into projects that help to create jobs, housing and vital infrastructure. Despite headwinds, our appetite to continue to invest globally, alongside other institutional partners, remains strong for 2023.

On MetLife Investment Management completing Affirmative Investment Management acquisition

Completing the acquisition of AIM is an important milestone in advancing MIM's commitment to sustainable investing and meeting the evolving ESG needs of our clients. We are excited to integrate AIM's expertise across impact investing, verification, reporting, and engagement into MIM's fundamental research-based public fixed income, private capital and real estate capabilities. Going forward, our clients will be presented with an even stronger set of investment offerings.

STEVEN GOULART
President of MIM and executive vice president and chief investment officer for MetLife

CELIA LOPEZ
Debt origination manager at PIC

On PIC investing £40m in social housing provider

We are delighted to have been able to make our first investment in Housing Solutions. PIC's purpose is to fund the pensions of our current and future policyholders now and in the long-term. Investing in the housing association sector and other illiquid assets allows PIC to generate enhanced yield, helping us to secure more pension liabilities. This, in turn, means more trustees can guarantee their members' pensions through buy-ins and buyouts, greatly improving their financial security in retirement.